

# **AN OVERVIEW OF EDUCATIONAL SYSTEMS AND LABOUR MARKETS IN THE MEDITERRANEAN REGION**

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## INTRODUCTION

Most countries in the Mediterranean region can be defined as economies in transition. While some of them are developing market economies and have a certain degree of world economic integration, others are still at a very early stage of liberalising their economy. One common feature observed among the countries in the region is that there has not been a rapid transition from one system to another. One could say that there has been a process of gradual change and adaptation to market rules and liberalisation of economies and societies.

Considering the above fact, the pace of political and economic reform has often been slower than in other regions, most likely since the need for change was not marked by a sudden event, or an unforeseen change of political regime etc, but rather from the “pressure” of world developments. Most of the countries in the region are still actively engaged in economic adjustment with the aim to create an efficient public sector and a dynamic private sector. Re-dimensioning the public sector, increasing the size and/or role of private sector without creating negative impact on the society is a challenge being faced by most of these countries, even more so when confronted to less optimistic economic prospects.

One of the major challenges being faced by the region is the establishment of a Euro-Mediterranean free trade area by 2010, in the context of the Barcelona process. Enhancing the competitiveness of the productive sector and increasing the employability of the active population are basic conditions for the successful implementation of the free trade area. In general terms, economic growth in the region has deteriorated since 2001. Most of the countries went into recession or experienced a slow down in growth. The decline was due among other reasons to the global economic situation (changes in world oil demands) in addition to the September 11 events that had a negative impact on tourism revenue (one of the key economic sectors in many of the countries in the region).

“Human capital” is considered a major component in the generation of economic growth. Two major factors influence the impact of human capital on growth: (i) the quality of the education and training systems and the resulting quality of human capital, and (ii) the allocation of human resources into the labour market.

Education and training are a means of generating employment opportunities, enhancing productivity and increasing the incomes of various groups of people. Therefore, education is an important component of the economic and social development process. In the light of radically transformed work environment and recent economic, employment and labour market trends in the context of globalisation, the success of educational systems depends on their focus on the relevant skills of economies and societies. They need to be directed at developing the knowledge and abilities of individuals and the capacity of entire societies with regard to benefiting from globalisation.

Adequate development of human resources is a fundamental requirement in the battle to resolve the inequities of globalisation as well. However, it is insufficient in itself to ensure sustainable economic and social development, or to resolve all the issues pertaining to the employment challenge. Efforts to this end must be consistent with, and an integral part of, comprehensive economic and social policies. Investments in quality education must be made within the context of a stable political and macro-economic environment, with equitable social services and flexible labour markets.

Therefore, good education does not guarantee economic development. An educated workforce in a dysfunctional economic environment will produce high unemployment, not high growth and wages. The structure of the LM is critical as well for the quantity and quality of human capital. As shown by Pissarides<sup>1</sup>, a major function of the labour market is to allocate human resources to their best uses and to determine quality, quantity and productivity of human capital, through

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<sup>1</sup> Christopher Pissarides (2000), Labour Markets and economic growth in the MENA Region, LSE, March 2000

the reward mechanisms. The structure of the market will determine, for example, how much human capital is put into growth-enhancing activities and how much into other activities. Depending upon how well the labour market functions, the level of efficiency in the use and allocation of human resources varies and this has significant effects on employment, unemployment and economic growth.

On the basis of the discussion above, this paper has two parts: one focusing on educational systems and the other on labour markets. Under each part, main issues of the systems will be highlighted through sub-sections. The first part will look at the educational and training systems in the region and draw attention to the continuous demographic pressure experienced by the systems. It will give an overview of the level of human capital stock and impressive educational expansion recorded by the governments in the region during last four decades. Then, some common challenges related to the quality of educational systems will be discussed as it has a huge impact on the final outcome of human capital formation. In the second part, the paper will examine the structure of labour markets in the region where the outputs of the educational systems finally end. Main features of the labour markets will be given under sub-sections and challenges concerning an efficient allocation of human resources will be highlighted. Following each part, there will be a small box summarising key issues of the discussion.

It should be emphasised that the Countries in the Mediterranean region are far from being homogeneous and present a high variety of socio-economic situations. It is therefore difficult to make generalisations. There is however a number of features that appears common, although with different degrees of intensity, to most of the countries and that have a considerable impact in the shaping of their educational systems and labour markets. This paper will try to identify the commonalities of the education and employment systems in the region and focus on the most relevant features of the education & training systems and labour markets in terms of their implications on migration trends.

## **1. EDUCATIONAL SYSTEMS AND HUMAN CAPITAL FORMATION IN THE REGION**

A discussion of educational systems must include the coverage (access), quality, and cost of education and what incentives there are for individuals to engage in education and training. Before this assessment, one key cross-cutting feature in Mediterranean societies should be highlighted and discussed with its consequences on educational systems and labour markets: high population growth and very young age structure.

### **1.1 Demographic pressure**

Whether youth is a “gift” or a “burden” for the region is a matter of long discussions, but demographic pressure is a key feature of educational systems and labour markets in most of the Mediterranean countries. Although there are signs of demographic change, population growth still remains high. In 2001 the number of children per woman in most of the Mediterranean countries was between 1.8 and 3.6 (with the exception of Palestinian Authority at 5.9) and these figures are much lower than in the 1980 (fertility rate of 5 to 7 children per woman),<sup>2</sup> which indicates that a demographic change has taking place. Average annual population growth rate in the period of 1990-2000 was between 1.5% (Tunisia) and 4% (Jordan, WBGS)<sup>3</sup>, while it is between 1.1% (Tunisia) and 3.6% (WBGS) in the period of 2000-2005.<sup>4</sup> As a result, the region includes the largest number of young people in the world: The age structure of the population is significantly younger than the global average, with almost 38% under the age of 14. And more than half of the population (up to 60%) are under the age of 25.<sup>5</sup>

The numbers above indicate strong implications for the provision of educational services, employment/unemployment levels and labour market participation in the region. Because of the changing age structure, the current decade witnesses the arrival at education and working ages

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<sup>2</sup> Eurostat, Statistics in Focus, Active population and labour market in the Mediterranean countries, October 2002

<sup>3</sup> UNESCO, Global Education Digest 2004: Comparing Education Statistics Across the World, Institute for Statistics, Montreal 2004

<sup>4</sup> UNESCO, EFA Global Monitoring Report 2005, “Education For All: The Quality Imperative”, Paris 2004

<sup>5</sup> UNDP (2002), Arab Human Development Report: Creating Opportunities for Future Generations

of the largest ever generations in the history of the region. Demand for education and employment in the region is much higher than in other parts of the world, and education and jobs top the list of concerns amongst the 13-20 year olds.

In fact, ever increasing numbers of students and education costs, and also higher expectations from quality education create a permanent long-term pressure on the national systems. According to the enrolment rates of students at different levels of education, the demographic pressure is shifting from primary education towards secondary and higher education, and the era of demographically driven investment in basic education is almost over in many of the countries in the region. However, school-age cohorts (roughly ages 5-14) will only begin to shrink after 2015 in best-situated countries (Tunisia, Lebanon), while this will take another three decades in Jordan, WBGs and Yemen. Moreover, the need for post-basic education opportunities will continue to grow in all countries, as few have reached the participation levels in secondary, vocational or tertiary education to which they aspire. According to demographic projections between 2000-2040, the school-age cohorts aged 15-19 and 20-24 will continue to increase in the highest numbers during that period.<sup>6</sup>

Following education route, this wave of young people has begun moving through the population: An important part of high-birth rate generation has steadily been growing into their youth years (15-29) during 2000s and some already began moving into their early-career. As a result, labour force growth remains high at more than 3% annually due mainly to the large numbers of young people entering the labour market and to the increase in female activity rates. According to estimates, the work force will continue to grow by more than 3% for at least another generation in the region. Therefore, youth unemployment is, and will be, a matter of high concern. Competition for education, employment and income is fierce and still peaking in these countries. Despite the very limited prospects for regional or international immigration, the pressure for labour migration will likely to be permanent if the economies of the region will not perform better than today. In addition to a permanent pressure for labour migration, it may create a higher demand for international education as well, among those who have high aspirations and financial resources for good quality higher education and better jobs.

