



EMPLOYMENT POLICY REFORMS IN THE MIDDLE EAST AND NORTH AFRICA



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EMPLOYMENT POLICY REFORMS IN THE MIDDLE EAST AND NORTH AFRICA

SELECTED ISSUES ON THE
FUNCTIONING OF THE LABOUR MARKET

*Ummuhan Bardak, Henrik Huitfeldt and Jackline Wahba
European Training Foundation
2006*

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PREFACE

Bilateral, multilateral and regional cooperation between the European Union (EU) and partner countries in the southern and eastern Mediterranean region has been intensified since the Barcelona Process was launched in 1995. Strengthened development cooperation through the Euro-Mediterranean Partnership (MEDA) programme, gradual adoption of sector-wide support programmes, and the new European Neighbourhood Policy have provided both a framework for greater cooperation and a new perspective on integration with the EU internal market. This new agenda will improve human capital integration as well as pose new challenges in terms of employment and human resources development policies for the southern Mediterranean countries. To obtain a better understanding of the key features governing this process, the European Training Foundation (ETF) has commissioned a project to report on employment and the functioning of labour markets in the region.

The project focuses largely on five countries (Egypt, Jordan, Lebanon, Morocco and Tunisia), although when relevant data was available, developments in other countries in the region are also discussed. Macroeconomic perspectives on employment policy are not covered by this report; the focus, rather, is on structural issues affecting labour market functioning and on assessing the appropriateness of policy responses.

An introductory chapter reviews data sources for the five countries and compares key labour market indicators. The remainder of the report discusses the relationships existing between: investment in education/training, employment and economic performance; labour mobility and labour market segmentation; and labour market institutions and employment policy. Since the report does not aim to provide a thorough description of labour markets in the countries of the region, certain issues—such as gender perspectives or the effects of labour force growth—are only dealt with in passing.

Within the framework of the ETF project, two kinds of country-specific background papers were produced for each of the five countries. The first set of country reports covered the following topics: main data sources, basic background information on key labour market variables, investment in education, employment and economic growth, labour mobility and labour market segmentation. The second set of country reports focused on the regulatory framework governing labour market institutions and employment policy, and also examined, in some detail, the institutions involved in policy formulation, labour legislation, social partners, active labour market policies, and the vocational education system.

EMPLOYMENT POLICY REFORMS IN THE MIDDLE EAST AND NORTH AFRICA

This report—prepared by Ummuhan Bardak, Henrik Huitfeldt and Jackline Wahba on the basis of the country background reports—provides a regional perspective on the information collected on selected labour market issues affecting (mainly) Egypt, Jordan, Lebanon, Morocco and Tunisia, and implements a basic analysis of the corresponding implications for the future of these countries.

Unless specified otherwise, all country-specific information was obtained from the background reports. The background papers were produced by local experts from the five countries studied, namely: Mona Amer (Egypt), Nader Mryyan (Jordan), Makram Maleeb and Najib Issa (Lebanon), Mohammed Bougroum (Morocco) and Mongi Boughzala and Mohammed Chemingui (Tunisia).

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EXECUTIVE SUMMARY

Developments in recent decades have placed employment high up on the political agenda in the Middle East and North Africa (MENA) region and have forced governments to implement job creation measures, given that unemployment will probably continue to represent a key economic and social challenge over the coming decades. A growing interest in employment issues has not only created a political rhetoric and launched reform initiatives at national levels, but has also led to a growing interest in donor cooperation. The challenge remains, however, to build comprehensive and interwoven strategies that coordinate different policy areas (e.g. labour, economy, education and training, social policy, etc.) in the countries of the region.

Despite its increasing importance, the issue of employment has received relatively little attention. No high-level meetings between EU and MENA labour ministers/experts, for example, have taken place (Martin, 2006). Employment creation has, in fact, implicitly been considered to be a logical outcome of the economic growth assumed to be a spin-off from economic reforms and gradual trade liberalisation. Given a young and growing labour force and the lack of initiative in regard to job creation programmes (large-scale, immediate, and ensuring decent employment conditions), the employment issue poses a serious challenge. Moreover, this challenge, if not confronted, will have many negative implications for individual MENA countries and for the region as a whole.

This project has been inspired by the dearth of information on the functioning of MENA labour markets. Labour market analyses are crucial to informed policy-making in both national and regional contexts, as also to the partnership implied by MENA. Macroeconomic conditions are

certainly important, but labour market structures and policies play a major role in shaping employment patterns. Although this report represents an attempt to shed some light on certain issues common to the MENA labour markets, further analytical work is required in order to assess the role played by labour market policies and institutions in terms of labour market participation and employment. The main conclusion of this work is that correct labour market functioning is crucial to obtaining wide-ranging benefits (including the reduction of unemployment) from economic reforms and increased investment in education and training.

A brief summary of each chapter of the report is provided below. It should be emphasised that although the issues covered by this report are immediately relevant to understanding how the MENA labour markets function, each is dealt with independently and can be viewed in isolation from the other issues.

Chapter 1 provides essential background information for this report. It summarises the main characteristics of the labour markets in the MENA region in the form of key labour market statistics. The aim is first to review existing labour force surveys for the countries in the region, and second to present data on labour force participation, employment and unemployment rates, broken down by gender, age, and educational attainment. The chapter also includes a basic analysis and a discussion of the major challenges facing the MENA labour markets. Of note are the low labour force participation rates for non-university-educated young people and women, the role played by education in successful labour market integration, and the high unemployment rate for university graduates. Since labour force survey definitions and interpretations of

employment are sometimes ambiguous, it is suggested that longitudinal data is necessary in order to implement a more thorough analysis of labour market functioning in the region.

Chapter 2 discusses investment in education and training, which is considered to be a major force for economic growth. In the MENA region there is growing documented evidence of a weak relationship between investment in education and economic growth. This chapter discusses the fact that large investments in education and training have failed to be translated into economic growth and higher employment levels. Analysed are trends in education investment, returns on education, the destination of young people exiting the education system, and the opportunities and incentives for entry to the labour market and to what extent these influence this process. It is concluded that the quality of the education system does not seem to have deteriorated as a consequence of expansion and that individual (private) returns on education are substantial. However, MENA economies have failed to match large investments in education with reforms in the labour market that make effective use of their pools of educated workers.

Chapter 3 discusses the dynamics of labour allocation in the MENA context. An important source of economic growth is the displacement of unproductive jobs by more productive jobs. This is a core element in labour market reform in countries where the public sector plays a predominant role and where the formal labour market lacks dynamism (with a focus, frequently, on creating lifelong jobs for workers). The public sector has traditionally been the most important employer in MENA countries, and the formal private sector has typically failed to create an adequate supply of alternative jobs. For many people, however, the only jobs available are in the less productive informal economy. Yet another feature of the MENA countries is poor mobility between sectors.

Chapter 4 focuses on the role of labour market institutions in employment policy in the MENA region. Interventions in the labour market, in the form of policies or institutional actions, are aimed at improving

the match between labour demand and supply, protecting jobs, moving workers to new jobs, encouraging mobility, and ensuring equality of opportunity for all social groups in the labour market. In accordance with this broad definition, intervention can take the form of ministerial and public employment services, labour legislation, unemployment benefit schemes, taxes on labour, social partnerships, active labour market policies, and vocational training. Labour market outcomes can be positively influenced through the development and implementation of strategies, policies and measures in these areas. The chapter begins with a general overview of existing employment policy approaches at the national level. Then, particular dimensions of the MENA labour markets are discussed in detail (namely, labour market institutions in charge of policy formulation and implementation, social partners, labour legislation, active labour market policies, and vocational training systems), with the aim being to provide a snapshot of the institutional, regulatory and policy frameworks in place in the MENA labour markets. The institutional capacity of the systems is instrumental in determining how measures are implemented and the nature of the relationships between the main players in the labour markets.

Finally, Chapter 5 looks at ways forward in terms of feasible labour market reforms in the region. Based on the findings of the previous chapters—and leaving aside the challenges facing the education system (in terms of quality)—there would seem to be a real need for comprehensive labour market reform. There is evidence that labour markets in the region are not functioning well in terms of the efficient allocation of human resources to the best possible use. Effective allocation of resources is crucial to the success of any policy aimed at fostering economic growth. This final chapter provides an overview of reform initiatives that are mostly supported by donor-funded programmes. The role of donors, in terms of initiating and supporting change, is substantial in the region, but real reform requires more. The chapter terminates with an overall assessment of the factors that augur well or otherwise for the future of the reform process.

1

1. LABOUR MARKET STATISTICS: A REVIEW

1.1 DATA SOURCES

The key data source for labour market analyses is the labour force survey, which most countries in the MENA region carry out on a regular basis (Table 1.1). Jordan, Morocco and the Palestinian National Authority, for example, have conducted, since the end of the 1990s, quarterly labour force surveys containing basic data on working-age population, labour force composition, and employment and unemployment rates, all broken down by gender, age, educational level, economic activity, occupation, and rural/urban distribution. Most countries in the region, however, publish or make available for research little of the information collected in their labour force surveys. In some countries, notably Algeria, Tunisia and Egypt, published information is limited to a handful of indicators. To assist with this report, some additional information was made available to the ETF by statistical bodies in Morocco, Egypt, Jordan, Syria and Tunisia.

Even though countries may carry out similar surveys and publish the same kind

of employment and unemployment indicators, it is difficult to compare data because there are often differences between countries in terms of definitions and survey questions (including within countries from year to year), changes in how surveys are implemented, and changes in instructions to interviewers that can lead to significant differences in the statistics published. Comparisons between different countries and between different survey years need, therefore, to be made with care. Furthermore, differing definitions of employment make comparisons between countries difficult. Some of the main issues to take into consideration when comparing and interpreting results from MENA region labour force surveys are discussed below.

In theory, labour force surveys apply a broad definition of employment (which also includes subsistence activities). The standard question asked, in relation to a reference week, is: "Did you work for cash or in-kind payment for at least one hour?" Although a follow-up question is sometimes asked in an attempt to account for less standard forms of employment, labour

Table 1.1. Labour force surveys conducted in selected MENA countries

Algeria	Occasional surveys, most recently in 2001, 2003, 2004 and 2005.
Egypt	Annual surveys since 1968 (more detailed ones in 1988, 1998 and 2006).
Jordan	Quarterly surveys since 1999. Annual or twice-yearly surveys prior to 1999.
Lebanon	Last official survey in 1997. Survey by the Saint Joseph University in 2001.
Morocco	Quarterly surveys covering the whole country since 1999. Annual or twice-yearly surveys prior to 1999.
Syria	Annual surveys for 2001 to 2004. Occasional earlier surveys.
Tunisia	Annual surveys in 1997 and since 1999.
West Bank and Gaza Strip	Quarterly surveys since 1995.

force surveys poorly reflect participation in subsistence activities, most particularly among women.

Given that labour force surveys typically ask about employment in a reference week, survey results are sensitive for seasonality effects in countries that do not conduct regular surveys. This is particularly the case for countries with a large agricultural sector, where the results of a survey may be very different if carried out in March or in September.

Labour force surveys also fail to deal appropriately with casual employment. For example, a person without a permanent job that is working some periods and searching for job other periods will be classified as employed or unemployed only depending on whether or not he/she has worked during the reference week. Thus, the corresponding estimates of employment, unemployment and inactivity may not capture the real dynamics of the labour market. This problem could be overcome if information was collected over a longer time period. The only country in the MENA region which collects longitudinal labour market information on individuals is Egypt.

Egypt has implemented regular annual labour force surveys since 1968. In 1988, 1998 and 2006 more detailed surveys were conducted in order to better measure labour market variables. These extended

surveys were carefully designed to ensure better sampling procedures and better control over responses. Information was generally more detailed and special attention was paid to the participation of women in the labour force, child labour, and wages and earnings. Three different reference periods were used: a week, a month, and three months. These surveys also included retrospective questions that made it possible to track changes in an individual's labour market status over time. In addition, the 2006 survey included a panel sample of individuals who had previously been interviewed in 1998. As a result of the information provided by these extended labour force surveys, much more labour market research has been conducted in Egypt than in any other country in the region.

According to the standard International Labour Organisation (ILO) definition, a person is considered to be unemployed if he/she worked for less than one hour in the reference week, was available for work, and had actively sought work in the previous four weeks (using specified search methods). MENA countries have begun to apply the ILO definition, although alternative definitions for unemployment have previously been used; for example, in Tunisia until 2003, a person was defined as unemployed even if he/she did not specify how he/she was searching for a job.

1.2 KEY LABOUR MARKET VARIABLES

Population and labour force growth

Population growth has been high in recent decades in all countries in the region, although there is evidence of a slowdown, particularly in the Maghreb region. This slowdown, however, has yet to affect the

growth rate of the working-age population, which remains high in all the MENA countries. As a result, the demographic pressures on the labour market from new labour market entrants will continue to be high in the coming years. Moreover, shifting migration patterns in some countries (in particular, Jordan) are also putting pressure on the internal labour market.

Table 1.2. Population and labour force growth rates for selected MENA countries

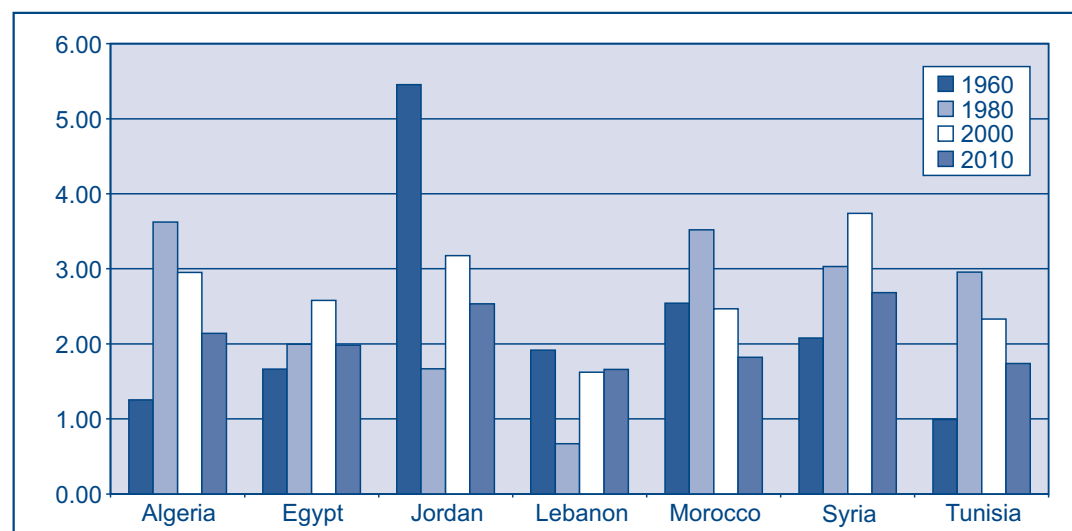
Country	Population ¹ (millions)	Annual population growth (%) ²	Annual growth in working-age population (%) (aged 15-64 years) ²	Annual labour force growth (%) (aged 15-64 years) ²
Algeria	32.9	1.40	2.24	2.92
Egypt	74.0	1.71	2.08	2.19
Jordan	5.7	2.16	2.61	3.05
Lebanon	3.6	0.99	1.50	2.07
Morocco	31.5	1.36	1.82	1.91
Syria	19.0	2.16	2.77	3.36
Tunisia	10.1	1.01	1.85	2.49

1. 2005

2. Estimates 2001-2010

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat. *World Population Prospects* (<http://esa.un.org/unpp>); ILO. *Economically Active Population Estimates and Projections* (<http://laborsta.ilo.org>).

Figure 1.1. Annual growth rates (%) for the working-age population (15-64 years) in selected MENA countries



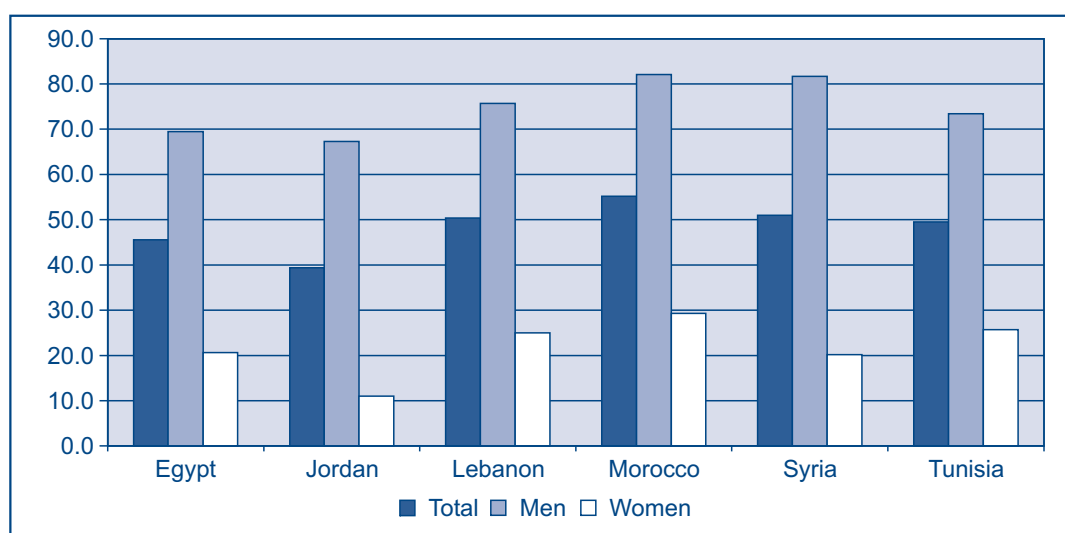
Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat. *World Population Prospects* (<http://esa.un.org/unpp>).