This period in the histories of countries is also called “demographic window opportunity”, since the growth of the economically active population (aged 15-64) will exceed that of the economically dependent population by a much greater amount than in any other region by the end of next decade. New generations will bear low demographic burden due to a dramatic drop in current fertility and low burden of older persons due to high birth rates in the previous generation. The potential is big as well if this unique opportunity could be used efficiently in the economic take-off of the countries in the region. The results will depend on the performances of educational systems and labour markets, supported by a continuous economic growth.

## **1.2 Level of human capital stock and improvements in educational attainment**

According to the 2002 UNDP Report<sup>7</sup>, there is a solid economic base for improving human development in the Arab world. Per capita income is still higher than that of most other developing regions. However, while Arabs outperform sub-Saharan Africa and South Asia in terms of human development, they rank below Latin America and the Caribbean as well as East Asia, Eastern Europe and Balkans on the Human Development Index (HDI) in the Global HDR. In spite of this average, there is a world of difference between Arab states when it comes to human development (Gulf countries such as Kuwait, Bahrain, Qatar at the top and others like Yemen, Mauritania, Sudan at the bottom). MEDA partners as defined in the Euromed partnership are mostly spread in the middle of the regional average. Among the better performers Jordan, Tunisia and Lebanon are often mentioned, while Morocco, Egypt, Syria are behind them by most indicators. In fact, low educational attainment levels of the population were also reflected in their migrant populations in Europe compared with other nationalities, which was imported during 1960s through the signature of bilateral labour agreements, while

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<sup>6</sup> World Bank, Education in the Middle East and North Africa: A Strategy Towards Learning for Development

<sup>7</sup> UNDP (2002), Arab Human Development Report, *ibid*

this has not always been case in more recent migratory flows from the region, particularly those immigrating to the Gulf countries.

Free education, publicly provided, has been a central tenant of the social contract in every Meda country since independence (except for Lebanon where nearly 60% of total enrolments in grade 1-12 in non-governmental schools). Post-independence governments significantly expanded their education systems, driven by rapidly expanding youth populations and the need to build nationhood. It is compulsory through the primary level everywhere, and for some countries like Tunisia and Algeria through the "basic education" covering primary level and lower secondary (9 or 10 years). As a political priority, the region has been doing a significant investment in education during last four decades, with an average of 5-6% of GDP. According to the latest data, expenditures on education is 5.2% of GDP and 19.7% of total expenditures in Egypt, 6.4% of GDP and 13.5% of total expenditures in Jordan, 6.6% of GDP and 28% of total expenditures in Morocco. Tunisia spends 6% of its GDP and Lebanon spends 8.9%.<sup>8</sup>

As a consequence, the formal education indicators have been improving very rapidly with the massive investment in education and training in the region. With few exceptions, now they provide basic education to most children and opportunities for upper secondary, vocational training and tertiary education to many. By 1995 more than 90% of all males and 75% of females were enrolled in primary schooling, and nearly 60% of males and 50% of females were enrolled in secondary education.<sup>9</sup> Opportunities for access to secondary and higher education are rationed through national or regional examinations at the end of primary and secondary cycles. After another decade, most countries have achieved almost universal primary enrolment and significant secondary enrolment rate increases. In Egypt the net enrolment rate has increased between 1996 and 1999 from 91.22% to 96.94% in primary education, from 66.4% to 74.3% in preparatory education and from 63.4% to 65% in secondary education. In the school year 2000, 24% of the 17-22 year olds were in university. In Algeria, the enrolment rates for primary school are about 94% for male and 92% for female. Tunisia has one of the best enrolment rates in the region. They have been 99,2 % in 2001 (97,8 % in 1995) in the primary school ; 68,4% of the 6-24 year olds and 24% of the 20-24 year olds in 2003. Morocco seems to have the worst enrolment rates in the region despite the fact that they have been progressing during the last 5 years from 84,6 % in 2000/2001 to 91.6 % in 2004/2005.<sup>10</sup>

One consequence of government investment in education has been a significant increase in the literacy rates and the average educational attainment of the labour force. Literacy improved dramatically in almost all countries from 1960 to 1995, more than doubling in every country which started with a low base. Improvement in literacy was larger than in any other region. Among the population aged 15 years and above literacy rate was 66% in Egypt, 90% in Jordan, 87% in Lebanon and 75% in Syria in 2000. This was achieved by improving access to education and recording increases in the average number of years of schooling per person. The overall weighted average years of schooling for the Arab region amounted to 1.1 years in 1960 and increased progressively to reach 4.83 years by 2000. In Jordan, average years of schooling for population aged 15 years and above were 2.33 years in 1960 and 6.91 years in 2000, in Syria 1.35 years and 5.77 years, and in Egypt less than 1 year and 5.51 years respectively. In total, illiteracy rates fell significantly between 1980 and 2000.<sup>11</sup> Among the population aged 15 years and above, illiteracy rate in Egypt was 60% in 1980 and 44% in 2000, it was 31% and 10% respectively in Jordan, 27% and 13% in Lebanon, 46% and 25% in Syria.

In spite of the impressive educational expansion in the region, however, equal access to different levels of education by males and females, by rich and poor, and by urban and rural residents is still an important issue, with changing degrees among the countries. As literacy increases more rapidly in urban areas (Lebanon, Jordan, Tunisia), countries with very significant rural populations (Morocco, Egypt, Yemen) have lower adult literacy rates – around and above 50%. Moreover, gender gap is apparent from an early age. Literacy in the region is

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<sup>8</sup> ETF, Draft Meda LM Study on the functioning of labour markets in the region, 2005

<sup>9</sup> World Bank, Education in the Middle East and North Africa: A Strategy Towards Learning for Development

<sup>10</sup> ETF MEDA country reports prepared for the European Commission (DG RELEX)

<sup>11</sup> United Nations (2003), Responding to globalisation: Skill formation and unemployment reduction policies, E/ESCWA/SDD/2003/5, Economic and Social Commission for Western Asia

everywhere at least 20% lower among women, females in predominantly rural countries such as Morocco are at a distinct disadvantage. Only one in ten rural women can read and write in Morocco. Thus, girls are less likely to be literate, to receive a secondary education, and much less likely to reach university or a higher vocational training level in the region. On average, in Morocco there are about seven and a half girls for every ten boys in primary/secondary levels, while in Egypt a little over eight girls are enrolled per ten boys in both stages. By 2000 in primary schools across the region 9 girls were enrolled for every 10 boys, and at the secondary level the enrolment gap is even smaller: 74% of girls and 77% of boys are enrolled.