Labour force participation

Another factor influencing labour force growth rates is increasing participation by women. Between 1980 and 2005, the labour force participation rate¹ for women (aged 15-64 years) increased from 20% to 33% in the region.^{2,3} That said, the participation of women in the labour market remains low. Over the same period, labour force participation by young men (and also, to some extent, by young women) decreased significantly as a consequence of an increase in the number of years spent in the education system. However, although labour force entry is postponed, labour supply is generally not affected, as a higher educational level tends to increase labour force participation.

The educational level plays an important role in labour force participation rates for women. In Jordan, for example, the labour force participation rate for women with post-secondary education is only 15-25 percentage points lower than for men with a similar educational level (Figure 1.3). Labour force participation rates for prime-aged men and prime-aged women with higher education qualifications are high in the MENA region. In Syria, almost all working-age men older than 30 and 80% of women with higher education participate in the labour force (Figures 1.4-1.5).

Figure 1.2. Labour force participation rates (%) by sex for the working-age population (15-64 years) in selected MENA countries



Note: Data for 2003, except Jordan, for which data refer to 2004.

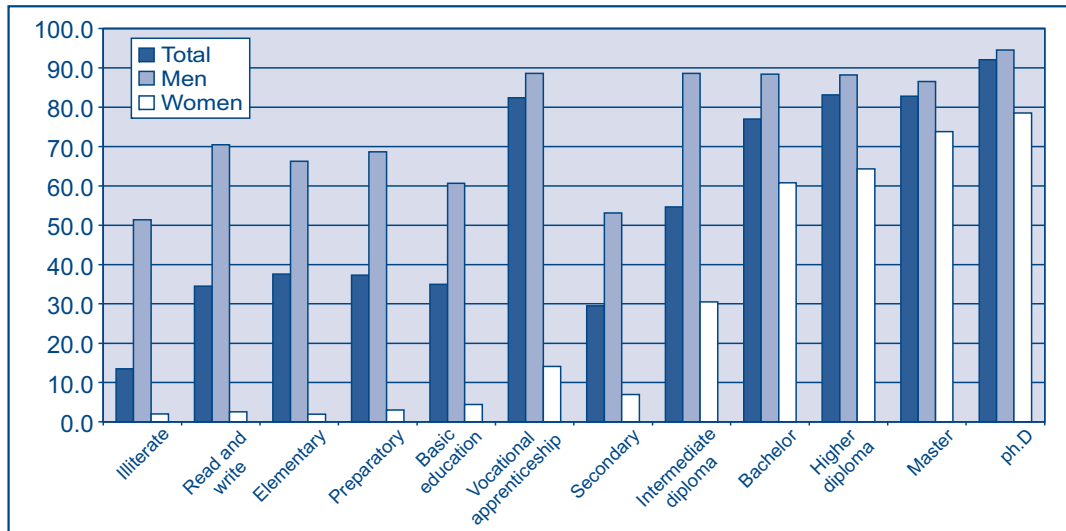
Source: Compiled by the ETF using data from country labour force surveys.

¹ The labour force participation rate, or activity rate, is defined as the share of active individuals aged 15-64 years old (employed plus unemployed) in the working-age population.

² ILO, Economically Active Population Estimates and Projections, <http://laborsta.ilo.org/>

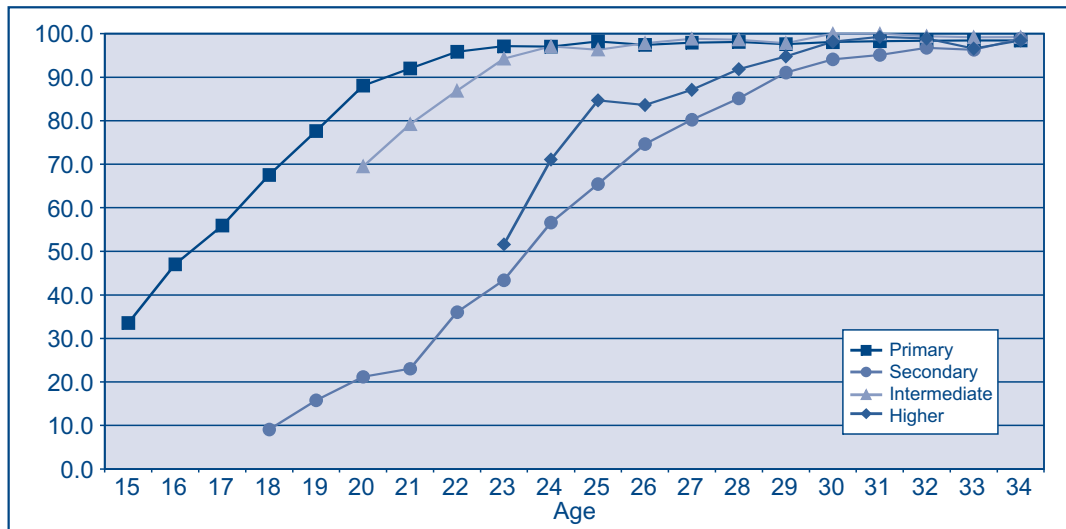
³ Labour market participation for women is sometimes poorly captured by the labour force surveys conducted in the region and data over time should be interpreted with care.

Figure 1.3. Labour force participation rates (%) by educational level and sex for the working-age population (15-64 years) in Jordan (2004)

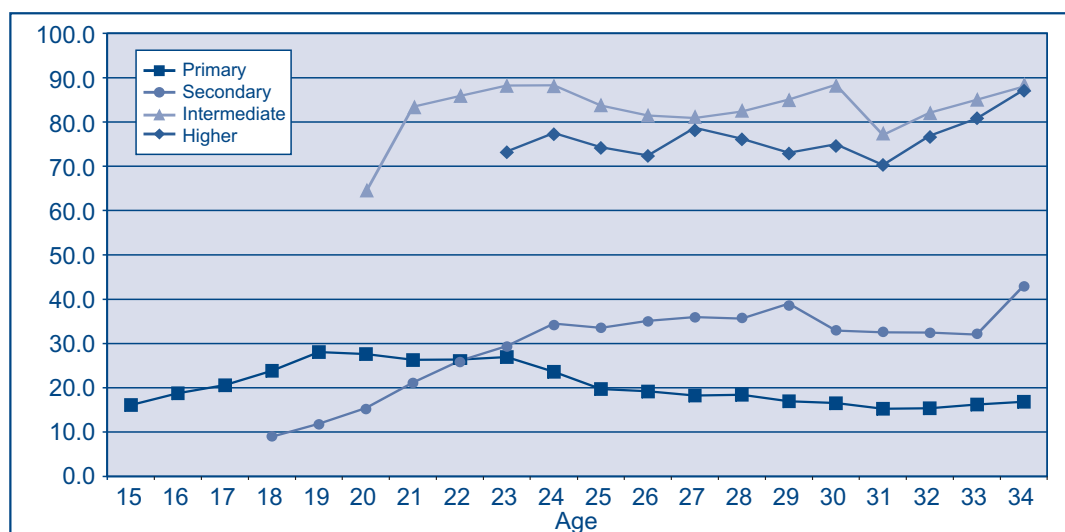


Source: Compiled by the ETF using data from Jordanian labour force surveys.

Figure 1.4. Labour force participation rates (%) by age and educational level for the male working-age population in Syria (2001-2002)



Source: Compiled by the ETF using data from Syrian labour force surveys.

Figure 1.5. Labour force participation rates (%) by age and educational level for the female working-age population in Syria (2001-2002)

Source: Compiled by the ETF using data from Syrian labour force surveys.

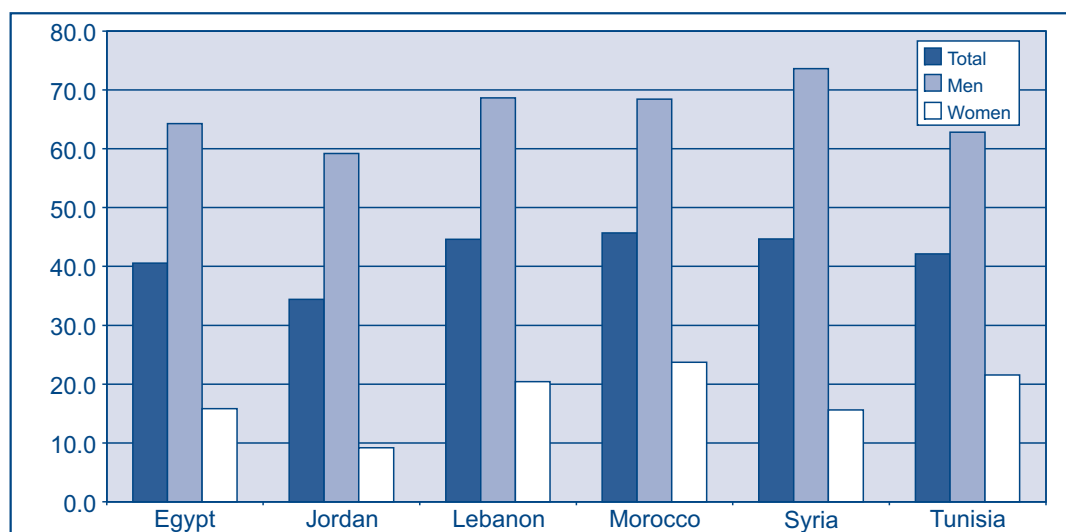
Employment and unemployment

Employment growth in the formal economy has failed to respond to demographic pressures, with the result that unemployment rates are increasing, as also the level of employment in the informal economy. The public sector remains an important source of employment and job creation, and despite reforms aiming at downsizing, the evidence would indicate that the share of the labour force employed in the public sector may have increased in some countries in the last decade; this is largely because private sector stagnation has placed governments in the position of being employers of last resort. Employment in the informal economy tends to be high, accounting as it does for 35% to 50% of non-agricultural employment in most countries. In some countries, furthermore, the informal economy is the most important source of new jobs.

Employment rates⁴ (as recorded by the labour force surveys) are less than 50% in the MENA countries. This is mainly due to a low employment (and labour force participation) rate for women. The employment rate for men is also low compared to other regions, mainly as a result of high unemployment among large cohorts of young people in the MENA region, where demographic structures are such that the working-age population is dominated by young people. The employment rates for prime-age men and—in some countries—for prime-age women with higher education remain relatively high, given that employment rates generally improve in line with educational level. In some countries with large agricultural sectors, employment is also high for less well-educated individuals.

⁴ The employment rate is defined as the number of employed people in the working-age population (15-64 years), expressed as a percentage.

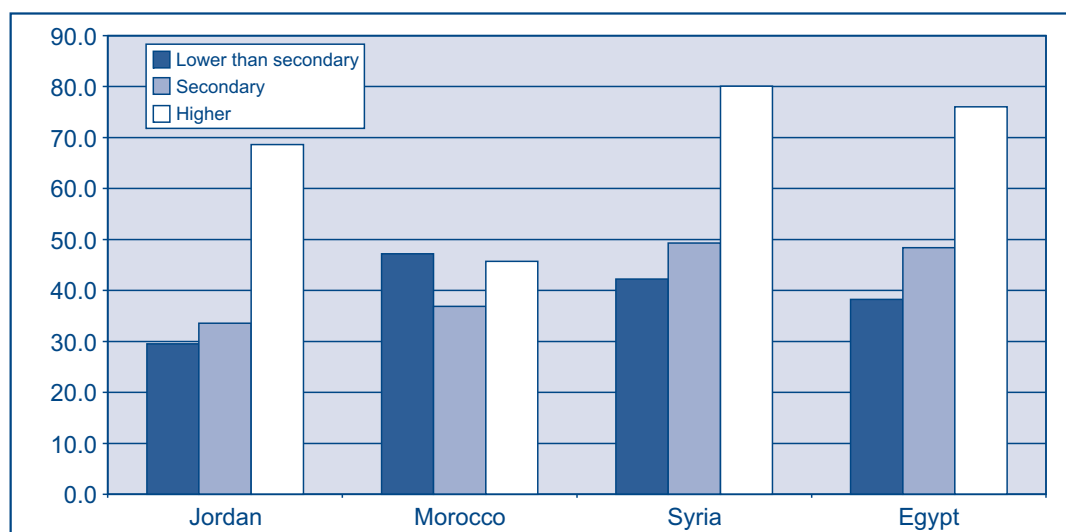
Figure 1.6. Employment rates (%) by sex for the working-age population (15-64 years) in selected MENA countries



Note: Data for 2003, except Jordan, for which data refer to 2004.

Source: Compiled by the ETF using data from country labour force surveys.

Figure 1.7. Employment rates (%) by educational level for the working-age population (15-64 years) in selected MENA countries



Note: Data for 2003, except Jordan, for which data refer to 2004.

Source: Compiled by the ETF using data from country labour force surveys.

Unemployment rates, which are generally high across the MENA region, largely affect young and well-educated potential entrants to the labour market. In the absence of comprehensive social welfare safety nets and given the importance of families, most workers with little or no education cannot afford to remain unemployed and so have no other option but to accept low-paid jobs in the informal sector. At the other end of the spectrum, educated young people typically prefer to await jobs in the formal and public sectors, which offer better wages and more generous non-wage benefits. Growing numbers of well-educated young people combined with a stagnation in public sector employment have both increased the waiting times for formal jobs and generated high youth unemployment rates.

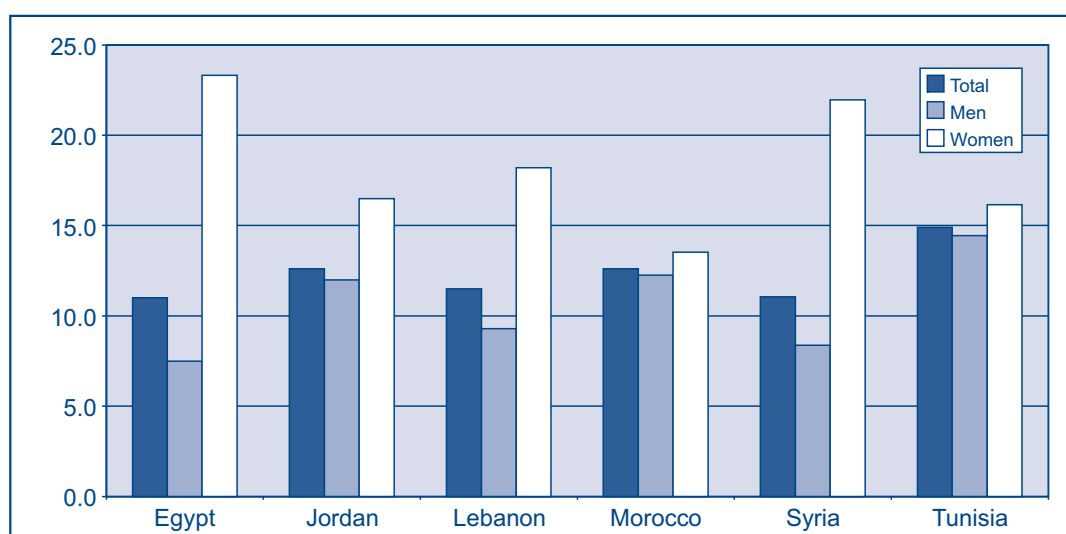
In most MENA countries, the unemployment rate for young people aged 15-24 years is much higher than that for the older age brackets; in Egypt, for example, these rates are, respectively, 35% and below 5%. Individuals with at least intermediate education represented 72% of the total numbers of unemployed. The unemployment rate, in fact, tends to reach a peak at an intermediate education level and then decreases for higher education levels. In Morocco, for example, the unemployment rate for secondary

school leavers is much higher than the rate for young people with lower education levels, and is as high as 30% for university graduates. However, since the overall educational level is low, this group constitutes no more than 40% of the total number of unemployed.

In more advanced countries like Tunisia and Jordan—where the labour market is more competitive—people with higher educational attainment may compete with less educated candidates for the same jobs. This has generated a situation in which young people with basic or intermediate education find it difficult to obtain entry to the labour market. In Jordan competition from unskilled immigrant workers contributes to higher unemployment among less well-educated and unskilled workers—a situation which does not affect better educated workers.

In the MENA region, unemployment rates are higher for women than for men, although the rates are not strictly comparable, given the lower overall labour force participation rate for women. More women in the labour market have a higher educational level, and many are waiting to obtain a specific kind of job—typically in the public sector. Relatively few women enter the private formal sector.

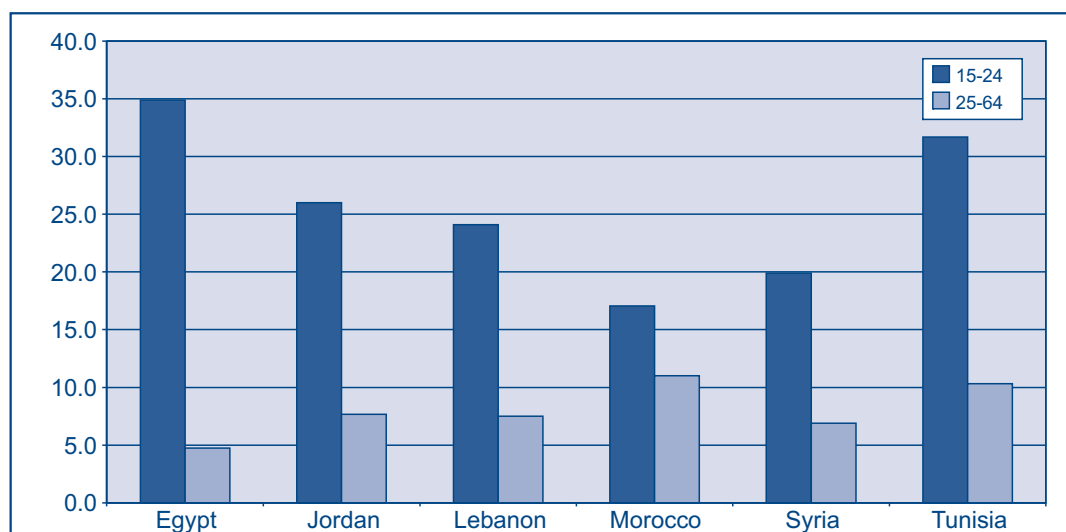
Figure 1.8. Unemployment rates (%) by sex for the working-age population (15-64 years) in selected MENA countries



Note: Data for 2003, except Jordan, for which data refer to 2004.

Source: Compiled by the ETF using data from MENA country labour force surveys.

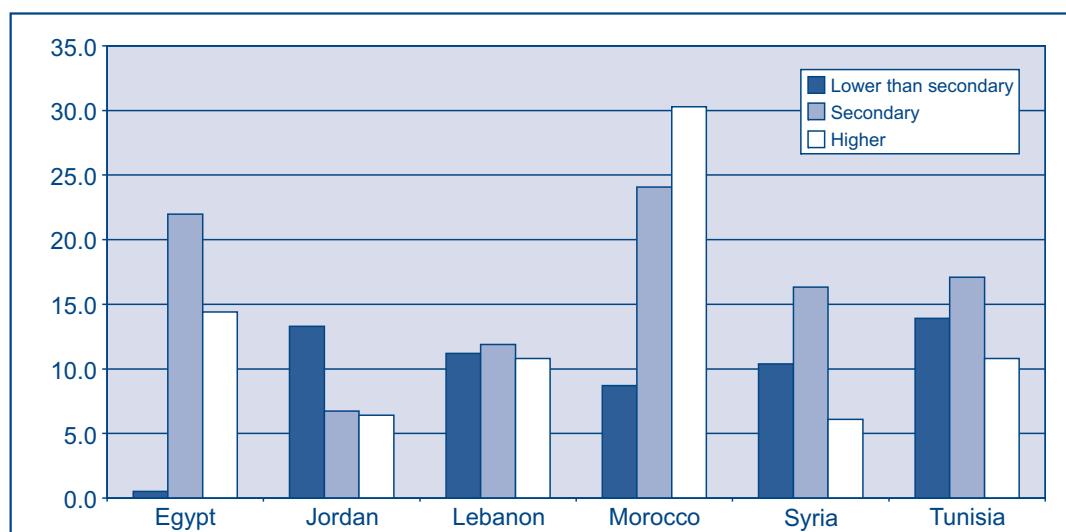
Figure 1.9. Youth and adult unemployment rates (%) for the working-age population (15-64 years) in selected MENA countries



Note: Data for 2003, except Jordan, for which data refer to 2004.

Source: Compiled by the ETF using data from country labour force surveys.

Figure 1.10. Unemployment rates (%) by educational level for the working-age population (15-64 years) in selected MENA countries



Note: Data for 2003, except Jordan, for which data refer to 2004.

Source: Compiled by the ETF using data from country labour force surveys.

1.3 CONCLUDING REMARKS

Most countries in the MENA region regularly publish labour force participation, employment and unemployment indicators, based on information collected in labour force surveys. However, care needs to be exercised in making comparisons between countries, given differences in methodologies and practices.

Results are particularly sensitive to the definition of employment. Longitudinal (or panel) data is required in order to be able to analyse labour market functioning adequately (including lower-end labour market dynamics). Such data would record labour market activities and shifts for individuals over a longer period of time. The only country in the region which collects longitudinal information for individuals is Egypt.

2. EDUCATION INVESTMENT, EMPLOYMENT AND ECONOMIC PERFORMANCE

2

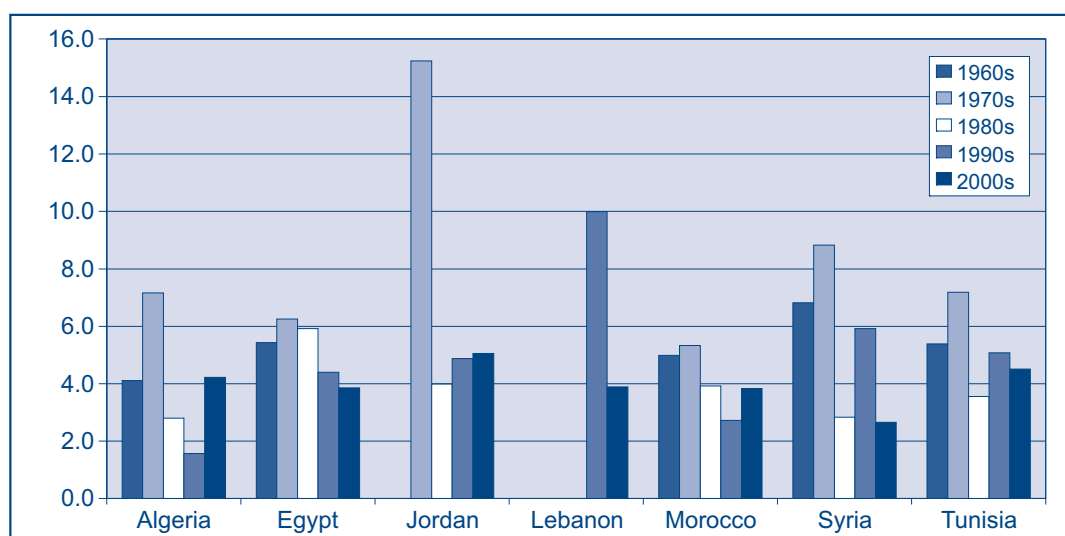
2.1 INVESTMENT IN HUMAN CAPITAL

Investment in educating and training human capital is considered to be a major contributor to economic growth⁵ (see, for example, de la Fuente and Ciccone (2003) for a discussion of the theoretical and empirical literature on human capital and growth). At the macro-level, two major factors influence the impact of education investment on economic growth: (i) the quality of the investment in education and training systems and the resulting quality of the output, and (ii) how graduates from the education and training system are allocated to jobs in the labour market. Efficiency in the use and allocation of human resources varies according to how well the labour market functions; a particular danger is when a large share of human capital is allocated to activities which do not influence growth (Pissarides,

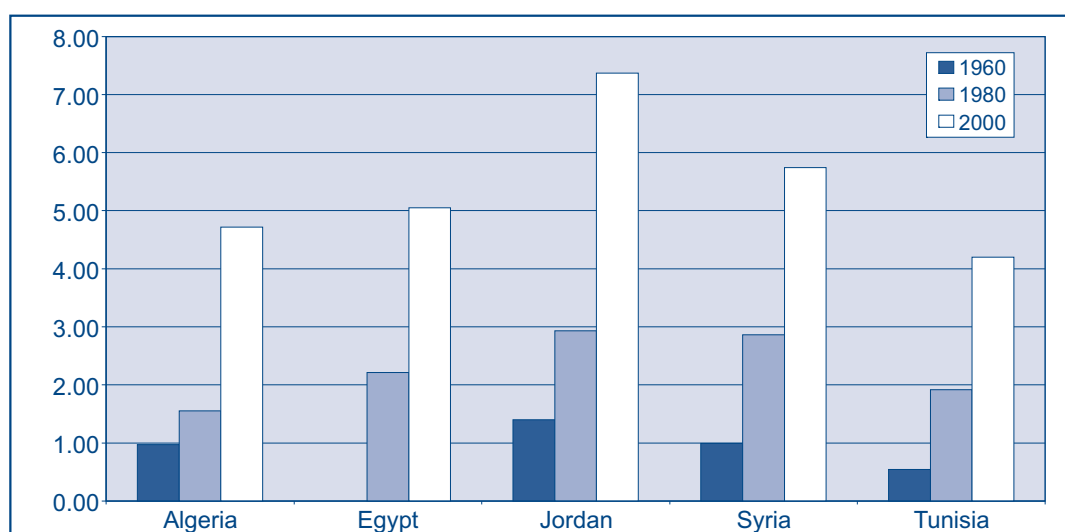
2000). Consequently, how well the labour market functions is of the utmost importance in determining the effects of education investment on both employment levels and economic growth.

Recent evidence from the MENA countries suggests that the relationship between education investment and economic growth is weak (Pritchett, 1999; Keller and Nabli, 2002; Makdisi et al., 2003). Rapidly increasing numbers of school and university enrolments have resulted in a significant expansion in the human capital stock and improvements in human resources quality. Moreover, average years of schooling for the working-age population have doubled in the last 20 years (Barro and Lee, 2000). However, economic growth has been disappointing (Figure 2.1), and gross domestic product (GDP) growth per capita has been very low throughout the MENA region.

⁵ Although education and training may naturally have wider societal objectives than to merely contribute to economic growth, this aspect is excluded from the primarily macroeconomic considerations on investment in education in this report.

Figure 2.1. GDP growth (%) in selected MENA countries (1960-2000)

Source: World Bank. World Developments Indicators (<http://devdata.worldbank.org/>).

Figure 2.2. Average years of schooling in selected MENA countries (1960-2000)

Source: Barro and Lee (2003). International data on educational attainment.

In recent decades, economic growth in the MENA region has been fuelled by gross capital investment and labour force growth. However, growth in total factor productivity—which measures economic growth that cannot be accounted for by increases in capital and/or labour stocks—has been low, and, in some cases, even negative (European Commission, 2006). Total factor productivity growth can be viewed as a reflection of the efficiency of investment in human (and physical) capital. Only Egypt and Tunisia have recorded satisfactory total factor productivity growth rates in the last decade.

In all the MENA countries, access to education has improved substantially in the last decades. Given the fast population growth rates (with the numbers of young people increasing exponentially), this has been a major achievement. Education has generally been awarded priority in recent decades, although there was a slight downturn in the era of structural adjustment programmes (the 1980s and early 1990s). More recently, educational reforms and further expansion have given new momentum to the sector.

2. EDUCATION INVESTMENT, EMPLOYMENT AND ECONOMIC PERFORMANCE

Adult literacy rates have improved rapidly in recent decades, although they still remain fairly low in some countries, particularly among women. The region as a whole has an average adult literacy rate of about 80%. In 2004, these rates ranged from 66% in Morocco to 95% in Jordan for men, and from 40% in Morocco to 85% in Jordan for women (UNESCO, 2006). Literacy has primarily been enhanced through larger cohorts participating in formal schooling (literate older people are relatively few in number).

Enrolment in primary education has become almost universal across the region, both for boys and girls. However, dropout rates are still significant in some countries, in particular in Morocco, where the dropout rate is as high as 30%. In the last decade, gross enrolment in secondary education has also increased rapidly, reaching more than 80% in all the countries with the exception of Morocco and Syria. Similarly, in some countries (especially Egypt, Jordan and Tunisia), the numbers of young people entering the post-secondary education system has increased explosively. In Jordan, enrolment in public post-secondary institutions increased by 55% between 1999 and 2003. In Lebanon, where enrolment in higher education has traditionally been high, there was a gross

enrolment of almost 50% in 2004 (UNESCO, 2006).

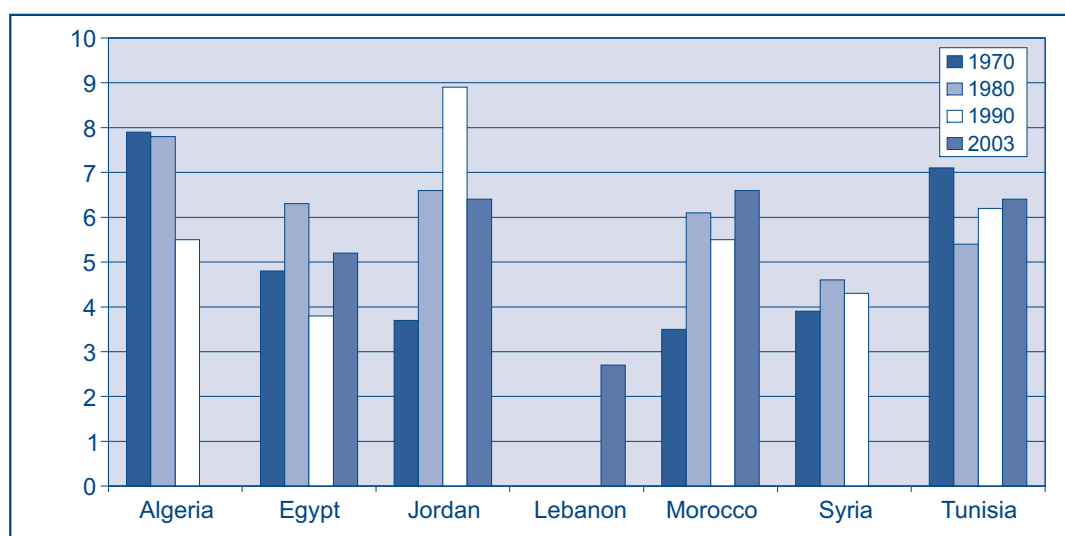
One of the eight Millennium Development Goals is to close the gender gap in education enrolment. In the MENA regions in recent years, this has to a large extent been achieved at all education levels. Some differences still exist at primary level, with the girl/boy enrolment ratio at 0.92 in Morocco, 0.94 in Algeria, 0.96 in Syria, Egypt, Lebanon and Tunisia, and 0.98 in Jordan (UNESCO, 2006). At higher education levels, differences are minimal, and in some cases the ratios are reversed.

Despite the expanded coverage of the education system in recent decades, there has been no corresponding increase in public expenditure on education, which, as a share of GDP, has remained fairly stable in most countries. Although this rate is only 3% in Lebanon, the rates of over 6% for Jordan, Morocco and Tunisia (Figure 2.3) are above the world average of 4% and the 5.7% recorded for high income countries (UNESCO, 2006). However, significant population growth in most MENA countries has meant that per capita (i.e. per student) spending has decreased significantly. This would indicate that either educational efficiency has increased or education quality has deteriorated. There is little

Table 2.1. Gross enrolment (%) for different educational levels in the MENA region

		Algeria	Egypt	Jordan	Lebanon	Morocco	Syria	Tunisia
Primary	1970	76.1	67.6	72.0	121.4	51.5	77.5	100.4
	1980	94.5	73.1	81.6	111.4	83.0	99.6	102.1
	1990	100.5	91.5	100.6	113.2	65.2	102.2	113.7
	2004	111.7	100.7	98.2	106.8	105.6	122.9	109.9
Secondary	1970	11.2	28.4	32.8	41.5	12.6	38.1	22.7
	1980	33.0	50.5	59.1	59.1	26.0	46.4	27.0
	1990	60.9	70.8	63.3		35.5	48.8	44.4
	2004	80.7	87.1	87.4	88.7	47.6	63.2	81.3
Tertiary	1970	1.8	6.9	2.1	21.0	1.4	8.3	2.6
	1980	5.9	16.1	13.4	30.1	5.9	16.9	4.8
	1990	11.8	16.7	24.0		10.9	18.2	8.7
	2004	19.6	32.6	39.3	47.6	10.6		28.6

Source: Unesco (2006) (www.uis.unesco.org).

Figure 2.3. Public expenditure on education in the MENA region (% of GDP)

Source: Unesco (2006) (www.uis.unesco.org).

direct evidence, however, that education quality in the MENA region has decreased (Iqbal, 2006); pupil-teacher ratios have remained fairly stable or have decreased since 1985 in most of these countries. Note that most countries in the MENA region participated in the 2003 Trends in International Mathematics and Science Study (TIMSS), and although the results were fairly low in absolute terms, they are in line with what could be expected for middle-income countries.

The education system in MENA countries is largely public, with the exception of Lebanon where more than 50% of pupils enrol in private schools. There are some indications that increases in private spending on education may have compensated for stagnating public expenditure. The education bill in Lebanon amounts to roughly 9% of GDP, and two thirds of this is contributed by the general public. Taking into account private contributions to education, the level of spending on education makes Lebanon one of the world's leading countries in terms of spending on education. In Morocco in recent years, private education has expanded in large urban areas; consequently, its share in educational expenditure increased from 8.7% in 1990/91 to 15.5% in 2002/03 (Bougroum, 2005).

Although public education is free in most MENA countries, the widespread existence of private tutoring implies a substantial cost for private households in terms of private lessons that ensure that their children pass exams at public schools. In Egypt, where the tutoring system represents a parallel system of private education, it is estimated that private classes account for around 20% of household expenditure. In Jordan, 50% of public university revenues are accounted for by fees paid by private individuals; according to household surveys, an average of 442 Jordanian dinar is spent yearly on private and public education (Mryyan, 2005), a figure which represents about 45% of total educational spending in the country.