According to World Bank estimates released in 2002, the number of children not attending school, in particular females and the rural poor, is expected to increase by more than 40% within the next decade.<sup>12</sup> A large proportion of dropouts include children from rural and poor families who are likely to join informal labour markets during times of economic hardship. Poverty affects access dramatically. In Egypt, for example, the enrolment rate for children in the top quintile of households in terms of wealth remains above 80%, while enrolments in the poorest one-fifth of households are around 50% according to the same source.<sup>13</sup> In 1994, Moroccan net primary enrolments were 58% in rural areas and 85% in urban areas, and Tunisian secondary enrolments in rural governorates were as low as 19% while in Tunis they were 78%. Among the 22 members of the League of Arab States and their 280 million people, today 65 million Arab adults are illiterate, two thirds of them women, and 10 million children are out of school.

To sum up, even after four-five decades of massive investment, the coverage of the educational systems and average attainment levels of education in MEDA region still seems lagging behind compared with the good examples of developing world (eg. Eastern Europe and Balkans, East Asia, Latin America) in terms of indicators of formal education, with potentially important consequences for their growth prospects. This can be explained by very low starting levels. Most of the countries started from very low levels of average education during 1950s and 1960s, and they still need to allocate significant financial and human resources in this sector despite the impressive improvements. Governments in the region are in fact the victims of their successes in the educational systems as they increased the expectations of their populations further. A continuing strong public sector commitment is required for the completion of universal access to compulsory education, reductions in dropout rates, higher completion rates, and internationally competitive learning achievements.

However, public expenditure on education has been declining since 1985 (maybe not always in nominal terms but in expenditures per student) and higher education is characterised by decreasing enrolment rates compared to developed countries. For some observers, the quality of education is neglected at the expense of expanding education for all and the most serious problem facing Arab education is its deteriorating quality at all stages of education.<sup>14</sup> Recent debates about the quality of education indicate that its meaning is not a settled matter. However, one clear conclusion is that good quality in education should facilitate the acquisition of knowledge, skills and attitudes that have intrinsic value and also help in addressing important human goals.<sup>15</sup> Focus on access often overshadows the issue of quality, but quantitative developments need to be accompanied and supported by quality improvements in terms of performance. It is highly likely that concerns for good quality education have started to be voiced loudly only recently since quantitative targets are closer than ever to be reached in the region.

### **1.3 Challenges to the quality of educational systems**

The crucial question for developing countries (including MEDA) is how education can meet the challenges of the twenty-first century. These challenges do not pertain to traditional literacy or traditional forms of schooling. Educational systems must generate awareness in students

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<sup>12</sup> World Bank (2002), Reducing Vulnerability and Increasing Opportunity: Social Protection in the Middle East and North Africa.

<sup>13</sup> World Bank, Education in the Middle East and North Africa: A Strategy Towards Learning for Development

<sup>14</sup> UNDP (2003), Arab Human Development Report: Knowledge Dissemination in Arab Countries

<sup>15</sup> UNESCO, EFA Global Monitoring Report 2005, *ibid*

concerning the nature of the modern economy including its values, attitudes and practices; ensure that this informative process is inclusive and does not further exploit marginalised classes; and that sound work ethics are instilled into the new generation; and help improve the quality of life of all people.<sup>16</sup> Students are one of the key pools of human resources for developing countries and must acquire certain skills required for the new economy (i.e. new “core” skills in the primary and secondary stages of education, general digital literacy, languages, technical/vocational skills; development of human knowledge and generation of ideas at the tertiary stage of education). Among the non-technical core skills necessary for performing a job and operating in society, learning-to-learn skills, literacy and numeric skills, communication skills, problem-solving skills, creativity skills, personal effectiveness skills (self-esteem, goal setting and motivation), group effectiveness skills (interpersonal, teamwork, negotiation), organisational and leadership skills, and LM navigation skills are often mentioned.

Evaluating the quality of education in the Arab world is difficult owing to insufficient information and data. As one of the few examples of standardised measurements for comparison, ten countries of the region (Bahrain, Egypt, Iran, Jordan, Lebanon, Morocco, WBGs, Saudi Arabia, Syria, and Tunisia) took part in the 2003 Trends in International Mathematics and Science Study (TIMSS) together with other 35 countries from around the world. The tests were administered to 8<sup>th</sup> grade level students of both sexes, with indicators of the quality of achievement in elementary education. The TIMSS defined four international benchmarks for the scores of math and science: low (400 points), intermediate (475), high (550) and advanced (625 points). The results showed that the proportion of students failing to achieve even the low benchmark in math and science is 81% in Saudi Arabia, 71% in Syria, 58% in Morocco, 49% in Bahrain, 48% in Egypt, 46% in WBGs, 45% in Tunisia and Iran, 40% in Jordan and 32% in Lebanon. Countries like Singapore, Japan and South Korea have less than 2% of their students falling below the low benchmark.<sup>17</sup> These results show that countries from the region are near the bottom in math and science.<sup>18</sup> Similar national assessments also confirm that basic literacy and math skills deteriorated since the late 1980s in Egypt, a decline in learning performance in French and science has been reported in Morocco.<sup>19</sup>

There are also signs of high failure and repetition rates, leading to longer periods spent at different stages of education. In Algeria the repetition rates are very high; they reached 10 % in the first year of the primary school and 15 % in the 6<sup>th</sup> and more than 30 % in 9<sup>th</sup>. The total number who dropped out from school in the 9<sup>th</sup> year has been around 360.000 in 1997. Only half of the children pass the exam to enter the secondary school, and the repetition rates in the secondary school reaches 40% in the third year. In Tunisia the situation is comparable. The repetition rate is about 16% in the basic education and 16% in the secondary school, and the drop out rate is about 10% in the lower secondary which is part of the basic school and 9% for the secondary school.<sup>20</sup>

The lack of link between the educational systems and labour markets is another most pronounced problem in the region. Overly general academic-oriented curriculum, particularly in secondary and higher education, and VET considered as a second grade option are two reported reasons. The vocational stream of education does not seem to attract enough interest from the students. In Yemen, the share of students in technical education or vocational training in the total number of enrolled students at all educational levels is still only 0.4% in 2003. In Jordan, on the other hand, almost 34% of 10<sup>th</sup> grade students apply to the comprehensive vocational stream in two types of school: comprehensive schools and vocational schools or the applied stream: semi-skilled level, skilled level and applied secondary education programme. In general, there is a strong bias toward choosing general education stream to continue university education.

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<sup>16</sup> United Nations (2003), ESCWA Report, *ibid*

<sup>17</sup> Joint ETF-WB Study on Integrating TVET into the Knowledge Economy: Reform and Challenges in the Middle East and North Africa, 2004

<sup>18</sup> UNDP (2003), Arab Human Development Report, *ibid*

<sup>19</sup> World Bank, Education in the Middle East and North Africa: A Strategy Towards Learning for Development

<sup>20</sup> ETF MEDA country reports prepared for the European Commission (DG RELEX)

Therefore, while the number of graduates with diplomas from different stages of education is increasing, they lack core competences and the relevant skills needed in the labour market in most cases. Over-centralised management of education institutions (decisions on curricula, financial and personnel management, involvement of social partners are taken by Ministries) and lack of diversification of financial resources (especially in TVET) lead to a further inflexibility in the whole system. While vocational systems in the region are expanding, problems remain. These include the fact that there has been no analysis of market requirements concerning skill needs, no coherent national strategy and limited interaction with the private sector in the majority of countries, the system is fragmented, burdened with a surplus of duplicated training programmes and marred by lack of coordination. Such programmes tend to attract those students who have dropped out of school for academic reasons. Therefore graduates of these programmes are often ill equipped for the job market and remained unemployed for long periods. Furthermore, the prevailing environment does not reward the acquisition of knowledge, technical skills, or creativity. In most cases diploma is considered more important than the learning outcome itself.