2.2 RETURNS TO INVESTMENT IN EDUCATION

As mentioned previously, the economy-wide payoff of large investments in education and training seems to have been minimal. Another no less important issue is that of educational returns for individuals. The distinction between private (individual) and social returns on education is important, and low social returns on education are perfectly compatible with high private returns (which can stimulate individual demand for education). There are a number of possible explanations for the low private returns in the MENA region:

2. EDUCATION INVESTMENT, EMPLOYMENT AND ECONOMIC PERFORMANCE

governments might pay high wages and benefits to public sector workers without these workers necessarily contributing to higher productivity (Pritchett, 1999); or easily measurable credentials acquired through rote learning and formal schooling may be rated more highly than more productive (but less quantifiable) softer skills, such as creativity and teamwork (Murphy and Salehi-Isfahani, 2003). Private returns on education do not reflect all the benefits of education to society as a whole, i.e. as externalities that generate benefits to other members of society.

Internationally, higher educational levels are associated with positive labour market outcomes for individuals, including higher wages and better job opportunities. The typical individual (private) returns for an additional year of schooling have been estimated to be a wage improvement of 8% to 15% (Card, 1999; Psacharopoulos and Patrinos, 2002; Pritchett, 1999).

In MENA countries, returns on education have been estimated as 5% to 15%, depending on the country and level of schooling (World Bank, 2004). While females tend to earn lower wages than males, the differences tend to diminish as educational attainment improves. As a result, private returns on education tend to be higher for females than for males. In most developing regions, moreover, private returns on education tend to be higher for primary education than for secondary and university education (Krueger and Lindahl, 2001). In MENA countries, however, the opposite happens: returns on education appear to increase with the level of schooling (Psacharopoulos and Patrinos, 2002; World Bank, 2004). One explanation for this is that public employment plays a more important role in the MENA countries than in other developing regions, and returns on education have a tendency to be higher in public sectors than in private sectors. Higher returns on education for individuals with secondary or university education may reflect government pay scales rather than improved productivity (Pritchett, 1999; Glewwe, 2002).

Said (2002) analysed changes in returns on education in Egypt for the period 1988

to 1998. In this ten-year period, returns on education declined for holders of preparatory and secondary certificates, whereas they increased among those with lower educational levels (basic literacy skills and/or primary education) and among those with higher education qualifications (from third-level institutes and universities). In 1998, returns on education were higher in the public sector than in the private sector, particularly for women; however, returns on education among females with secondary school certificates had deteriorated sharply in the government sector over the analysed period.

Several studies have attempted to measure returns on education in Tunisia (Zouari-Bouattour 2001; World Bank, 2003). Generally, returns on education have increased in line with educational attainment and skill levels. Some important differences exist by sector, however; for example, farmers and skilled agricultural workers earn less than urban workers with similar or fewer skills. In Tunisia, there is also a public sector wage premium of around 18% (between 24% and 30% for women) compared to the private sector.

In Lebanon, results from a labour force survey conducted by the *Université Saint-Joseph* in 2002 demonstrated that income satisfaction for young Lebanese (aged 18-35 years) increased with educational level (Maleeb, 2005). However, also evident in the sample population was a general low level of satisfaction with incomes; 17.7%, 25.8% and 23.5% of respondents with primary education, general secondary education, and vocational secondary education, respectively, indicated that they were satisfied with their incomes. These figures can be compared to a satisfaction rate of 35.4% for university graduates.

Huitfeldt and Kabbani (2006), who estimated returns on education in Syria in 2001 and 2002, found that although rates were low by international standards, they increased with education level; the highest returns were for women with post-secondary education. These authors also found evidence that higher education was attractive because it increased the

chances of finding a job, reduced the time waited for a job in the public sector, and increased opportunities for working abroad.

Although fairly low in an international context, estimated private returns on education are substantial in the MENA context. However, since analyses on returns to education are based on reported wages, the benefits of additional schooling may still underestimate real benefits, particularly in the public sector. This may be due to less quantifiable or unreported benefits from public sector jobs and unreported earnings from second jobs in the private or informal sectors.

2.3 THE TRANSITION FROM SCHOOL TO WORK

The public sector in the MENA region has traditionally played a major role both in absorbing young people exiting the secondary and higher education system and in balancing supply and demand in the labour market. However, this labour market model has been put out of equilibrium, as there are increasingly fewer possibilities of the public sector absorbing growing numbers of educated workers. The transition from education to work is consequently a lengthy and uncertain process, and unemployment among young people has reached disturbing levels throughout the region.

Demand for jobs in the public sector is such that young people are queuing to take up posts. Queuing times, however, tend to reflect education level, with more qualified candidates having to wait less time (Huitfeldt and Kabbani, 2006). Hiring decisions are often based on position in the queue, which tends to depend on the level rather than the quality of education, although this public employment model is placed at risk when the private sector begins to play a greater role in employment.

At the other end of the spectrum, low-skilled school-leavers or dropouts from the education system have few work choices, and typically take up traditional apprenticeships or jobs in the informal sector.

In Morocco, the process of transition from school to work has changed greatly since the 1980s (Bougroum, 2005), when an adequate supply of jobs was available to meet demand. In addition, private mediation and (extended) family network contacts have traditionally facilitated access to jobs in the private sector. However, the continuing increase in the numbers of young people entering the labour market combined with cutbacks on job opportunities in the public sector has led to an imbalance in supply and demand that has resulted in very high levels of youth unemployment.

Two main factors influence the circumstances in which young people enter the labour market in Morocco. These are the quality of training received and an individual's network of contacts. Graduates of state higher education institutions often try to obtain work in the private sector while waiting for a public sector job, but access to private sector jobs is frequently limited by the inappropriateness of the training received (too theoretical) and/or by the limited nature of a network of contacts. Graduates of vocational training programmes, on the other hand, have no choice but to find work in the private sector. Many of these begin their careers by taking jobs in the informal private sector, where they face competition from young people who may never have been to school but who have completed apprenticeships.

In Egypt, Amer (2002) studied and compared changes in the process of transition from education to public employment, private employment, unemployment or inactivity in the 1980s and 1990s. The public sector consistently played an important role in labour market insertion for educated young people in both the 1980s and 1990s. A comparison of individuals who had been students in 1981 and 1990 revealed that by 1988 and 1998, 29% and 28%, respectively, were employed in the public sector (by the government and public enterprises). In the same period, the number of students employed by the private sector increased from 31% to 51%, whereas unemployment and inactivity decreased. That said, private employment changed radically in terms of the kind of job; in particular, the number of

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regular but unprotected (informal) jobs increased radically. Thus, although the public sector employment model is to some extent still in place in Egypt, more young people choose (or are forced to accept) jobs in the informal sector, as an option to being openly unemployed while they wait for scarce public sector jobs or formal private sector jobs.

2.4 CONCLUDING REMARKS

In recent decades, the MENA region has experienced significant population growth (and hence, labour force growth). It has also implemented economic reforms that have reduced the role of the public sector in providing employment. Enrolment in education and training has increased radically, and educational levels have

improved. Individual (private) returns on education are substantial. The economy-wide payoff of improvements in education seems, however, to have been limited, although there is little evidence that the quality of the education system has deteriorated during this period of expansion. The MENA economies seem to have been incapable of matching the improvements in education with comparable reforms in the labour market that would take full advantage of the entry of cohorts of educated workers to the labour market. A labour market that functions efficiently and employment creation mechanisms that are genuinely effective are both crucial to the success of any policy aimed at fostering economic growth through increased investment in education.

3. LABOUR MOBILITY AND SEGMENTATION⁶

3

Although human capital plays a crucial role in economic growth, its impact on productivity growth depends on both the quality of the human capital and the way it is allocated and used. Labour mobility is essential to the efficient allocation of human capital; in other words, an economy can use its human resources more efficiently and productively when its workers are mobile.

Labour mobility to a large extent depends on a flexible labour market; the USA, for example, has a more mobile and flexible labour market structure than European countries, and developed countries in general tend to have more flexible labour markets than developing economies.

Labour mobility is particularly important for economies undergoing economic reforms or transition, given that the speed and extent of labour reallocation between different sectors and labour markets is an

important factor in the eventual success of reforms or adjustments.

Many economies, however, suffer from segmented labour markets that make it difficult for workers to move from one sector to another. Segmentation occurs as a result of labour market distortions such as minimum wage levels and government hiring practices. In many cases, workers are limited by entry barriers, such as the wrong educational qualification or the wrong race or gender. In other cases, the high cost associated with labour mobility discourages workers from moving between sectors. This kind of labour market segmentation prejudices labour mobility and, consequently, the efficient allocation of human capital. Given the importance of labour mobility in regard to how human capital is used, labour mobility was examined in five MENA countries, namely Egypt, Jordan, Lebanon, Morocco and Tunisia.

⁶ This chapter was drafted by Jackline Wahba (Economics Division, School of Social Sciences, University of Southampton, United Kingdom).

3.1 WHICH SECTORS ARE GROWING?

The success of an economy during a period of transition will be determined by the extent to which labour can shift from non-tradable to tradable sectors, from non-competitive sectors to more competitive sectors, and from inefficient sectors to efficient sectors. Public authorities therefore need to be fully aware of which sectors are growing in order to be able to reallocate labour effectively.

Employment by economic sector

All the studied countries have witnessed falls in the share of agriculture in total employment in recent years (Table 3.1). The agriculture sector in Egypt has declined steadily since the 1960s; between 1990 and 2002, for example, agriculture's share of employment fell from 40.6% to 27.5%.⁷ Similar trends are evident in Tunisia, where the share of agriculture in total employment has fallen from over 50% around 40 years ago to around 21% in 2003. In Morocco, although the share of agriculture in total employment has also fallen, it remains a major sector in the economy, accounting for around 45% of total employment in 2003.

Although manufacturing has traditionally been seen as instrumental to economic development, not all MENA countries have experienced expansions in their manufacturing sectors. Egypt, for example, has witnessed a fall in the contribution of manufacturing to total employment, whereas in Jordan, Morocco and Tunisia manufacturing employment has remained stable. Nonetheless, underlying these broad trends are significant compositional shifts within the manufacturing sector. The Jordanian manufacturing sector, for example, can be broadly sub-divided into: large-scale, wholly or partially state-owned, industrial establishments that produce chemicals, fertilisers and other mineral-based products; and small-to-medium, family-owned light manufacturing businesses that produce a wide range of consumer goods; the larger

industrial sector has grown steadily over the period under discussion, while the more traditional indigenous businesses have experienced severe decline—particularly in the recession of the mid-1990s, when many uncompetitive traditional enterprises were forced to wind up (Kanaan and Kardoosh, 2002). In Tunisia, the textile and clothing sector has traditionally been the most important manufacturing employer; however, its share of employment decreased from 10.4% in 1999 to 9.4% in 2003, and is likely to further decrease as a result of the dismantling of the multifibre agreements and growing competition from Asia.

The fortunes of the construction industry tend to reflect cyclical conditions in an economy as a whole, and, in the MENA countries, construction's share of total employment has remained largely unchanged. In Jordan, for example, there was a small decline in employment in the construction sector over the second half of the 1980s, followed by a modest recovery in the early 1990s, primarily due to the influx of more than 300,000 Jordanian expatriates after the Gulf War. In Egypt, a construction boom in the late 1970s and 1980s was fuelled by the inflow of remittances.

The services sector (including trade, restaurants, hotels, transport, communications, finance and insurance) has been a main contributor to employment in all the MENA countries. In Jordan and Tunisia, the services sector contributed almost 45% to total employment in 2003; in Egypt, its share rose from 48.7% in 1999 to 51.9% in 2002. This structure of employment according to economic activity is biased towards non-tradable sectors, and, since these sectors are constrained by limited domestic demand, sustainable sources of income cannot be generated.

The highest growth rates in the last decade have been witnessed in the trade, hotel and restaurant sectors, but as can be observed from Table 3.1, growth was only around 1% between 1999 and 2002. This sector is basically driven by tourism, which

⁷ It should be noted that these figures may be underestimated since female participation in agricultural activities and, in particular, in subsistence activities, is not reflected in the regular labour force surveys.

Table 3.1. Distribution (%) of employment by economic sector (1999 & 2002/03)

Economic activity	Egypt		Jordan		Morocco		Tunisia	
	1999	2002	1999	2003	1999	2003	1999	2003
Agriculture	28.70	27.52	—	—	47.8	45.2	21.82	21.30
Mining/manufacturing	13.46	11.85	17.65	17.74	13.8	13.1	20.23	19.70
Construction	7.88	7.36	3.32	3.74	6.0	6.6	12.18	12.28
Utilities	1.24	1.35	2.26	2.11	—	—	1.31	1.09
Trade/hotels/restaurants	13.85	14.78	22.26	25.11	10.8	12.5	—	—
Transport/communications	6.33	6.34	6.23	4.49	3.0	3.5	—	—
Finance/insurance	2.74	1.23	2.93	2.57	—	—	—	—
Services	25.80	29.55	45.35	44.24	18.4	19.0	28.50	45.03
Total (in thousands)	16,750.2	17,856.2	584.4	692.1	9,360.3	9,945.9	250.4	295.1

Sources: Egypt: CAPMAS Labour Force Sample Surveys 1999 to 2002.

Jordan: Department of Statistics. Employment surveys.

Morocco: Direction de la Statistique. 'Activité, emploi et chômage' 1999 & 2003.

Tunisia: Institut National de la Statistique. Employment surveys 1997, 1999, 2000 & 2001.

is a tradable service. Although tourism has generally increased in the last decade, it has been badly affected by terrorist attacks and has, consequently, been hindered from achieving its full potential as a source of employment. In the services sector in Jordan, a growing restaurants and hotels sector is responsible for the highest comparative increase in employment.

Examining average annual growth in total employment and by sector (Table 3.2), we find that total employment growth was highest in Jordan (5.8%) and lowest in Morocco (1.6%), with Egypt and Tunisia registering intermediate growth rates (2.2% and 3%, respectively). Although these rates were somewhat varied, patterns of employment growth were very similar, with, for example, very small average increases in agricultural employment (less than 1%).

Few countries have experienced significant increases in manufacturing employment. In fact, manufacturing employment in Egypt declined at an average annual rate of just over 2% between 1999 and 2002, while in Morocco it stagnated. In Jordan and Tunisia, on the other hand, the average annual growth in manufacturing employment was 6% and 3.5%, respectively, indicating healthier

manufacturing sectors in both countries. As for construction employment, Jordan and Morocco experienced average annual increases, whereas Egypt and Tunisia experienced declines.

The services sector has been growing in all the MENA countries, but at a much faster rate in Egypt and Jordan, where average annual growth in services employment between 1999 and 2002 was around 7% to 8%. In Tunisia and Morocco, however, average growth rates were more modest (at 2% to 3%). The education sector has generally witnessed lower than average employment growth rates: between 1999 and 2003, employment in this sector in Jordan grew by 2.7%, while for the same period in Tunisia, education, health and public administration employment grew by 1.9%.

There is no time series on the distribution of employment by economic sector or on employment growth by economic sector in Lebanon. However, extrapolating from various surveys, it would appear that, between 1997 and 2002, employment in the trade and services sectors grew at the expense of industry, agriculture and other activities.

Table 3.2. Average annual employment growth (%) by economic sector (1999 to 2002/03)

	Egypt	Jordan	Morocco	Tunisia
	1999-2002	1999-2002	1999-2003	1999-2003
Agriculture	0.80	—	0.12	0.91
Manufacturing	-2.02	6.0	0.22	3.47
Construction	-0.10	10.1	4.22	-0.42
Services	6.96	7.7	2.43	2.73
Total employment	2.16	5.8	1.56	3.00

Sources: Egypt: CAPMAS Labour Force Sample Surveys 1999 to 2002.

Jordan: Department of Statistics. Employment surveys.

Morocco: Direction de la Statistique. 'Activité, emploi et chômage' 1999 & 2003.

Tunisia: Institut National de la Statistique. Employment surveys 1997, 1999, 2000 & 2001.

In conclusion, the MENA countries have experienced a slow-down in agricultural employment, and manufacturing employment has varied greatly in growth terms. Employment in the services sector, which employs most workers in absolute terms and represents the largest share of total employment, has been expanding in all the MENA countries.

Public/private ownership of economic activity

Another important dimension of employment is economic activity ownership. All the MENA countries have a substantial public sector, but have also undergone reforms in recent decades in order to rationalise the public sector and privatise public enterprises.

Table 3.3 shows changes in the distribution of public/private ownership of economic activity between 1999 and 2002/03.

Although the public sector's share of total employment in Tunisia and Morocco has fallen, there has been a slight increase in Egypt. Since 1990, the Egyptian economy has been implementing a programme of structural adjustment aimed at reducing the role of the state, but the public sector (including government and public enterprises) is still a major employer. Indeed, the public sector share of total employment increased from 31.8% in 1990 to 33.5% in 2002, although there was evidence of a slow-down between 1999 and 2002. The substantial increase in public sector employment is driven mainly by growth in public health and education services, which led the government to

Table 3.3. Employment (% of total) according to public/private ownership of economic activity (1999 and 2002/03)

Ownership	Egypt		Morocco		Tunisia	
	1999	2002	1999	2003	1997	2003
Government	26.62	28.21	8.80	8.30	—	—
Public enterprises (PE)	6.52	5.32	1.50	1.20	—	—
Public sector (government + PE)	33.14	33.53	10.30	9.50	19.29	12.86
Private	66.86	66.47	88.20	89.10	80.71	87.14
Other	—	—	1.50	1.40	—	—
Total	100	100	100	100	100	100

Sources: Egypt: CAPMAS Labour Force Sample Surveys 1999 to 2002.

Morocco: Direction de la Statistique. 'Activité, emploi et chômage' 1999 & 2003.

Tunisia: Institut National de la Statistique. Employment surveys 1997, 1999, 2000 & 2001.

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continue hiring at high levels during the 1990s. The increase in government employment has to some extent offset job losses in public enterprises, whose share of total employment has fallen (especially since 1995) as a consequence of the implementation of privatisation programmes.

Tunisia and Morocco have experienced declines in the public sector's share of employment. Indeed, Tunisia has managed to radically reduce employment in the public sector from around 19% in 1999 to just under 13% in 2003; by 2003, public sector employment in Morocco was less than 10% of total employment.

Table 3.3 also shows that the private sector's share of total employment is greater in Tunisia and Morocco than in Egypt. In fact, employment in the private sector in Egypt fell from 68.1% in 1990 to 66.5% in 2002. Examining this trend in more detail, it appears that, coinciding with the slowdown in government employment growth, the private sector share of employment reached a low of 63.9% in 1997 but then rose to 66.5% in 2002. The overall decline in the share of private employment reveals disparities according to gender, however. While private sector employment of men increased (from 66.8% in 1990 to 69.3% in 2002), for women it decreased considerably (from 71.8% to 54.2% for the same period).

The government sector in Egypt, consequently, continues to be a major source of employment for women.

Table 3.4 shows average annual employment growth according to economic activity ownership. Egypt showed the highest level of public sector employment growth; indeed, government employment grew more rapidly than employment overall, even though employment in public enterprises shrank as a result of privatisation. Morocco saw an overall decline in public sector employment. While employment in the civil service and in local government remained essentially stagnant between 1999 and 2003, employment in public enterprises (nationalised and semi-nationalised industries) fell considerably. The private sector in Morocco generated the greatest number of jobs over this period, albeit at a very low rate. The public sector in Tunisia also contracted; the private sector, in contrast, showed healthy growth.

In conclusion, most of the MENA countries have experienced declining employment levels in public enterprises. However, because of the pressure to provide work to new entrants to the labour market, not all countries have managed to downsize the government sector. The private sector, moreover, has failed to create enough new jobs to meet demand from the growing labour force.

Table 3.4. Average annual employment growth (%) according to public/private ownership of economic activity (1999 to 2002/03)

Ownership sector	Egypt	Morocco	Tunisia
	1999-2002	1999-2003	1999-2003
Government	4.14	0.05	—
Public enterprises (PE)	-4.52	-3.75	—
Public sector (government + PE)	2.55	-0.50	-1.28
Private sector	1.96	1.83	6.78
Other	—	-0.21	—
Total	2.16	1.56	5.23

Sources: Egypt: CAPMAS Labour Force Sample Surveys 1999 to 2002.

Morocco: Direction de la Statistique. 'Activité, emploi et chômage' 1999 & 2003.

Tunisia: Institut National de la Statistique. Employment surveys 1997, 1999, 2000 & 2001.

3.2 THE INFORMAL SECTOR

In recent decades, the informal sector has played a major role in MENA labour markets, accounting for a substantial number of new jobs. As a result, informal employment in most countries in the region has increased sharply.

Definition and measurement

The informal economy consists of a wide range of informal enterprises and informal jobs. Despite its heterogeneity, it is distinguished in general terms by two main features, namely type of economic unit and employment status. The economic unit in the informal sector is an unregistered or unincorporated enterprise below a certain size (usually five or fewer employees); such enterprises are typically informal micro-enterprises (with one or more workers employed on a continual basis) or sole traders (who may occasionally employ family members or other workers). Note that the informal sector does not include agricultural activities.

Employment status in the informal sector is employment that is invisible, unregulated, and unprotected by existing legal or regulatory frameworks, i.e. it typically refers to employees of informal enterprises (as also to employees working informally in formal enterprises or in households (domestic workers, casual or day

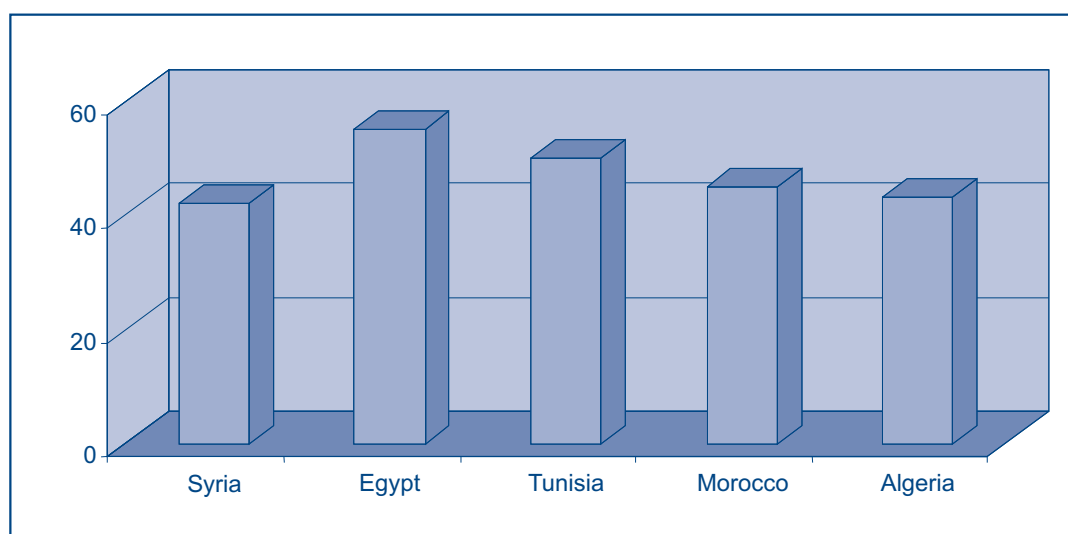
labourers, temporary or part-time workers, industrial outworkers, home workers, and unregistered or undeclared workers). In broad terms, informal employment is understood to include both remunerated work (self-employment and wage employment) and non-remunerated work undertaken in a profit-making enterprise.

Although economic units and employment status in the informal sector may be very varied, what all informal activities have in common is their vulnerability. This vulnerability is due to the fact that they have to rely as best they can on self-supporting and informal institutional arrangements, and that they operate separately from, and independently of, the institutions of the modern economy. Informal work, moreover, is precarious and working conditions are typically poor.

Trends

The limited availability of statistical data on the informal sector and informal employment is a major constraint in terms of studying sector size and dynamics. Based on data available for a few countries in the region, a recent estimate of the proportion of informal employment in the non-agricultural informal sector in north African countries is around 48%; Egypt and Tunisia have the highest rates of informal employment, at 55% and 50%, respectively (Figure 3.1).

Figure 3.1. Non-agricultural informal sector employment (% of total)



Source: ILO (2002). *Women and men in the informal economy: a statistical picture*.

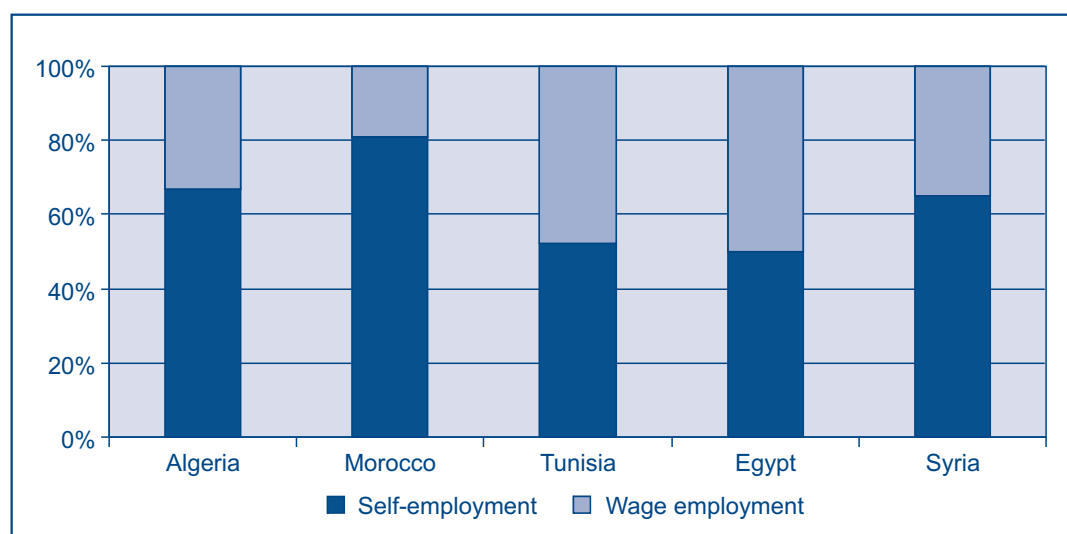
Self-employment represents around one third of total non-agricultural employment worldwide. The self-employment rate in MENA countries, expressed as a percentage of total non-agricultural employment, is not especially high, although it increased in the 1990s relative to the 1980s. Data for other regions indicate rates of 53% for sub-Saharan Africa, 44% for Latin America, 32% for Asia, and 31% for North Africa. More importantly, self-employment comprises a greater share of informal employment than wage employment in most developing countries, and this is also the case in the MENA countries. In fact, self-employment accounts for at least 50% of informal employment in Egypt and Tunisia and 81% in Morocco (Figure 3.2). There tends to be a higher proportion of self-employed individuals compared to wage-employed individuals in the informal sector in Algeria, Morocco and Syria, but not in Egypt or Tunisia, where the proportions are more or less equal.

As a whole, the informal sector functions in an anti-cyclical manner, with employment tending to grow when there is an economic downturn, and tending to shrink or stagnate when the economic cycle turns upward. Since the MENA countries have been undergoing a period of economic reform, it is not surprising that employment in the

informal sector has been on the rise. In fact, in most developing countries, employment in the informal economy tends to expand during periods of economic adjustment or transition. In the case of the MENA countries, the reform process has led the public sector to limit employment and to downsize. In addition, privatisation of public enterprises has led to lay-offs, and the private formal sector has shown itself to be incapable of absorbing increases in the labour force. All these factors have led to an increase in informal employment. Moreover, in response to inflation and cutbacks in public services, households often find that they have to supplement formal sector incomes with informal earnings. Furthermore, the MENA economies have been affected by globalisation, which has meant increasing competition from abroad. This has led to an erosion in labour relations, with formal firms hiring workers at low wages with few benefits, or sub-contracting (or outsourcing) the production of goods and services. Moreover, the competitiveness of many informal firms or self-employed producers is also affected, vis-à-vis imported goods in domestic markets and vis-à-vis larger formal firms in export markets.

Egypt provides evidence of anti-cyclical informal sector growth. Its informal sector has grown in recent years, and by now,

Figure 3.2. Self-employment vs. wage employment in the non-agricultural informal sector (1994-2000)



Source: ILO (2002). *Women and men in the informal economy: a statistical picture*.

represents a significant share of the Egyptian economy. Using the broad definition coined in 1993 by the International Labour Organisation (ILO), El Mahdi (2002) made an estimate of the informal economy and informal employment using special labour surveys for 1988 and 1998. The number of informal wage workers,⁸ which grew from 2.3 million in 1988 (prior to economic reform) to 3.3 million in 1998 (3.7 million if unpaid family workers are included), represented 82% of total private non-agricultural wage workers. The number of informal economic units,⁹ which grew from 2.4 million to 2.8 million over the same ten-year period, represented 84% of all economic units. The overall number of workers (including unpaid family workers) reached 6.5 million in 1998 compared to 4.7 million in 1988. Moktar and Wahba (2002) made an estimate of informal employment growth in Egypt for 1990 to 1998, based on the employment history module of the Egypt Labour Market Survey 1998.¹⁰ Using different definitions of informal employment (lack of contract, lack of social security coverage, lack of both), they found that the proportion of individuals in informal jobs increased from about 5% to 6% between 1990 and 1998. When controlling for individual characteristics such as gender, age, educational level and region of residence, McCormick and Wahba (2004) reported the same trend.¹¹

Irrespective of the definition of informal employment, the probability of being informally employed increased by around 5 percentage points between 1990 and 1998 in Egypt. For example, the probability of being employed with no contract increased from 39% in 1990 to 44% in 1998. This probability was greater, however, for specific socioeconomic groups, namely women and young people (under 40 years, and in particular, the 20-29 year-old age bracket). The proportion of informally employed new entrants to the labour

market increased from 20% in 1969 to 69% in 1998, and the predicted probability for a female new entrant taking a job without a contract increased by 12 percentage points from 1990 to 1998. Consequently, young female job-seekers facing barriers to entry in the formal private sector suffered the worst consequences of the economic reforms (McCormick and Wahba, 2004). Undoubtedly, the growing informalisation of the Egyptian labour market—which responds to the economic reforms and structural adjustment programmes launched at the beginning of the 1990s—particularly affects the most vulnerable groups in the population, i.e. women and young people.

Tunisia has also shown signs of a growing informal sector in recent decades, as a result of reforms and restrictions imposed on public sector growth and of government policies favouring the development of small and micro-enterprises. Stagnation in the proportion of wage-earning employees, concomitant with the growth of family unpaid labour (especially in the agricultural sector), would indicate that the formal sector, which is based on wage labour, has not been growing fast enough and is failing to generate jobs in sufficient numbers.

The role of the informal sector

The informal sector has played an important job creation role during the period of reform in the MENA countries. In Egypt by the end of the 1990s, for example, 69% of new entrants to the labour market only managed to secure informal jobs. There is a wide variety of activities in the informal sector, covering manufacturing, trade, repairs, construction, transportation and petty services. Goods tend to be non-tradable and the range of jobs is wide, from lower-end activities such as street vending to innovative metal-working and design sub-contracted

⁸ Informal employment refers to wage workers (outside the agricultural sector) with no written social security contract, working either in formal or informal economic units (El Mahdi, 2002).

⁹ An informal economic unit has no licence and/or is unregistered, and does not keep regular accounts. The size of the economic unit is not taken into consideration; however more than 95% of informal economic units employ less than five workers (El Mahdi, 2002).

¹⁰ Moktar and Wahba (2002) refer to non-agricultural workers aged 18-64 years in 1990 and 1998.

¹¹ Three definitions of informal employment were used for non-agricultural workers aged 15-64 in 1990 and 1998 (McCormick and Wahba, 2004).

3. LABOUR MOBILITY AND SEGMENTATION

from the formal sector. In Jordan, more than 70% of workers in services and sales (typically enterprises with less than five employees) are employed on an informal basis. In Egypt, informal workers are concentrated in the manufacturing, construction, trade and transport sectors. Informal women workers are restricted to a small range of economic activities, namely, trade (37%), manufacturing (31%) and transport (25%) (El Mahdi, 2002). In Morocco, the most common business activities linked to the informal sector are trade and repairs, which account for 48.2% of all informal business activities. In Tunisia, most informal employment is concentrated in manufacturing (food, wood, metals), construction, commerce, automobile repair, and transportation; employment, moreover, is highly correlated with production and value added. In Lebanon, according to the 1997 Census of Buildings and Establishments conducted by the *Administration Centrale de la Statistique*, 76% of construction companies and 94% of service businesses are small enterprises.

The informal sector is quite heterogeneous. On the one hand, it involves productive small-scale activities with potential for growth and technical upgrading, and at the other extreme, dead-end survival activities, which absorb workers without any particular skills. Based on international experiences, small and micro-enterprises can play a key role in creating jobs and reducing labour supply-demand gaps. In developed and developing countries alike, small enterprises represent a high share of enterprises and an important source of employment generation. In Egypt, for example, in the mid-1990s, the vast and mostly informal micro-enterprise sector employed more than 2.5 million workers in 1.5 million establishments of less than five employees, and another 500,000 workers in establishments employing five to nine workers (1996 Census of Buildings and Establishments). In Morocco, the National Survey on Non-Structured Enterprises indicates that informal enterprises alone represent 37%, 19% and 26% of employment in the commercial, services and industrial sectors, respectively. In Jordan, according to the *Direction de la*

Statistique, informal small and medium enterprises (SMEs) account for 33% of total employment (Abdel-Fadil, 2002).

The data available on small and micro-enterprises indicate a highly segmented structure in private sector establishments in Arab region countries, with a large number of informal small and micro-enterprises at one end of the spectrum, and a small group of formal large and modern enterprises at the other end of the spectrum. This, in turn, points to the fact that there is a missing middle component in the private business sector structure in most of the Arab region. In Morocco, a national survey of the non-agricultural informal sector undertaken between April 1999 and April 2000, estimated the number of informal production units at 1,233,240 units. The majority were small-scale operations, 87.2% of which were run by sole traders working alone or using unpaid labour (i.e. only 12.8% made use of paid labour). Informal units were estimated to account for 39% of total non-farm employment and 20.3% of all jobs. Informal employment in Morocco is mainly self-employment (69%). In Tunisia, private enterprises are also predominantly small: 99% are micro-enterprises with less than six employees. A 1997 survey on micro-firms by the *Institut National de la Statistique* revealed that approximately 18% of total non-agricultural employment was in the informal sector. The World Bank estimates that, in Tunisia, the informal sector accounts for 38% of GDP. Lebanon's economy is also dominated by small-scale enterprises. The 1997 Census of Buildings and Establishments conducted by the *Administration Centrale de la Statistique* put the number of existing enterprises at 198,000, with small enterprises employing less than five employees accounting for 88% of the total number of enterprises. Overall, the informal sector generates around 19% of employment in the Lebanese economy.