Curricula and teaching methods at all stages of educational systems give high importance to memorising and rote learning and teaching content remains information-based, not knowledge application oriented in the educational systems with few exceptions in the region. They do not develop a sense of initiative and problem-solving attitude, mostly due to the lack of active learning techniques. Memorising without thought of the meaning is in strong contrast with the new trends and techniques in the global world, without giving students creativity, critical thinking and ability for self-initiated reasoning. Research highlights the fact that regional educational systems are not providing students with these twenty-first century skills.<sup>21</sup> Instead, they confirm that by most of the indications, education systems in the region do not even reward these skills.

In fact, some researchers argue that the curricula taught in Arab countries seem to encourage submission, obedience, subordination and compliance, rather than free critical thinking. While the content of science is not usually a controversial matter (exc. religious beliefs and social taboos), humanities and social sciences that have a direct relevance to people's ideas and convictions are supervised and protected by the authorities, which generally result in both self-praise and blame of others with the aim of instilling loyalty. This is further strengthened by authoritarian and over-protective parenthood as common style of child rearing within Arab family.<sup>22</sup> Obviously, this system of learning has a negative impact on the competitiveness of graduates in the national, regional and international labour markets. Arguably, it may also have a negative impact on creating responsible citizens who are aware of their rights and responsibilities and able to adapt themselves in an open and democratic society.

Recent pressures to expand higher education have also led to a significant decrease of their quality and in many cases diverted universities from pursuing research (their major role in the transmission and generation of knowledge). For example in Jordan, the number of students enrolled at all universities increased from 31.049 in 1990/91 to 114.372 in 2000/01, which has reached 120.000 in 2001/02.<sup>23</sup> High enrolment rates at primary and secondary levels, combined with a high population growth, have led to a strong demand for higher education. While increases in enrolments can be viewed as a positive phenomenon, it can be argued that quality of education has, in some cases, been compromised. Wider coverage has been at the cost of quality, particularly in some private universities.

Students in educational systems are faced with several problems such as overcrowded classes, inadequate libraries, poorly equipped laboratories, low quality and not-enthusiastic teachers and non-existent student services. Wages of teaching staff are low and they are increased by bureaucratic years of service evaluation rather than by teaching abilities, successes, initiative or publications and research. There is lack of coordination between universities, community colleges, technical education and training establishments and general education systems. UNDP 2002 Report also calls attention to an emerging duality in Arab education systems: an exclusive private educational system enjoyed by the minority, and a

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<sup>21</sup> United Nations (2003), ESCWA Report, *ibid*

<sup>22</sup> UNDP (2003) Arab Human Development Report, *ibid*

<sup>23</sup> Andre Kirchberger (2001); "The knowledge economy and education reforms in MENA countries: Selected examples"



government education system of lower quality for the majority. Furthermore, especially higher education is viewed only as a means of achieving social status, but not as a social investment and as a means of increasing the productivity of individuals. Benefits of education (especially higher education) are also eroded by political factors. Favouritism and nepotism in the selection of individuals for education as well as public and formal private employment undermines significantly the value of education and reduces the productivity of the systems.

In addition, the level of scientific research and the generation of knowledge in the region are poor. UNESCO data pertaining to the mid-1990s revealed that gross expenditure on R&D in the Arab world was marginal, amounting to approximately 0.4 percent of GDP (\$1.9 billion out of the world total \$470 billion in 1994), the lowest figure in the world in terms of spending on R&D.<sup>24</sup> Furthermore, the number of patents held by nationals of Arab countries are negligible. The scientific output of the Arab world, as measured by publications per million inhabitants, is extremely low, amounting to 0.7% of world publications (compared to 1.6 in China and 2.1 in India and Central Asia). Apart from poor research records in general, there is lack of interest particularly in educational research, which in turn leads to less focus on the problems experienced in the field. University enrolment in science and technology at both the undergraduate and doctoral levels has actually declined since 1991. Another problem is the growing mismatch between the excessive supply of tertiary graduates in the conventional liberal arts fields and the requirements of a fluid global economy. According to ESCWA<sup>25</sup>, 72.7 percent of 1998/99 university graduates majored in the fields of education, arts and business, compared to 6 percent in science subjects, 7.4 percent in medicine and 9.8 percent in engineering in the region.

This mismatch has been exacerbated by increasingly rapid innovations in the field of technology. Only 1% of the world internet users are from the region in 2001 and personal computer penetration rate was some 2% during that period.<sup>26</sup> Cost is still the main obstacle to internet access, and cost of local calls is extremely high compared to the rates in US or Europe. The number of fixed telephone lines and mobile phones, and the number of personal computer ownership are very low compared to other regions. In both the public and private sector, the practice of turnkey contracting implies that technology is imported rather than adapted locally to benefit the economy as a whole.

Countries that continue to neglect the relevance of quality education are at risk of becoming increasingly marginalised in the global economy. Furthermore, they are likely to suffer from delayed social progress, and find it increasingly difficult to keep up with other developing/developed countries. Without improved human skills, human resources capital in the region could lag behind that of other countries, resulting in isolation. The possible outcomes of this scenario are that countries could face rising unemployment and underemployment levels, increased poverty and social tension, and fail to attract FDI (the region's average rate of FDI is 6% of GDP, the world's lowest).

It should be emphasised that the assessment given here is the average outcome of the system, which dominates majority of schools, but it should not lead us to think that no good quality schools or "centres of excellence" is found in the region. Although the impact is rather very limited, there are such good quality education and training institutions as well. The main issue here is how to streamline these "isolated good examples" into the system.

#### **1.4 Reform initiatives of the educational sector**

As a response to the challenges explained above, most of the governments in the region have acknowledged the need of reforms and they have engaged themselves in the revision of different educational stages. Thus, although at different pace, reform of educational systems is considered as top priority by the majority of countries in the region. All MEDA countries agree on upgrading the performance, relevance and quality of the systems, the need to better take

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<sup>24</sup> United Nations (2003), ESCWA Report, *ibid*

<sup>25</sup> UN Economic and Social Commission for Western Asia, Statistical Abstract of the ESCWA Region, 2001

<sup>26</sup> Jean-Eric Aubert and Jean-Louis Reiffers (2003); « Knowledge Economies in the Middle East and North Africa : Towards New Development Strategies », World Bank

into account the labour market demands through more "employment-driven" education and training strategies and policies; better involvement of stakeholders and social dialogue; enhancement of governance; institutional capacity building for definition of policies and decision-making; and increase and diversification of sources of funding. Some countries are just starting the reform process, while others are continuing or speeding-up the ongoing reforms or are consolidating their existing education and training systems, mainly with donors' support.

Among these reforms, decentralisation of education systems has received particular attention in most countries. Tunisia has developed an ambitious program for decentralizing the provision of public training services which has been applied on pilot centres (ex. Manforme). In Egypt the Mubarak-Kohl Initiative is one example of decentralized provision of training, and the EC-financed TVET Reform Project seeks to develop public-private partnerships at the local level. Involvement of private sector and all relevant stakeholders including social partners into the educational systems is another dimension of reform, but the experience shows that the quality of the participation of the private sector is uneven, with some private sector representatives unprepared to assume their responsibilities.