The informal sector in Arab countries has proved to be dynamic and resilient. It has led the way in terms of job creation, and has grown considerably in certain activities such as transport, furniture manufacture,

leather-making, footwear manufacture, metal products, and repair shops. In most Arab countries, both the number of establishments and employees have grown significantly faster than the labour force (Abdel-Fadil, 2002). Although those informal enterprises constitute an inexpensive and efficient creator of employment in economies where capital and technology are scarce, they are operating at far from their full potential because of market failures that prevent them from obtaining access to credit, skilled labour, better technologies, and larger domestic and export markets. In Tunisia in 1997, for example, investment in the informal sector was modest (around US\$ 150 per worker) compared to Tunisian per capita gross investment (approximately US\$ 2,000 per worker). This investment was mostly self-financed (75%) by the informal firms, which confirms that they have very limited access to banks and to other formal financial institutions. Unfortunately, there are no data available on the dynamics of informal small and micro-enterprises, such as for example, on whether entrepreneurs in small and micro-enterprises respond to new opportunities and make speedy adjustments to change, or on whether their enterprises become formal or grow in size with time.

Informal sector worker characteristics

Although informal jobs are generally a more important source of employment for women than for men in developing countries, this is not the case in the MENA countries for which data are available (Algeria, Tunisia, Morocco, Egypt and Syria), where there is a disproportionate number of men in informal employment. In addition, although female self-employment as a share of female total non-agricultural employment has increased in most developing countries, there is no evidence that this is the case in the MENA region, where, in fact, the share of female self-employment has been falling. One reason behind this trend is that there are increasingly fewer women entrepreneurs; in other words, women typically enter the labour market in the MENA region as wage earners. Although this is a potentially

encouraging factor, it also indicates that there are probably serious obstacles placed in the way of women who want to be entrepreneurs. In Tunisia, for example, where informal employment is growing; the share of women in informal employment has been dropping, especially for the self-employed (Charmes, 2003). In Egypt informal workers are predominantly male; in 1998, for example, only around 13% of all non-agricultural wage workers without a contract were women (McCormick and Wahba, 2004). Informal economic units are also male-dominated. The large drop in the number of formal economic units run by women and the sharp increase in informal economic units run by women between 1988 and 1998 reflect, once more, the high barriers to entry for women in the formal private sector (El Mahdi, 2002). In Morocco also, women remain in the minority in informal employment, with only 12.7% of informal jobs held by women. Similar trends are evident in Jordan, where females tend to work in the formal rather than the informal sector.

Another feature of the informal sector is that workers tend to be uneducated. This correlation between low educational level and the probability of being informally employed has been demonstrated by McCormick and Wahba (2004). In Egypt, for example, even though educational attainment has generally improved for both formal and informal workers, the educational gap between them remains wide; informal wage workers tend to have less than intermediate-level education. In Morocco, workers in the informal sector are also poorly educated; more than 46% have never been to school and 70.3% have no qualifications. In Tunisia, a survey from the *Institut National de la Statistique* provides further evidence of the education and skill levels of workers employed in the informal sector (as also on investment in the informal sector and access to finance), reporting that the proportion of workers with secondary and higher education is significantly lower than in the formal market. Even so, 12% have secondary education, and 1% higher education—although presumably, people with higher education are employers in the informal sector.

Overall, the evidence from the five countries studied suggests that the informal sector is substantial in the MENA region, is dominated by males, and employs mainly uneducated workers.

3.3 SECTORAL MOBILITY: THE CASE OF EGYPT

There is very little information on labour mobility in MENA countries, so we will discuss the case of Egypt, as the only country providing data on sectoral mobility.

Between the 1980s and the 1990s, overall labour mobility in Egypt declined from 27.7% to 22.6%.¹² In the 1990s, most mobility occurred in relation to employment status (30%), occupation (18%), economic activity (13%), informal/formal status (9%), and finally, economic sector (7%). It is striking that sectoral mobility was lower before the era of adjustment, although this is likely to be because the labour market and workers were adjusting to the reforms through a different mechanism rather than by changing sector. Many workers were pushed out of the labour market altogether, particularly older workers in the 50-59 year-old age bracket (through early retirement). New entrants to the labour market were channelled, more than ever before, into the private sector and into informal employment (Wahba, 2002).

Mobility between public and private sectors

In the 1990s, as in the 1980s, and despite attempts to downsize the public sector, the mobility of civil servants was low, with the government sector accounting for the highest persistency rate (86%). Although the transition rate of public enterprise workers increased as a result of downsizing in state-owned enterprises and a privatisation programme implemented in this period in Egypt, there is no evidence of greater mobility from public jobs to private jobs. On the contrary, the transition rate from public

jobs (comprising government and public enterprise employment) to private jobs was lower in the 1990s (8.1%) than in the previous decade (4.8%). This phenomenon was experienced by both men and women and by both young and older workers. The probability of moving from the public to the private sector fell significantly for women; this was due to the fact that women were more keen to hold onto their public jobs as those jobs became scarce, which, in turn, was a consequence of the fact that women tend to face barriers to entry in the formal private sector.

An analysis of exit rates from public employment to non-employment throws up interesting results. Exit rates increased significantly for men but declined slightly for women. The probability of leaving public employment for unemployment or inactivity almost doubled between the 1980s and 1990s amongst those aged 35-60 years, as a consequence of the early retirement scheme implemented in the public sector (McCormick and Wahba, 2004).

Mobility between formal and informal sectors

Evidence for Egypt suggests that there is no significant movement from public employment to informal employment. Indeed, those who leave the public sector typically become inactive. There is, on the other hand, significant movement from informal employment to formal employment; this is particularly true for young people, suggesting that informal employment represents a waiting phase for a public job. Mobility from the formal to the informal private sector during the 1990s was negligible. Even though persistency rates were lowest among holders of a formal private job, the vast majority of those who left jobs became inactive or obtained work in the public sector (McCormick and Wahba, 2004). Overall, the findings point to the attractiveness of public sector employment in Egypt and the limited role played by the formal private sector.

¹² Mobility refers to any change in employment status, economic sector, occupation, economic activity, or in geographical location (see Wahba, 2002).

3.4 INTERNATIONAL MIGRATION

Although sectoral mobility is limited within MENA countries, workers are regionally very mobile, and so labour migration is a structural feature of the MENA economies. Table 3.5 shows net migration in selected MENA countries. Egypt, Jordan, Morocco, Tunisia and Lebanon are all labour exporting countries. However, Jordan and Lebanon are also labour importing economies (mainly replacement workers).

During the 1970s and 1980s, when oil-exporting countries (e.g. the Gulf States and Libya) found their development plans constrained by labour shortages, they started to import large numbers of workers from neighbouring countries. The main labour exporting countries within the MENA region were the non-oil-producing countries, mainly Egypt and Yemen, but also Jordan and Syria. In addition, some countries like Jordan and Lebanon exported workers to the Gulf but also imported workers from neighbouring countries such as Egypt. The north African countries have traditionally exported their workers to western Europe.

Egypt has been a major labour exporting country; demand for Egyptian labour developed after the first oil boom in the 1970s, leading to extensive flows of Egyptian workers to the Gulf countries, particularly to Saudi Arabia, Kuwait, Iraq and Libya. It has been estimated (Central

Agency for Public Mobilisation and Statistics) that one million Egyptians were working abroad in 1980, and that by 1986 this number had doubled to 2.25 million. In the early 1990s the number of Egyptian workers abroad was officially estimated at 2.2 million, although the unofficial estimate is closer to 4 million. At the migration peak, around 10% of the entire Egyptian labour force was working overseas. External migration has played an important role in the Egyptian economy for the last three decades; it has reduced the pressure of labour supply on the domestic labour market and it has provided foreign currency. By now, however, demand for Egyptian workers has slowed down as a consequence of the Gulf countries favouring national labour or Asian workers. Consequently migration is no longer an option for absorbing surplus domestic labour, and, given the demographic pressures on the labour market, the labour force is expected to continue growing for the foreseeable future.

Jordan both exports and imports labour. With the oil boom of the 1970s in the Gulf States, several hundred thousand educated and skilled Jordanians temporarily emigrated for employment. Up to one third of the workforce is employed outside Jordan, largely in skilled occupations. Jordan has had to rely on imported workers to replace its emigrants, and it is estimated that as much as a quarter of the kingdom's workforce consists of foreign workers. Foreign workers

Table 3.5. Net migration in MENA countries (thousands)

Country	1970	1980	1990	2000
Algeria	-200.06	6.22	-70.00	-184.88
Egypt	-150.17	-750.00	-550.00	-500.00
Jordan	287.83	-79.79	75.22	35.00
Lebanon	-60.00	-285.00	-320.00	-30.00
Morocco	-217.74	-208.98	-175.00	-300.00
Syria	-15.00	-125.00	-45.00	-30.00
Tunisia	-144.52	-16.72	-23.00	-20.00
Yemen	-275.00	-75.00	-50.00	-50.00

Source: World Bank World Development Indicators & Global Development Finance (April 2005).

typically occupy mainly low-wage occupations that nationals would not accept—which points to an additional dimension to segmentation in the domestic labour market in Jordan.

Like Jordan, Lebanon exports and imports labour. The civil war was to some degree responsible for Lebanese outflows, although it is interesting to note that the rate of emigration did not fall off significantly after the war but remained steady until 2001. It is estimated that 600,000 Lebanese have emigrated since 1975, 45% of whom left after the end of the war. The main destination was the Gulf States in the 1970s, and Europe and North America thereafter. Lebanon, like Jordan, has also relied on imported cheap labour from neighbouring Arab countries. There is also evidence to suggest that the labour market is segmented by nationality: foreign workers perform the low-wage jobs which nationals will not do because of social norms that stigmatise these jobs.

Migration patterns in north African countries are slightly different, as most emigrants go to western Europe. Among North Africans in Europe (particularly France), Moroccans comprise the largest migrant nationality. The number of Moroccans living and working in Europe is estimated at nearly 3 million, i.e. nearly 10% of the total population. Emigration from Morocco commenced in the early 1960s and has undergone several phases. In the 1960s, emigration was mainly of unskilled workers meeting demand from rapidly expanding European economies (France, the Netherlands, Germany and Belgium). Flows were initially organised by means of bilateral agreements signed between Morocco and the host country (mainly France). However, economic recession in Europe in the 1970s led to a fall in the demand for foreign labour, and consequently, new restrictions on immigration were introduced (for example, only family reunifications were permitted). By the beginning of the 1990s, Italy and Spain became popular destinations for North Africans.

The total number of Tunisian expatriates in the world is around 600,000, which

represents close to 15% of the national labour force. Close to 70% are based in France, and Tunisia has also provided labour for Italy and Germany. The largest waves of migration took place in the 1970s, and to a lesser degree, in the 1980s and 1990s. By now the net outflow has fallen as opportunities for legal migration—except for highly skilled workers—have been severely curtailed. Preliminary data from the 2004 population census in Tunisia indicate that in the five-year period from 1999 to 2004, 76,000 people left the country and 28,000 people returned. At a net outflow of less than 10,000 people a year, this represents only a small proportion of the unemployed and the labour force.

3.5 CONCLUDING REMARKS

In this review of labour mobility for five MENA countries—namely, Egypt, Jordan, Lebanon, Morocco and Tunisia—the evidence suggests that there is low domestic labour mobility. This is a consequence of three main labour market policy distortions. Firstly, the public sector still plays a major role in job creation and in providing attractive jobs, and this makes mobility out of that sector very costly (e.g. Egypt). Secondly, the formal private sector is too small to create enough jobs for a growing labour force (e.g. Egypt and Morocco). Finally, labour market regulations on hiring and firing have created a rigid labour market (e.g. Morocco).

Two recommendations for developing flexible labour markets that allocate labour and use human resources efficiently are proposed. Firstly, rationalisation of the public sector remains a priority, as an efficient government role in the economy focuses on the provision of public services rather than production of goods and services. Secondly, a suitable business environment needs to be created in the private sector that will enable and encourage it to play a more active role in job creation.

However, given the paucity of data on labour mobility in the region, investment is

necessary in suitable data sources, such as panels and labour mobility surveys, which would enable a better understanding of the dynamics of the labour markets in these countries. There are various knowledge gaps which future research should address, firstly, in regard to the informal sector, and secondly, in regard to workers. What is the role played by the informal sector and to what extent do workers graduate from the informal sector? Do entrepreneurs in small and

micro-enterprises respond to new opportunities and adjust to economic changes? Do informal micro-enterprises become formal or grow in size over time? What happens to workers as a result of public sector downsizing and privatisation? Do workers become unemployed for a period of time? Do laid-off workers join the private sector? Are educated workers more mobile? Does human capital facilitate the reallocation of workers?

4. LABOUR MARKET INSTITUTIONS AND EMPLOYMENT POLICY

4

Massive youth unemployment in the MENA region started to develop into a serious problem from the early 1990s. Consequently, job creation became one of the major preoccupations of governments. As a result of structural adjustment programmes implemented since the early 1990s, there has been a trend towards privatisation, administrative reform, and restricted recruitment to the public sector as ways of reducing expenditure. In this context, employment has come to occupy a central position in the political agenda and is a recurrent theme in official speeches and statements by authorities in the MENA region. There have been some piecemeal changes that have endeavoured to address the urgent problems of the day, but the pressing need for labour market reform has not yet led to a comprehensive policy developed at the national and/or regional levels. The challenge is to develop comprehensive and multidisciplinary strategies that are coordinated between different policy areas (e.g. economy, social policy, education and training).

An early reforming phase in Tunisia led to the creation of policy documents (e.g. national strategy papers) and the design of active labour market measures. In general terms, Tunisian employment policy is defined within the framework of economic and social development plans, which establish employment objectives and priorities for five-year periods. Its last two development plans (referring to 1995-2000 and 2000-2005) included measures for creating more jobs through investment in productive sectors, adapting education and training policies to the needs of the economy, improving qualifications at all levels through training programmes, and promoting private initiatives and self-employment through an active small-and-medium enterprise policy. A national employment and qualifications observatory was also set up to collect and analyse employment and vocational training data. Another strategy provided for further measures to develop the private sector, enhance the role played by the regions, consolidate employment

programmes, and encourage employment abroad. Sustained economic growth (especially in the services and manufacturing sectors) and the implementation of employment programmes (in particular, training) have contributed to improved conditions in the labour market, but employment still remains a challenge in Tunisia, where the unemployment rate continues to grow in what is already a precarious job market (Ayadi et al, 2005).

The importance accorded to employment in the Moroccan political agenda has developed over recent decades in response to the nature of the problems characterising its labour market, and particularly by alarming rates of unemployment among young graduates. This kind of unemployment tends to increase in a context in which workers are largely undereducated and underqualified, and is due in part to an insufficient number of vacancies in the private sector and to the fact that not all young people are necessarily employable in the private sector. In Morocco, an abundant supply of poorly educated labour (unqualified school leavers and school dropouts) and the predominance of unskilled jobs in the labour market have created the conditions for casual employment, with high worker rotation and with the interplay of supply and demand determined by wages. At the end of the 1990s, increasing poverty and an atmosphere of political change resulted in the design of a broader social policy to deal with unemployment. The strategy implemented to improve prospects for unemployed skilled workers included new organisational arrangements (new labour legislation and a public labour exchange) and active job creation measures for the private sector aimed at lowering employment costs, encouraging flexibility, and promoting self-employment (Bougroum and Ibourk, 2003). For unskilled workers, the government involved other partners (development agencies, non-governmental organisations (NGOs) and the United Nations Development Programme) in a broader strategy aimed at combating poverty. Measures included the development of public work schemes, co-funding for local development projects,

and the provision of micro-credits for income-generating activities. It remains to be seen whether these measures and new legislation (a national charter on education and training and a new labour law) will create better opportunities for employment and policy coordination.

In Egypt, a number of employment creation packages were launched in 1997, 1999, 2000 and, more recently, December 2004, providing for national employment programmes, investment in mega-projects, modernisation of employment services, upgrading of the informal sector, and emergency employment schemes. In the 2004 package, tourism, agriculture, petrochemicals and the information and communication technologies were targeted for investment as labour-intensive sectors with high added value. There were also plans to develop a labour export programme targeting Arab and other countries, and training programmes aimed at equipping the labour force with qualifications in marketing, languages and computers. However, these ambitious objectives more resembled a wish list and so have not been implemented as yet by any government. A number of structures (a new labour law, a national training fund, and a council for human resources development) were put in place to help achieve employment objectives; however, since no incentives were offered to the private sector to invest in labour-intensive activities, the result was modest investment levels and investment patterns biased against labour-intensive growth (Fawzy, 2002). More recently, investment and financial market legislation has been amended to improve the investment climate, and a new tax law was introduced aimed at standardising and reducing corporation tax and offering a ten-year tax exemption for newly industrialised zones. However, none of these incentives or tax exemptions are linked to job creation or employment levels (El Ehwany, 2004).

In Jordan, unemployment and poverty are considered to be top priorities by the government. Current employment policies are, however, ad hoc, fragmented, mostly temporary in nature, and not deeply rooted in the bureaucratic apparatus (Mryyan,

2005). Restrictive policies in regard to foreign workers have been implemented by the government as a partial remedy to local unemployment. Foreign employment is regulated bureaucratically through work permits, and the current aim is to limit or reduce the number of foreign workers in the country and replace them with unemployed Jordanian low-skilled workers. There are also indications of an implicit labour export strategy in government documents, with emigration seen as one solution to an overabundant labour supply; however, this solution is affected by increasingly restrictive host country policies. The Jordanian government has recently appointed labour attachés in the Gulf countries and Libya, with the aim of developing job opportunities for low- and high-skilled Jordanians abroad—a measure which is also being resorted to by other countries in the MENA region.

In Lebanon, policies have generally focused on economic recovery and reconstruction following the civil war. The official approach to employment has followed a typically liberal line, namely, that private sector development would solve all economic and social problems, including employment. There have certainly been achievements in reconstruction; despite significant expenditure, however, there has been a failure to stimulate the labour market, since the workers recruited to work on construction sites are mostly unskilled and/or non-Lebanese workers. Growth in the production sector has been negatively affected by high interest rates (a result of the reconstruction process), rising indirect taxes, and the high cost of public services. This slow growth has been paralleled by a surge in unemployment and immigration rates. Nonetheless, the authorities remain unconvinced of the need for employment creation measures, and migrant workers are not seen as a problem or as posing competition to the Lebanese, on the basis that their skill levels are considered to complement existing skills. All in all, the employment issue in Lebanon seems to have been pushed to one side in the face of the significant political problems of the country.

This chapter focuses on five main elements of labour market systems in the MENA region: labour market institutions in charge of policy formulation and implementation, social partners, labour legislation, active labour market policies, and vocational training systems.

4.1 POLICY FORMULATION INSTITUTIONS

In the MENA region, labour market management involves different public institutions; it is consequently fragmented at both policy and operational levels. These institutions can be classified according to three levels: high-level advisory boards for policy orientation, regulatory ministries at the national level, and autonomous agencies working mostly at the local levels. Advisory boards, generally presided over by senior institutional and ministerial civil servants, are responsible for implementing government employment policies;¹³ this approach, however, means that independent knowledge is not sought in order to inform changes in governmental employment policies. Labour ministries, mostly supported by affiliated public bodies, are the main institutions regulating the labour markets.

In spite of their central role in labour market regulation, labour ministries often do not have clearly defined functions in relation to employment policy and/or lack the means to implement policies. In Lebanon, for example, the mandate for the labour ministry contains no clear stipulation to develop employment or job creation policies, even though it is responsible for labour affairs and the preparation, coordination and implementation of labour and social measures. Jordan also requires major changes in its labour ministry if this is to play a part in the economic development of the country. The Jordanian labour ministry, for example, has no clearly defined responsibilities in regard to the production of labour market information, career guidance and counselling, training, employment restructuring due to privatisation, or retirement programme coordination and management.

¹³ The Tunisian *Conseil Supérieur pour le Développement des Ressources Humaines* is one example of an advisory board which issues opinions on many aspects of employment, education and training policies.

In Egypt, the manpower and emigration ministry is theoretically responsible for designing policies aimed at efficient human resources use, graduate employment, the development of a national training policy, and the collection of data and information on the labour market. However, it seems that its major role is, in fact, to act as a public employment agency, through an administration bureau which allocates candidates eligible for guaranteed employment to government offices and state-owned enterprises.¹⁴ In Tunisia, organisational changes have led to an improvement in the employment situation. A legislative decree passed in 2002 gave the corresponding ministry (*Ministère de l'Emploi et de l'Insertion Professionnelle des Jeunes*) the general mission of elaborating governmental employment policy and evaluating policy results. Within this framework, the ministry is responsible for longer-term project such as facilitating the entry of job seekers to national and international labour markets, promoting self-employment, and enhancing employability.

Although public employment services affiliated to labour ministries exist in almost all the MENA countries, they tend to operate along the lines of old-fashioned labour exchanges; they are, moreover, bureaucratic and fail to respond to the realities of the labour market. Since there are no unemployment benefit schemes that require unemployed job seekers to register, and since access to jobs is primarily governed by a network of social contacts, the only way to attract job seekers is by offering efficient employment services that respond to real needs. Efficient public employment services would reduce the risk of exclusion of socially deprived workers with few contacts, and so would counterweight the influence of social networks in the private sector and enable enterprises to broaden their recruitment base (Bougroum and Ibourk, 2003). However, such agencies will fail unless effective links are established with the

private sector and unless its labour needs are adequately met.

Although Jordan has an extensive decentralised network consisting of 22 labour exchanges, they do not adequately respond to the demand for much needed employment services. Offices are inadequately equipped, procedures are outdated, work routines are not supported by even the most rudimentary information and communications technologies, and staff are poorly qualified. Almost 90% of jobseekers have never used labour exchanges or counselling services.¹⁵ Egypt has 360 state-run employment offices that register and match job seekers with job vacancies throughout the country. However, these offices are not efficient enough—in terms of infrastructure, staff competences, and information systems—to be able to actively respond to the needs of job seekers and employers, who are therefore reluctant to use their services. Counselling services, moreover, are almost non-existent.

In Lebanon, although the national employment bureau (whose offices and records had been destroyed in the civil war) was reopened in 1995, it is slow in becoming truly functional. Until recently, it had only one central employment office, based in Beirut. For the period 1998 to 2005, it received approximately 1,370 job requests per year and the number of yearly job offers was around 450. Around 210 employees per year actually entered the labour market, which means that recruitment through the employment office was no more than 15% of applicants. Given that there are an estimated 35,000 new entrants to the job market annually and around 150,000 unemployed people in Lebanon, this is a mere drop in the ocean. The limited role played by the employment office is explained by a paucity of human and financial resources. Although the basic staff requirement for the institution was initially projected as 107 staff, it currently functions with a mere 38 people.

¹⁴ The employment guarantee scheme was introduced in 1961/62 for university graduates. In 1964 it was extended to secondary vocational school and technical school graduates.

¹⁵ According to Mryyan (2005), in Jordan 63% of job seekers make direct visits to enterprises, 13% look for job advertisements in the media, 12% use personal and family contacts, and around 6% await the announcement of government vacancies.

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In Morocco, the institutional framework for public employment services has recently been improved. New entities have been created to take charge of specific functions, for example, a new affiliated body—ANAPEC (*Agence Nationale de Promotion de l'Emploi et des Compétences*)—is responsible for programmes aimed at intermediating between job seekers and employers, assisting with integration, and job creation. As in Morocco, Tunisia has reorganised and greatly improved its employment services, to the point where it is considered by some as a model for the region. ANETI (*Agence Nationale pour l'Emploi et le Travail Indépendant*),¹⁶ which has as its mission the implementation of government employment policies and the promotion of employment, has a network of 67 offices, which, in turn, have local sub-offices—all constituting an employment pool. These offices and sub-offices provide training, and offer services to enterprises, job seekers and young investors, with the aim of providing an impulse to the labour market in different sectors of the economy.

With some exceptions, ministries and public employment offices play a marginal role in labour markets in the MENA region, largely because they are short of staff, lack adequate infrastructures and information systems, receive limited financial resources for investing in or improving services, have to cope with interferences and pressures from above, and have poorly trained staff (and in some cases the staff problem is further aggravated by overstaffing).¹⁷ The pool of human resources available is frequently unable to supply suitably skilled candidates, and this kind of imbalance between quantity and quality is to some degree accentuated by the fact that recruitment is often a political matter.¹⁸ This issue is also a problem for the civil services of many MENA countries. Furthermore, in the mandates of ministries and labour offices there is inadequate emphasis on the

development of employment policies, although some recent organisational changes have improved the situation somewhat; for example, a number of joint committees and commissions have been established in which all stakeholders, including social partners, are represented. However, interaction is largely limited to official attendance at meetings, and consultative and coordination committees are not always operational. Thus, these have not as yet arrived to the point where they participate in the formulation of policy or assume responsibilities for addressing employment problems. Furthermore, each of the committees tends to work in isolation.

Outside of the ministries and affiliated bodies, the functioning of the labour market is directly influenced by actions undertaken by other ministerial departments and public bodies in charge of macroeconomic policies (budgetary, fiscal and monetary), sectoral policies (development plans, plans for industry, agriculture, trade, tourism etc.), and social policies (education, land planning, social assistance and solidarity programmes). However, ministries have little control or coordination input to these policies. Mirroring the important role played by the public sector in the economy, public recruitment institutions are typically more influential than other employment offices. Public recruitment has traditionally been based on qualifications; the open competition procedure for obtaining public employment, furthermore, is not always transparent, as there is frequent recourse to contact networks and clientelism. Although wages in the public sector have decreased in both nominal and real terms, public jobs still attract many young people (particularly females), given the better working conditions and generous social security benefits.

In Jordan, a central public recruitment department directly attached to the prime minister is responsible for recruiting

16 ANETI, a public body with an industrial and commercial character, was created by Law No. 11-93 of 17 February 1993.

17 A Moroccan official who was interviewed confirmed that he would be able to run his department with just 25% to 30% of its current staff. He further confirmed that he spent a lot of time dealing with organisational matters arising from overstaffing.

18 Public recruitment, which was seen as a way to combat graduate unemployment, has traditionally been made on the basis of a degree (diploma). Consequently, most employees do not have the skills and competences required to work in these institutions.

personnel for all public bodies and offices. The public recruitment system is highly regulated and the stated goal is to improve public sector efficiency and performance while applying the principles of justice, equality and transparency. Despite the downward trend in public employment, this recruitment body still plays a central role in the labour market. Over the past eleven years, it has witnessed an increase of over 100% in job applications (from 77,625 applicants in 1992 to 168,133 applicants in 2003), most likely as a consequence of the stability, security and shorter working hours associated with government posts. In Egypt, guaranteed civil service employment for secondary and higher education graduates has been a policy since 1963, with a centralised manpower allocation system that places graduates in public enterprise and civil service positions. Public sector overstaffing has led to limited recruitment since the mid-1980s, and as the waiting time for government jobs begins to increase (in some cases the waiting time is ten years), the role of public employment is becoming less important.

4.2 SOCIAL PARTNERS

Active involvement and cost-sharing, via tripartism, is an important tool for effective implementation and financing of labour market policies. The existence of effective social dialogue and of strong employer and worker organisations helps improve labour market conditions and functioning. Almost all countries in the MENA region have legal mechanisms protecting trade unions and the collective bargaining rights of social partners. Employer and trade union confederations are represented in national committees and commissions, but their relations with the government tend to be limited to official attendance at meetings. This is mainly due to the weakness of both the private sector and trade unions, and to the paternalistic nature of relations between the state and social partners. Union membership rates tend to be low due to the limited industrial base, small private sector and the predominance of agricultural or petty-trade sectors. Most trade unions operate in public sector enterprises, where labour regulations have

traditionally been enforced. This is hardly surprising, as almost all manufacturing industries were originally created and controlled by the state. Employers are stronger when relatively large-scale private enterprises exist (Lebanon, Tunisia). In other cases trade unions may have organic links with political parties or governments and so can influence policies (Morocco). Even when there is an opportunity to play a more important role in labour markets, the institutional capacities of social partners are often too weak to influence policies. The impact of social partners on labour market policies, therefore, seems to be minimal.

In Egypt, trade unions are concentrated in the civil service and in public enterprises, and their presence is minimal in the private sector and in the new industries. Although there are no official data or statistics available on trade union membership, Amer (2005) estimates this to be 20% of the formal workforce (i.e. some 4.5 million workers). The figures are not representative as most workers employed in the public sector automatically become trade union members. De Gobbi and Nesporova (2005) suggest a private sector membership rate of 25%. Trade unions in the private sector are structured as a centralised hierarchy at the top of which is the General Trade Union Federation (GTUF), comprising 23 sectoral trade unions. Each sector of the economy is typically represented by a single union, and the 23 unions are divided into 1,751 committees. These unions are represented in the National Wages Council and in the Supreme Human Resources Development Council. There are close links between union leadership and government, but relations tend to be paternalistic. Egyptian trade unions were very active during the government's privatisation programmes and played an important role in redundancy negotiations (early retirement packages, lump-sum compensations, retraining, etc.). However, unions may not participate directly in negotiations with management in establishments of less than 50 workers; this represents a severe limitation in the view of the small size of most businesses. The biggest employer organisations are the Federation of Egyptian Industries, the

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Egyptian Businessmen's Association and the Egyptian Exporters Association. Egyptian employers are effective in forming powerful political lobbies.

Social partners in Jordan are highly scattered in terms of organisation, with employer associations fragmented between sectors and regions, labour unions organised on a sectoral basis, and with unions whose membership combines public and private employees. Unions have tripartite representation in the Vocational Training Corporation and on the national social security and labour law committee boards. However, their impact on the Jordanian labour market is reported to be negligible (Mryyan, 2005). Although the leaders of these organisations are sometimes consulted by the labour ministry, they lack the organisational, legal and informational infrastructures to be effective in decision-making. Contrary to the ineffectiveness of unions, professional associations (lawyers, engineers, physicians, dentists, journalists, auditors, etc.) play more active roles—over and above the protection of the interests of their members—in terms of exercising some influence on political life; this is due to the greater sophistication and higher education levels of members (Al Khouri, 2005). This politicisation has often brought these organisations into direct conflict with the government.

According to Issa (2005), in Lebanon in 1996, only 7% of eligible workers were members of the CGTL (*Confédération Générale des Travailleurs du Liban*). A similar study undertaken in 2000 set the membership rate at 5.7%. In 2000, members were distributed as follows: 4.6% from the agricultural and fishing sectors, 22.8% from the industry and construction sectors, and 72.6% from the services sector. This largely reflects real employment distribution among these three economic sectors. Although there are currently over 500 unions attached to 42 confederations in Lebanon, most exist in name only. Most unions are sectoral, followed in order of importance, by professional unions, and finally, by unions within enterprises. This multiplicity largely reflects political, ideological and sectarian

divisions in Lebanon. A large number of small unions weakens the possibility of the movement acting as a pressure group in regard to labour market issues. The internal structure of the unions, moreover, is not conducive to a democratic process that ensures responsiveness to the demands of members.

Lebanese employers are organised geographically and by sectors. The most important confederations include Beirut and its suburbs, where over 70% of Lebanon's economic activity is concentrated. Leading confederations include those for traders, industrialists, bankers, hotel owners, restaurant and nightclub owners, and private school owners. Unlike trade unions, there is no multiplicity in representation within a sector and the rate of membership is high. Better financial resources and skilled human resources have enabled these confederations—and especially the Chamber of Commerce, Industry and Agriculture in Beirut—to participate in political decision-making. Collective work agreements are not a common approach to organising industrial relations. This is due to both the weakness of trade unions and the refusal of employers to accept this formula, which they see as a threat to their position of absolute power. Nevertheless, both unions and business confederations agree on the fact that there is a lack of social dialogue with the government and that the legal framework is either dysfunctional or undemocratic—the political authority is invariably the ultimate decision-maker. In the rare instances where effective discussion is possible, a spirit of cooperation is lacking due to political and religious divisions.

Tunisia is characterised by a reduced number of social partners. A single trade union (*Union Générale des Travailleurs Tunisiens*, or UGTT) represents workers, and two associations represent employers in the private sector—one for the industrial and services sectors (*Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat*, or UTICA) and one for the agricultural and fishing sectors (*Union Tunisienne de l'Agriculture et de la Pêche*, or UTAP). The UGTT is the main workers' confederation,

with a membership composed of blue- and white-collar workers as well as retired workers. Membership of the UGTT exceeds 30% of the active population (60% of membership consists of workers from the public sector). It is composed of 7,000 trade unions, 23 regional unions and 20 federations. Representing all Tunisian workers, UGTT issues opinions on political, social and economic issues, development plans, labour legislation and reform of the health insurance system; it also negotiates on behalf of workers, and participates in government advisory bodies (*Conseil Supérieur du Pacte National*, *Conseil Economique et Social*, and *Conseil Supérieur du Plan et de la Promotion Nationale*). However, the role played by the UGTT in wage reviews is no longer significant, and it has participated little in the privatisation and trade liberalisation processes that have increased precariousness in the labour market. Its role is reduced, largely, to the organisation of meetings and participation in a few committees and councils at the national level, and it has no real say in labour-related decisions.

The UTICA, which is organised according to sectors and regions, consists of 16 professional federations and 24 regional unions representing industry, commerce, trades and crafts. It mostly defends the interests of large employers vis-à-vis the state, and is little real benefit to trades people, craft workers and SMEs. The UTAP is an employers' association consisting of 995 associations representing workers in agriculture and fishing. Although it takes part in national committees (representing, to a greater or lesser degree, the agricultural sector) and is a signing partner in the national pact, its impact is minimal.