Curriculum development is another priority and there is a general trend in the region to move to competency-based approaches but teaching methods are not always compatible with reforms: they are not imparting higher-order cognitive skills and flexibility, such as problem solving skills but they tend to emphasize rote memorization and reward passive learning. "Qualification frameworks to provide certification of workers' competencies, to increase workers' job mobility, provide assessments and accreditations, are being developed in a few countries. In Egypt, the qualifications framework seeks to establish not only skill standards but also the procedures for testing and certifying trainees in certain pilot sectors. National standards in Jordan are maintained through the use of common national curricula among training institutions and application of common exit examinations.

It should be emphasised that these reforms have been almost promoted and partly pushed by the donors such as the World Bank, the EU or national development aid agencies (USAID, JICA, CIDA, AFD, SIDA, FSP, BEI, GTZ, DFID, KFW etc). Traditionally, MEDA region attracts a considerable amount of donor support for the expected reforms in the systems during the last decade. In fact, intensive donor support has been given to the countries, each of them focusing on different aspects and parts of the systems. The nature of this support is not only large in terms of amounts but also ambitious in terms of its objectives, geared towards systemic reform (in Tunisia, Morocco, Algeria, Egypt, Syria) and its links to the labour market.

Results so far are mixed. A number of reasons are attributed to these results. One observation is that donor-funded programmes are not always successful in creating full ownership of countries for the continuation and dissemination of projects results to the whole system. Moreover, financial resources for the reform of the whole system are not sufficient in the countries and donor-funded projects do not have financial sustainability either when the donors leave. Public organisations (Ministries, Institutes, schools) in charge with reform initiatives have weak institutional capacity to implement these reforms. Many "individualised" initiatives are implemented without dialogue, coordination and synergy (e.g. Egypt is one example for high number of donor-funded reform initiatives).

For some authors, more than insufficient financial resources, socio-cultural and institutional reasons are one of the main obstacles to the modernisation of the systems. While some changes are already underway with public authorities and other major stakeholders very much aware of the need to transform these systems, the strategy to be followed and the means to be mobilised for successfully implementing that approach have to be considered carefully. In contrast to a rapid adjustment to technical and technological developments without questioning, changes in attitudes and mind-sets are extremely slow.

Managing and monitoring a change process in the social and socio-cultural area is complex. Only where there is internal consistency between political support, financial and human resources and social values can the change process develop successfully. Any change process or reform in the educational area induces resistance and opposition in those who may feel threatened by the intended changes. By definition, a reform touches upon territories and power

structures, and it leads to “gains” and “losses” in one way or another. The question is how far a reform can go without provoking a backlash that may endanger its entire existence. The discussion here does not mean that nothing has changed in the region or educational reforms that were introduced have failed. This is far from being the case. However, the efforts made and the resources devoted to education and training should not hide the fact that the educational reforms remain significantly uneasy to implement.

Finally, it is too early to assess the full impact of the changes introduced in the systems as reforms of education systems are long-term investment. Most of the reforms are still continuing and one must wait before reaching early conclusions. However, overlapping initiatives and piecemeal changes are not the best way to reform the system. A comprehensive approach must be developed that advances quality in relation to the development of skills, expands employment choices and achieves economic growth if it is to be a reform.

Key issues from Section 1:

- There is a huge demographic pressure on the national educational systems due to increasing numbers of students demanding education at all stages. This creates a continuous tension in the system between quantitative and qualitative concerns.
- The level of human capital stock seems to be lower compared to East Asia, Latin America, Caribbean, Eastern Europe and Balkans; but formal education indicators have been improving very rapidly as a consequence of massive investment in education and training.
- Although significant increase in literacy rates and in average educational attainment of labour force has been recorded, problems related to equal access to education by males/females, rich/poor and urban/rural have not been totally solved.
- Expanding education for all had significant negative impact on the quality of education in the region and there are clear signs showing deteriorating quality at all stages of education.
- Reform initiatives in the educational sector have been on-going during the last decade, mostly through projects funded by international donors such as EU, WB and other national aid agencies, but the results so far is mixed.

## **2. ALLOCATION OF HUMAN RESOURCES IN THE LABOUR MARKET**

An important source of economic growth is that unproductive jobs continuously are replaced with more productive jobs. This is the core of the labour market reforms in countries where the public sector had had a dominating role and where the formal labour market has been static often aiming at creating life-long jobs for workers. These labour market reforms are closely connected to reforms in the functioning of product markets. Reforms to strengthening competition through removal of barriers to entrepreneurship and explicit barriers to trade and foreign investment can have strong employment effects.

In most developing regions, private returns to education tend to be higher for primary education than for secondary and university education. By contrast, in MEDA countries, returns to education appear to increase with the level of schooling.<sup>27</sup> One explanation is that public employment plays a more important role in MEDA than in any other developing region. Thus, higher returns to education for high school and university graduates may reflect government

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<sup>27</sup> Alan Krueger and Mikael Lindahl (2001), “Education for Growth: Why and For Whom?” *Journal of Economic Literature*, Vol. 39(4): 1101-1136; George Psacharopoulos and H. Anthony Patrinos (2002), “Returns to Investment in Education: A Further Update” World Bank Policy Research Paper 2881. Washington, DC: World Bank, September 2002; World Bank (2004), *MENA Development Report: Unlocking the Employment Potential in the Middle East and North Africa*. Washington, DC.

pay scales rather than improved productivity.<sup>28</sup> A recent ETF study<sup>29</sup> confirms as well the low return to education for primary and secondary education, higher for women and for public sector in the region. For example in Jordan, wages by educational attainment indicates significant returns with increasing levels, especially for men, and in Lebanon wages indicates some returns for higher education. Significant returns are observed for all levels of education in Tunisia, but higher in public sector especially for women.

In contrast to high private returns as explained above, recent evidence collected in the Middle-East and North African countries suggests that social return to education has been low and the relationship between investment in education and economic growth in general has been weak.<sup>30</sup> In these countries, fast expanding school and university enrolments have resulted in an expansion of the stock of human capital and higher educational attainment levels, but growth performance has been disappointing and labour productivity growth has been small and in many cases negative. In other words, the economy-wide payoff of investment in education has been limited, largely because MEDA economies were not able to make effective use of rising cohorts of educated labour. Economists argue that human capital can only have a limited impact on economic growth if it is employed in socially unproductive activities (including administrative public sector), even though it may be remunerated at the micro-level.<sup>31</sup>

Within the context of sluggish labour markets, education has expanded horizontally in terms of enrolment without substantive improvements in the quality and enhancement of skills. At the same time, demand for labour has decreased as government recruitment policies reached their peak and employment schemes were discontinued. The only exception to this is recruitment of education and health professionals for increasing public services in these fields. The ability of the non-public formal sector to absorb the increasing supply of labour has been limited. Such a situation has resulted in a backlash with regard to education, particularly higher education. It has experienced decreased returns and become a less attractive investment option.

Employment in productive sector is the vehicle through which education is translated into growth and equitable distribution of this growth. When the link between education and employment is broken, significant resources are wasted and the returns to education diminish. The inefficient use of educated labour is, therefore, equally important issue of the region. Because of insufficient skilled job creation in the private sector, the contribution of education to GDP growth has been severely limited in the recent past. This suggests that the functioning of the labour market and the employment creation mechanisms are crucial to the success of any policy aimed at fostering economic growth through increasing investment in education.

Within this conceptual framework, the following pages will discuss the main features of the labour markets in the region and focus on key structural issues.

## **2.1 Labour force participation and productivity**

As explained before under the demographic pressure, ILO estimated that the labour force in the Arab region would increase by more than 3 percent per year between 2000 and 2015. According to WB figures, the labour forces of the region totalled some 104 million workers in 2000, and this figure is expected to reach 146 million by 2010 and 185 million by 2020. Given

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<sup>28</sup> World Bank (2004), *ibid*; Brahim Boudarbat (2004), "Employment Sector Choice in a Developing Labour Market." Working Paper: Department of Economics, University of British Columbia, Canada; Paul Glewwe (2002); "Schools and Skills in Developing Countries: Education Policies and Socioeconomic Outcomes," *Journal of Economic Literature*, v. 40(2), pp. 436-482; Lant Pritchett (1999), "Has Education Had a Growth Payoff in the MENA Region?" World Bank, Middle East and North Africa Working Paper Series No. 18, December 1999.

<sup>29</sup> ETF, Draft Meda LM Study on the functioning of labour markets, 2005

<sup>30</sup> Pritchett (1999), *ibid*; Samir Makdissi, Zeki Fattah and Imed Limam (2003), "Determinants of Growth in the MENA Countries," Arab Planning Institute Working Paper 0301, Kuwait

<sup>31</sup> Murphy, Shleifer and Vishny (1991) state that "When talented people become entrepreneurs, they improve the technology in the line of the business they pursue, and as a result productivity and income growth. In contrast, when they become rent seekers, most of their private returns come from redistribution of wealth from other owners and not from wealth creation". Such misallocation may occur when distortions in the institutional framework make rent seeking activities more profitable than productive ones, thus providing incentives for skilled workers to turn to the former.

this expansion, the economies of the region will need to create some 80 million new jobs in the next two decades. With unemployment now around 15 percent, the more ambitious goal of absorbing unemployed workers in addition to the new entrants implies the need to create close to 100 million jobs by 2020, a doubling of the current level of employment in the first decades of the 21<sup>st</sup> century.<sup>32</sup>

An examination of labour force participation trends show low activity and employment rates in the region. Average employment and activity rates are generally changing from 45% to 50%. According to the results of ETF study, Morocco has 52.2% activity rate and 48.2% employment rate in 2003; in Lebanon they are 50% and 44% respectively; in Tunisia 49.5% activity rate (73.4% men, 25.7% women) and 42.1% employment rate (62.8% men, 21.5% women). As the lower end of the comparison, Egypt has 45.6% activity rate and 40.6% employment rate; and Jordan has 39.4% and 34.4% respectively.<sup>33</sup> One of the main reasons of these low rates is extremely low female labour force participation in the region. When compared with EU averages of 66% general employment rate and 56% female employment rate, the regional average is quite low. Looking at qualification levels of working population, as one of the best performers in the region, Tunisia's pyramid of worker qualifications is 60% low-skilled, 30% medium-skilled and 10% high-skilled. The average distribution in Europe is 20%, 60% and 20% respectively.

In the MEDA region, the limited access of women to wage employment is another characteristic and the contribution of women to economic or productive life still tends to be marginal. They remain a largely untapped resource in the region, making up 49% of the population and in some countries as much as 63% of university students, but only 25% of the labour force on average. Activity rate of women is 11% in Jordan, 20.6% in Egypt, 25% in Lebanon, 25.7% in Tunisia and 27.2% in Morocco. In fact, impressive progress achieved in the improvement of female education has not been translated into women's economic participation. By investing massively in women's education, Meda countries have increased women's productive potential and their capacity to earn incomes. But the very low levels of female participation in the labour force mean that the region is not capturing a large part of the return on this investment.

Lack of opportunities for the employment of women can be related to the general lack of employment opportunities in the region. While demand factors (high unemployment) and standard LM discrimination which could be seen in all parts of the world have an impact on the outcome, the real nature of the problem tend to be socio-cultural. Gender roles and dynamics within the households are shaped by a traditional gender paradigm which is based on the centrality of family rather than individual, recognition of patriarchal family structure and the man as sole breadwinner, and an unequal balance of power in the private sphere. Even large numbers of well-educated women remain at home when they get married. Moreover, females attending higher education particularly tend to opt for the humanities and the arts in accordance with their traditional role in society rather than subjects that would maximise their opportunities in labour markets. Training for females in non-marketable areas (exa. embroidery or other crafts typically considered for women) also significantly reduce the impact of vocational programmes. However, the percentage of women in the active population has started to be steadily increasing.

The sectoral distribution of employment has followed a steady pattern over the past years: the proportion of workers in the agriculture sector has fallen while that of workers in the services sector has risen. Employment in the manufacture sector does not seem promising either.

While the average years of schooling per person have increased dramatically in all countries, growth of output per capita, as measured by real wages, has often been slow and in many cases negative. In the early 1990s, industrial labour productivity was estimated to be at approximately the same level as in 1970. According to World Bank data, total factor productivity dropped steadily by 0.2 percent during the 1960-1990 period. As of 2002, it was virtually

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<sup>32</sup> World Bank (2004), *Unlocking the Employment Potential in the Middle East and North Africa*.

<sup>33</sup> ETF, *Draft Meda LM Study on the functioning of labour markets*, 2005

stagnant. In 1998/99 GNP per worker in all Arab countries was less than half that of South Korea or Argentina.<sup>34</sup>

Furthermore, increases in productivity in other parts of the world have been mirrored by a significant relative decline in the competitiveness of the region. It is worth noting that this decline occurred after massive investments in gross fixed capital formation and the massive expansion of educational systems in the region. This situation has led to declining labour total factor productivity (TFP) and resulted in unemployment and underemployment of youth, in particular school and university graduates. The fact that increases in the average years of schooling per person during the past 40 years have been higher than any other region in the world (with the exception of East Asia) while productivity has been among the lowest in the world, proves that structural imbalances are an obstacle to the formation of human capital.

## 2.2 High unemployment

Finding consistent and comparable data on unemployment trends is difficult in the region. Statistical data originates from different sources and varies often from one to another. Furthermore, there is no internationally agreed definition on what countries are covered by the Mediterranean region (ILO, World Bank, EU include a different set of countries). Therefore, finding trends at regional level becomes a substantial challenge. Statistical figures should be taken as an indication of a regional trend.

The obvious fact is that the growth in the labour force has exceeded employment growth in most countries in the region and unemployment rates remain high in most of the countries. Economic growth was, in most cases, not sufficiently high to create new employment opportunities and accommodate the rising number of new entrants to the labour market. According to ILO estimates, the average unemployment rate in the region remained around 15% in these years. An exception to this trend is Morocco and Tunisia that recently have recorded some growth in employment rates. According to the recent official data, unemployment rate is 14.9% in Tunisia (14.4% men, 16.2% women) in 2003, 11.5% in Lebanon (9.3% men, 18.2% women), 11.9% in Morocco, 12.6% in Jordan (12% men, 16.5% women) and 11% in Egypt (7.5% men, 23.3% women).<sup>35</sup>

Unemployment is especially high for new entrants to the labour force with intermediate and higher education and for women. This structure of unemployment suggests that a significant part of unemployment results from high job expectations by workers with some formal education, and a low valuation of these credentials by the private sector because education systems have concentrated on making public sector jobs accessible rather than on building skills. Higher unemployment rates for graduates from secondary and higher education are particularly significant in Egypt and Morocco, and less significant in Jordan, Lebanon and Tunisia. Although government hiring has been curtailed in recent years, the structure of the labour market remains segmented. Educated new entrants continue to queue for government jobs, despite falling civil service wages, because of such non-wage benefits as job security and social protection.

Youth unemployment remains, therefore, a matter of major concern. Unemployment among the 15 to 24 age group is high, up to 39% in Algeria and 37% in Morocco in 2002. In Syria, the share of 15-24 population in total unemployment is around 73%.<sup>36</sup> The majority of those unemployed in Egypt, 55 percent, are graduates of an intermediate education. However, estimates for the 2001-2005 period illustrated that 66% of available employment is for unskilled labour. Only 17% of job opportunities require higher education. The profile of an unemployed person in Egypt is typical for non-oil producing countries in the region: 84% are first time job seekers, 54% are graduates of intermediate education, 52% are from rural areas and women are three times more likely than men to be unemployed.<sup>37</sup> As shown in the figures, women

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<sup>34</sup> United Nations (2003), ESCWA Report, *ibid*

<sup>35</sup> ETF, Draft Meda LM Study on the functioning of labour markets, 2005

<sup>36</sup> UNDP (2002), Arab Human Development Report, *ibid*

<sup>37</sup> UN Economic and Social Commission for Western Asia, Statistical Abstract of the ESCWA Region, 2001

unemployment rate is in many countries also higher than men. In Egypt, Lebanon and Syria, for example, it is more than double and in Jordan it is one third higher.

It is estimated that from now until 2010 and given the current population growth rates, around 40 million new jobs need to be created to keep the current unemployment rates. To reduce the current unemployment rates, average economic growth will need to reach around 7% from now until 2010.<sup>38</sup>

### 2.3 Weight of public sector in employment

Public sector has traditionally been an important source of employment in most Mediterranean countries. In the 1990s, public sector employment in the Mediterranean region was the highest among developing countries. This was mainly a consequence of the increase in the provision of social services (education, health, social protection) that had positive impacts in living standards in the region. Poverty rates are indeed very low in the region. Absolute poverty<sup>39</sup> is the lowest among all developing regions in the world. Several reasons may lead to this phenomenon: the role of migration and remittances which disproportionately benefited those at the bottom of the income ladders,<sup>40</sup> the cohesive system of social responsibility under which families support each other during hard times, and the expansion of religious and charitable arrangements to redistribute income could be some of them.<sup>41</sup>

Public sector concerns not only government or public administration but also state-owned enterprises. The involvement of the state in economic production varies from one country to another but in general the share remains high, despite privatisation and public sector reforms. The share of public sector employment, including state-owned enterprises ranges from more than 30% in Tunisia and Egypt, 50% in Jordan to close to 60% in Algeria.<sup>42</sup> In addition, the share of "civilian government employment" worldwide is on average 11% of total employment while in the Mediterranean region it can go up to 17.5% (25.8% in Egypt, 24.8% in Algeria, 15.2% in Jordan, 13.5% in Tunisia and Syria and around 8% in Morocco and Lebanon.<sup>43</sup> As a result of this, the government wage bill to GDP has also been very high; on average 10% (while worldwide it is estimated around 5%).

Employment in the public sector (both in state owned enterprises and in public administration) has followed, like in many other parts of the world, rigid labour market legislation and consequently, has made difficult a flexible response to economic changes and labour market pressures. Due to this inflexibility of response and the need to limit labour market redundancies, public sector employment has turned in some cases into "deficit financed" jobs to absorb the excess supply of labour. In other words, employment in the public sector has also in some cases been used to absorb the excess supply of labour.

Another characteristic of public employment is high level of graduates from intermediate and higher education institutions. Guaranteed employment without concern for productivity in the public sector led to the prevalent rent-seeking behaviour among the graduates and created strong disincentives for working in the productive sectors<sup>44</sup>. According to Chemingui and Ayadi, historically many countries in the Meda region set up mechanisms guaranteeing graduates of high schools employment in the public sector in the form of rent seeking positions, and a big share of the stock of human capital is lost in rent-seeking activities. Essentially this type of behaviours to bypass the laws and regulations or to use them to personal profit can only be

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<sup>38</sup> Contribution of M. Reiffers, Femise report presented on 23-24 April 2003, Conference on the Impact of EU Enlargement in Meda

<sup>39</sup> Individuals earning less than 1 \$ per day, measured in purchasing power parity terms.

<sup>40</sup> Richard Adams and John Page (2001); "Holding the line: Poverty reduction in the MENA, 1970-2000", August 2001, World Bank.

<sup>41</sup> ILO, Global Employment Trends, January 2003

<sup>42</sup> ILO, Global Employment Trends, January 2003.

<sup>43</sup> Government employment and ALMP in MENA In a Comparative International Context, Alan Abrahart, Iqbal Kaur, Zafiris Tzannatos, Paper presented at MDF3 Cairo, March 2000

<sup>44</sup> Mohamed Chemingui and Nassima Ayadi (2003); "Understanding the poor human capital contribution to economic growth in Algeria", November 2003, a paper produced as part of the Global Development Project

accomplished by individuals with a certain level of education; hence it is not surprising that rent-seeking is intensive among skilled workers.<sup>45</sup>

The result is poor use or waste of educated labour by distorting the incentives in labour markets. To give an example, 75% of the total active population with a higher education (university plus intermediate institute) degree was employed in the public sector in Syria in 2003, which is characterised by low labour productivity. Only 20% of higher education degree holders are employed in the private formal sector. In many countries, especially those with high underemployment in the public sector, it is also common for workers to combine public sector employment with informal employment or with other positions in the formal sector.

Unless public sector is reformed and the situation in private sector is improved, educational reforms are unlikely to succeed in the region. The present LM system promotes and rewards the acquisition of academic diplomas rather than skills that enhance the productivity of the worker. Government may continue to be a source of employment for a minority of new job seekers, but it is highly unlikely for the public sector to remain a leading sector of job creation in the future.

Many countries have already accomplished, others are starting, privatisation and/or downsizing processes of public sector services and enterprises. Tunisia has started earlier in this area. Algeria has also liquidated one third of its public enterprises. Significant changes are also under way in Morocco, Yemen, Jordan, Egypt and Lebanon. However, in many countries, public sector is still over-sized both in public enterprises and in public administration. Public sector downsizing remains a pending subject for some of them. Because, in the current context of high unemployment rates and poor economic growth perspectives, reducing employment in the public sector can create important social tensions and may have important cascading effects in internal markets, especially when there are no social safety net system in societies (beyond the families, in most cases).

## **2.4 Large informal sector versus over-regulated formal sector**

Although difficult to quantify, the size of the informal sector in Mediterranean countries is estimated to be very high. According to the latest ILO estimates, the informal economy employment<sup>46</sup> as a percentage of non-agricultural employment accounts for 35% to 50% in most of the countries. It accounts for 30% of non-agriculture employment in Algeria, 40% in Egypt, 63% in Morocco, and 35% in Tunisia. Furthermore, informal sector employment in some countries has accounted for the most important source of jobs for new entrants to the labour force:

- In Egypt, recent studies carried out show that, the majority of the jobs created in the private sector in the period analysed (1988 – 1998) were in the informal sector. It is estimated that 70 percent of new workers start in the informal sector.<sup>47</sup>
- In Syria, in the period 1995-2001 while there was a drop in the percentage of people employed in the formal private sector from 40 in 1995 to 34.8% in 2001, there was an increase in the percentage of employed in the informal sector from 33.8 in 1995 to 39% in 2001.<sup>48</sup>

Increased informalisation during the 1990s concentrated in manufacturing, construction, trade and transport in Egypt, and informal workers are concentrated among those with no and less than intermediate education. There is a negative correlation between educational attainment

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<sup>45</sup> The resulting corruption constitutes a special case of rent seeking behaviour, that can be defined in a narrowly line as an illegal use of a position in the public administration to personal profit. The border between corruption and rent seeking behaviours is essentially juridical. In economies where the rules of playing ground are not well defined, this distinction between rent seeking and corruption is very limited and it results in negative impact on attracting FDI and waste of resources in non-competitive activities.

<sup>46</sup> Jobs in the informal sector can be defined as unprotected by a legal employment contract or social security arrangements.

<sup>47</sup> Barry McCormick and Jackline Wahba (2001) ; "Migration and Mobility in the Egyptian Labour Market", ERF Research Project No: ERF99-UK-1008

<sup>48</sup> ETF, EU Project Identification Report, Modernisation of VET in Syria, May 2003



and the probability of being informally employed. In Tunisia it concentrated in manufacturing and the proportion of those with high school is lower, but not negligible (12%). In Morocco workers in informal sector are poorly educated and more than 46% of such workers have never been in school. They concentrated in trade and repairs.<sup>49</sup>

One characteristic of the informal sector in the Mediterranean region, more pronounced than in other regions, is the unclear demarcation between the informal and the formal sector. A very large proportion of the enterprises are small or very small, with a large majority being family-owned and managed. Therefore, the size in terms of employment may not be a definitive criterion to identify “informal activities”. Legal status is, thus, a more often used criteria to distinguish formality from informality. Even so, the border line to informality is not clear cut. One can distinguish between a “high end” (with potential for growth and employment) and a “low-end” (geared towards subsistence economy). The latter, the subsistence sector, is characterized by low productivity, obsolete technologies, and low incomes. The qualification levels required to operate in this segment of the informal economy is very low, and the demand for new skills is negligible. At the other end of the informal economy there are efficient micro and small enterprises capable of expanding their markets. Studies show that for these businesses access to modern management, new technologies and new skills can play a key role in their development.<sup>50</sup>

Precarious nature of jobs in informal sector without social safety and with low wages and long working hours are in strong contrast with public sector and formal private sector jobs which have high degree of job security as well as social protection. Particularly jobs in public sector may not be demanding enough and wages are not based on the productivity and efficiency of employees. Therefore, in many countries, especially those with high underemployment in the public sector, it is common for employees to combine public sector employment with informal employment or with other positions in the formal sector. Use of different types of contracts in employment is extremely limited in formal sectors, while having an employment contract is out of discussion in informal sector. Wage formation and minimum wages determined only for limited numbers of workers in formal sector have further negative impact on informal sector. In contrast to informal sector, formal public and private sectors have a reputation of having “over-regulated”. In fact, hiring and firing regulations for those “insiders” of the system are still considered rigid despite recent reforms of labour laws for more flexibility in Egypt (2003), in Tunisia (1994, 1996) and others.<sup>51</sup> Furthermore, taxes on labour in the registered economy are also high.

To summarise, labour markets are segmented between formal jobs in the public and private sector and jobs in the informal economy and the mobility between the two is very low. As a result, there is a sharp contrast between “insiders” of the registered economy and “outsiders” in informal economy. Those workers who manage to get into system generally enjoy significant privileges, while those who have to work in informal sector receive no protection at all. Therefore, reforming the institutional and regulatory framework is integral to better functioning labour markets and higher mobility between different types of employment.

## **2.5 Labour market policies**

The state of employment policy development varies considerably from country to another in the region. While a comprehensive employment policy discussed and decided at national level (something similar to EES in the EU) is lacking, in some countries mostly from North Africa, there has been a national debate on labour market reform and consequent comprehensive policies have been put in place. Others are still at earlier stages focusing on the implementation of (a number of) active measures for employment promotion without a comprehensive policy background. In few cases sound institutional reform has taken place. Passive labour market policies are often limited to retirement schemes, especially for public sector workers – but excluding significant number of informal workers, while unemployment subsidies are rare. Only Algeria has recently introduced an unemployment insurance scheme in the region.

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<sup>49</sup> ETF, Draft Meda LM Study on the functioning of labour markets, 2005

<sup>50</sup> Joint ETF-WB Study (2004), *ibid*

<sup>51</sup> ETF, Draft Meda LM Study on the functioning of labour markets, 2005

Employment services (or labour offices) although present in almost all countries have very limited capacities in terms of staff resources and facilities to provide relevant advice to job seekers. Furthermore, relatively well-functioning public employment services after recent reforms in countries like Tunisia (ATE) and Morocco (ANAPEC) are essentially concerned with graduate employment, and there is a lack of any similar agency to mediate at the interface for unqualified workers. Recruitment policies in the public and formal private sector are generally based on the qualification paper held (diploma) and the applicant's network of social contacts rather than competitive exams for competencies. Counselling and orientation services are rare as well.

In a vast majority of countries active labour market policies include a combination of the following: employment services for job seekers, a variety of credit schemes for employment generation, and training/re-training schemes. The credit schemes address either the lower segment of self-employed and micro enterprises (many of them administered by NGO type organisations) while other focus on the SMEs sector. Many of them include also training and counselling services. Particularly Tunisia has developed an extensive ALMP measures, mainly through donor-funding. While successful in many cases, the main handicap identified is the large dependence on donor funding and, thus, their doubtful sustainability. Furthermore, the more vulnerable and the less skilled workers get less attention in these relatively better performing environments, and the coverage of such programmes is generally very limited.

Training has often absorbed a higher proportion of the resources than other ALMPs. However it may not be producing maximum outputs. Several reasons could be behind this fact. The training offer has been restricted in most cases to the formal training, which many not be the most efficient way for skills development especially in the context of high numbers of micro-enterprises. Access and suitability of the training offer in terms of activities and technology have been a recurrent concern. The lack of resources of formal training is also a cause for the low quality of the outputs produced. In general terms, there is still some way to go in the integration of employment and education and training policies. Furthermore, training is mainly supply-driven. Training programmes should be better tailored to company needs. An increased role of the private sector in the definition of active labour market policies would make a qualitative difference. The situation is however slowly changing and their involvement in training design and delivery is increasing via apprenticeship and on the job schemes.

Last but not least, countries in the region are still to put in place proper information systems to monitor the evolution of labour markets and the effectiveness of employment policies. A first step in this direction is the development of sound labour market information systems. Many countries in the region have started, often with donor support, to move into this direction. In many cases it is more a question of bringing together and complementing currently dispersed data and sources rather than starting from scratch.

Key issues from Section 2:

- Labour force participation and productivity is lower in the region compared with other developing countries, with activity and employment rates around 45 – 50%.
- Very limited access of women to wage employment is a characteristic of the region, constituting only 25% of the labour force on average.
- Average unemployment rate remained around 15% and it is expected to rise further in the next decade. Youth unemployment is particularly high and unemployment is mainly a “first entrance” problem.
- Public sector has been an important source of employment in the region, with high level of graduates from intermediate and higher education institutions, and has still a distorting role in the labour market.
- The size of informal sector in the region is estimated to be very high, with 35% to 50% non-agricultural employment. The majority of new jobs is created in informal sector and labour market is segmented between formal jobs in public and private sector and jobs in informal economy, with very low mobility between the two.
- Employment policy, level of PES and active labour market measures can not be

considered efficient and inclusive enough given the poor quality of labour exchange services and the limited number of beneficiaries.

- The structure of labour market does not seem to be functioning well to allocate human resources to their best uses and to determine quality, quantity and productivity of human capital through right incentives for individuals.

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