A new labour law in Morocco has institutionalised social dialogue by providing for the compulsory presence of union delegates in companies with ten or more employees. Given a large informal sector and the absence of reliable data, the precise rate of unionisation is not known. According to Bougroum, only four trade unions whose base is mainly public sector

enterprises (*Union Marocaine du Travail*, or UMT; *Union Générale des Travailleurs au Maroc*, or UGTM; *Confédération Démocratique du Travail*, or CDT; and *Union des Syndicats Démocratiques*, or USD) are officially associated with collective negotiation.¹⁹ If the public sector is excluded, very few trade unions can claim a national status. There are 21 unions in total, the majority of which are either sectoral or geographically restricted. Organic links with political parties, moreover, means that unions are politically aligned. Employers in Morocco are organised in terms of 27 sectoral federations and eight regional unions, brought together under the CGEM (*Confédération Générale des Entreprises du Maroc*). Its 2,000 members are the biggest and most structured companies, yet the total number of manufacturing units in Morocco exceeds 60,000. The concept of social dialogue has become recurrent in official speeches, but a symbolic dialogue takes place only at the central level between government, employers and the larger trade unions. Involvement of social partners in the design and implementation of employment policy primarily concerns employers who participate in ANAPEC (*Agence Nationale de Promotion de l'Emploi et des Compétences*). At the local level, partners are mostly in conflict with each other due to the absence of a negotiation culture in the majority of companies. The role of labour inspectors in conflict resolution, however, is important; they solve more than 70% of collective conflicts and resolve over 50% of complaints related to individual conflicts.

The above findings depict trade union membership in terms of few members who tend to be from the better-off groups of workers. Most trade union members are considered to be privileged workers in national contexts, as they belong to the public and formal private sectors. The risk of representing only the interests of the more advantaged workers is high, as it excludes very large numbers of workers and fails to take account of their harsher employment conditions. The higher unionisation rate in the public sector may

¹⁹ Recently the government has established informal consultations with a fifth trade union, the *Union Nationale du Travail du Maroc* (UNTM), attached to the new Islamist party, PJD (*Parti de la Justice et du Développement*).

also have a negative impact on public sector reform and public employment (Agenor et al., 2004). The same conclusions generally apply to the representation of employers. Employer associations tend to represent the interests of bigger companies, and so exclude most of the small and micro-enterprises that are numerous in the region. This institutional weakness on the part of social partners makes effective social dialogue difficult. Furthermore, the relationship between social partners and governments is typically paternalistic, and studies of the nature of social dialogue reveal similar attitudes to workers within companies (De Gobbi and Nesporova, 2005). According to findings for Egypt, for example, workers are treated like family members (which makes dismissal difficult) and only 5% of the firms in the survey had unionised workers; it is clear that independent worker organisations are perceived to be unnecessary and undesirable, and managers claim to be able to settle disputes personally. Consequently, given this paternalistic work environment and the low unionisation rates, serious barriers to social dialogue exist at the company level.

4.3 LABOUR LEGISLATION

A broad definition of labour legislation includes all legal arrangements regulating work and the rights and responsibilities of employees and employers. In this section, however, the focus is on labour law, minimum wage regulation and the social security system (especially unemployment insurance). Legal arrangements governing work in the MENA countries generally reflect worldwide trends, albeit in early development stages. The countries in the region have specific labour laws which have recently been amended to respond to emerging economic development needs. In most cases, labour legislation excludes significant numbers of workers (e.g. agricultural, domestic and family workers) and enterprises employing less than five

workers. Moreover, part-time employment or other atypical work arrangements are much less frequent in the MENA region. Law enforcement is also a serious problem with its large informal sector. In fact, since the majority of workers fall outside the scope of the legal system in these countries, the limited application of legislation undermines the scope and validity of any assessment of labour laws.

Recent labour legislation changes in Egypt (2003), Tunisia (1994 and 1996), and Jordan (1996) have aimed to make the application of laws more flexible for employers, particularly in regard to hiring and firing. As a result, company restructuring is included as one of the legitimate reasons for firing workers in most MENA countries. Even so, firing is typically costly for employers because of lengthy bureaucratic procedures, high payments and biased labour court decisions. In particular, severance payments are widely used as an insurance against unemployment, given that no social insurance systems exist. The majority of experts from the region agree that hiring and firing rules are still overly rigid and, given the existence of a large informal sector, protective of only a small group of full-time workers. Law enforcement, moreover, is lax, thus flexibility in the labour market is achieved through non-observance of labour laws and the curtailment of worker rights, and labour legislation which is supposed to protect workers has the negative effect of putting them in a precarious position.

In Egypt, after ten years of tough negotiation, a new labour law was adopted in 2003,²⁰ which introduced more flexibility in hiring and firing. Thus, the renewal of a definite contract no longer implies an indefinite contract, lay-offs are facilitated, dismissal with due cause is easier, contract termination under economic restructuring is permitted with restrictions, and termination of a contract by an employer without valid justification entitles a worker to compensation.²¹ A national training fund

²⁰ The new law applies to public enterprises, but not civil servants, domestic workers or family workers.

²¹ Employers can terminate a contract or modify indefinite duration contracts for economic reasons, subject to the approval of a stoppage committee, proper notification to the workers involved, and severance payment equal to one month's pay per year of service for the first five years of service and one and a half months for every additional year. Termination of a contract without valid justification merits compensation, the amount of which is determined by a judicial committee (the minimum is two months pay per year of service).

(financed by government funds, 1% of the annual net profits of enterprises, and other donations) was set up to finance the creation, enhancement and modernisation of training centres and programmes that match the needs of the labour market. Finally, the right to peaceful strikes by workers is recognised.²²

Since the new labour law applies only to new employment contracts, however, its effect on the labour market is likely to be small. The law, moreover, does not mention labour contracts other than fixed ones, such as, for example, those governing part-time work and temporary agency work. It may, however, positively affect foreign companies that might have been reluctant to invest in Egypt in the past. It should also be of interest to private firms with a significant share of their workforce protected by legal contracts. Despite the new law, however, a big disparity remains between the private and the public sectors in terms of legislation enforcement in regard to contracts, wage-setting, social security, etc. Private employers either employ workers without contract or oblige new employees to sign an undated letter of resignation before starting their job—all of which merely shows that unlawful dismissal regulations are still perceived as a real threat. According to De Gobbi and Nesporova (2005), half of all workers have no labour contract and even fewer workers are covered by social security. For workers with contracts, companies frequently underreport wages in order to lower the corresponding social security burden.

Amendments to the Tunisian labour code in 1994 and 1996 introduced specific provisions for both definite and indefinite contracts, as also the notion of part-time work. Any employer who intends to dismiss a worker is required to indicate the reasons for dismissal in a letter giving advance notice. Dismissals without real or serious justification and dismissals that fail to respect legal procedures are considered abusive. Although recognised, dismissal for economic or technological reasons is complex, with a panoply of wage protection

measures, conditions and administrative procedures to be respected. Consequently, dismissal is both bureaucratic and costly. The labour code thus remains overprotective of those within the labour system (World Bank, 2003).

According to Chemingui (2005), the new labour code does not facilitate the adaptation and restructuring of Tunisian enterprises so that they can face the challenges imposed by trade liberalisation. The rigidity of the law has led to two important responses in Tunisia: firstly, enterprises are increasingly hesitant to dismiss workers in the interest of avoiding administrative complications; and secondly, enterprises prefer to enter into dismissal agreements directly with workers, without involving commissions with control over dismissals. Consequently, many private enterprises avoid drawing up contracts with employees in order to avoid incurring dismissal costs, and also to evade social security contributions. Employees, on the other hand, accept a job without a contract for three reasons: firstly, to avoid paying social security contributions, which represent for them a considerable part of a salary which is already low; secondly, because they do not see that the health or retirement system will genuinely benefit them; and finally, because they are ensured greater mobility as far as obtaining better working conditions is concerned.

Although labour legislation in Jordan is considered to be comprehensive and well-enforced in the formal sector, it is highly inflexible. More specifically, problems persist in aspects such as hiring and firing, distribution of working hours within days and weeks, sexual harassment, and official holidays. According to Mryyan (2005), the inflexible firing procedure principally curtails the power of employers to lay off irresponsible workers. Labour courts tend, in fact, to favour workers over employers, and in most cases they oblige employers to compensate dismissed workers financially.

The restrictions placed on dismissal in Lebanon have also been criticised by

²² The right to strike had been denied under emergency legislation adopted following the assassination of President Sadat in 1981.

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employers as being too costly; they particularly dispute the definition of unfair dismissal. A study of the investment climate in Lebanon reports it to be third in the region in terms of strictness of employment protection measures (Issa, 2005). It is very common for enterprises to avoid declaring their Lebanese and foreign employees, as also the real wages and other earnings of their workers. Unauthorised overtime and dismissal, as well as other violations related to the work environment and safety, gender disparities in wages, and employment of minors in inappropriate jobs are also common.

After several years of discussions between employers and trade unions, Morocco passed its first labour act (Law 65-99) in 2003. This law recognises temporary work under the concept of flexibility, but the corresponding mechanisms have not as yet been established by the authorities. When faced with difficult economic circumstances, a company can temporarily reduce its workforce to 50% for a period of up to two months and, with the consent of staff representatives, for a period of up to four months. Companies running into difficulties may also ask for permission to lay off workers for economic reasons (applications are examined by the labour inspectorate and discussed by a provincial committee chaired by the provincial governor). Companies may hire a worker on the basis of a non-renewable contract of a given duration (six months maximum), but if they decide to keep the worker at the end of a definite contract, the contract is automatically classified as an indefinite contract; thus can represent a serious hindrance to flexibility. Finally, enterprises with less than five employees have been excluded from the new act (in an endeavour to avoid driving them underground, i.e. into the informal sector). It will take many years to assess the real impact of the new law and its implementation in Morocco.

Labour market regulation is not restricted to labour acts. Regulations on minimum wages, taxes on labour, and social security

contributions also have a significant impact on employment. All five countries covered by this study have official mechanisms for setting minimum wages in the private sector. This wage level is considered excessively low by the majority of experts, yet there are workers who accept a lower wage in all the MENA countries. In Egypt there has been substantial wage compression in the last decade and the minimum wage is considered very low (around 100 Egyptian pounds per month) even for subsistence living standards. Yet most employers fail to abide by the annual wage increments stipulated by the labour legislation. In Lebanon the monthly minimum wage was last set at 300,000 Lebanese pounds (the equivalent of US\$ 200) in 1996, but it fails to reflect the reality of basic living costs.²³ Many foreign workers in the informal sector will accept a job paying a lower wage than the minimum wage, which leads employers, especially in sectors with an oversupply of unskilled workers, to employ more unregistered foreign nationals.

Moroccan employers believe that the legal minimum wage is too high and adds to the lack of competitiveness of national companies. However, this argument may be mere rhetoric, as low labour productivity is viewed by many to be the real problem. According to Bougroum (2005), competitiveness can be improved through improved labour productivity—for example, by improving working conditions or by training employees. In Tunisia, on the other hand, it has been reported that the guaranteed minimum wage has a particular bearing on employment in sectors exposed to international competition (mainly manufacturing industries such as textiles, clothing and electro-mechanics). In these sectors, an increase in the minimum wage to a level higher than productivity negatively affects the international competitiveness of Tunisian products. Furthermore, job creation is also affected by other factors outside the labour market, such as high production costs (interest rates, energy, transport, and communications), and high corporate taxes, labour taxes and social security contributions.

²³ For example, Issa (2005) reports that the current minimum wage amounts to between a third and fourth of what is considered the equivalent of the absolute poverty threshold (estimated as between US\$600 and US\$800 per month for a family of five).

Common to all the countries in the region is the lack of a social security net for a considerable component of the population. Social security systems are insurance-based and coverage is low (on average 50% of the population is covered).²⁴

Fragmentation of the system (among civil servants, private sector workers, the self-employed, the military etc.) is an important issue, as it restricts mobility within and across sectors, increases administrative costs, and generates unequal treatment of different categories of workers. Most beneficiaries are not protected against traditional risks (i.e. against unemployment, ill-health or old age). Lebanon is an example of a country with a social security scheme that lags far behind the standards of modern systems. Variations in membership rules and regulations, levies and membership types, and levels of coverage leave much of the labour force, and therefore much of the population, without social protection. Certain social risks are only partially or not at all covered; in the case of health insurance, for example, only 47% of workers are covered. Insurance schemes for government sector workers are numerous and vary in benefits and level of coverage; in contrast, only 14% of self-employed workers receive health, family and retirement benefits.

Although unemployment insurance was recently introduced by law in Egypt (as in Algeria), its benefits are virtually non-existent. The only workers who qualify for benefits are those laid off as a result of court-approved final closure of firms. Social insurance in Egypt is virtually universal, with various insurance laws covering civil service employees, public enterprise workers, and private sector wage workers. Civil servants, unlike most private sector workers, benefit from high levels of social security (retirement, disability, death, work injury and health insurance). This is explained by substantial levies on wages (41% of basic salaries and 15% of variable wage components). This has led many employers to evade social security contributions, which is possible in the

context of a weak inspection system. It is estimated that 30% of employers in the private sector do not pay any contributions and that 40% of workers and employers underreport wages.

Not one of the five countries has a fully functioning unemployment insurance system in place. Without a minimum guaranteed income in case of unemployment, the poorest (mostly unskilled) workers simply cannot afford to be unemployed. Since they cannot invest in skills development or wait for better jobs, a vicious cycle is created that reproduces the poverty of one generation in the next generation. In fact, the only individuals who can afford to be unemployed are those supported by families from higher socioeconomic strata. El Hamidi and Wahba (2005) suggest that unemployment among young people awaiting public sector jobs is mostly voluntary in Egypt, and also that the private sector is very slow in absorbing new workers. Government benefit schemes with practically unlimited job security are very attractive to workers. This has a significant impact on labour mobility and effective skill development programmes, and the low level of mobility from public to private sectors confirms this. Informal workers outside the formal system, on the other hand, are relegated to precarious employment, since they cannot afford to be unemployed or to embark on training courses. Without an expansion of the formal sector and/or a basic guarantee of income security (means-tested social assistance) for vulnerable groups, the impact of labour legislation is likely to remain limited.

An overall assessment indicates that the labour market in the region is quite flexible. However, this is not because of flexible labour market regulations but stems, rather, from lax enforcement of labour regulations and from the fact that there is a large informal sector. There is a sharp divide between insiders in the registered economy and outsiders employed in the informal economy. In practical terms, only public sector enterprises and large

²⁴ The World Bank (Robalino, 2005) indicates that 30% of the labour force is covered by all the schemes. Even so, despite these modest coverage levels, expenditure as a share of GDP is already in the 1% to 3% range, and only 5% to 10% of the elderly receive a pension.

manufacturing companies apply the regulations, and at that, selectively. As a result, only workers with formal employment contracts have access to social security benefits, obtain health and safety protection, and benefit from fair hiring-firing rules. Informal sector workers are completely unprotected, and this lack of protection is far from compensated for by the provision of technical assistance through training and employment services and through various labour market measures. The growing informal sector is, therefore, one of the main causes of the social exclusion of young people and women (Martin, 2006). For MENA countries with high unemployment rates and an abundance of seasonal and precarious work (especially for those working in the agricultural, construction and tourism sectors), a highly regulated labour market does not seem to be the best option as it may hinder the creation of enterprises requiring a flexible workforce.

Several reasons are put forward to explain why labour regulations are not implemented properly in the region. Some argue that employers are reluctant because provisions are difficult to implement at the present development level of private sector. It is assumed that, as in economically advanced countries, companies are strongly structured and that the two sides of production (employer and employee) can work together under a well-organised cooperation logic. This, however, does not reflect the labour market realities of the MENA region. An important feature of the MENA economies is the existence of a large number of small and micro-enterprises of a family nature, which are managed according to a domestic logic based on network relations (hiring family members) and which have a natural tendency to operate in the informal sector. Faced with an abundant (if unskilled) labour supply, many companies operate in low value-added activities and use low wages for unskilled or poorly skilled workers as the only parameter of competitiveness. Labour regulation is essentially seen as a threat to their competitiveness. The benefits of non-compliance with labour legislation are high for companies, and the weakness of

the public inspection mechanisms (mostly operated by the ministries of labour) makes it easier to evade detection. Labour inspectorates in charge of controlling and implementation labour regulations simply do not have sufficient human and material resources to fulfil their functions adequately.

Reducing the sharp dichotomy between different labour market segments requires a comprehensive set of measures that addresses the rigidities of regulated markets as well as the formalisation of the informal sector. Given that it is usually the private sector which offers poor salaries, poor working conditions and inadequate social benefits (and which, furthermore, avoids labour regulation) low labour demand and very poor quality of jobs play as significant a role as legislation. For this reason, conditional support to the private sector may be crucial to the creation of better jobs. Therefore, labour markets need to seek an equilibrium that minimises segmentation among workers based on job types and sector, and which improves access to institutions and programmes that raise worker employability and that provide re-employment assistance. When combined with a comprehensive employment promotion strategy, basic income support to the unemployed can help moderate tensions arising from the sharp diversities in opportunities and treatment in different economic sectors, reduce the opposition of workers to job changes, improve labour allocation in the economy, and ultimately, improve the functioning of the labour market in such a way as to produce a positive impact on the economy and employment.

4.4 ACTIVE LABOUR MARKET POLICIES

The promotion of active as opposed to passive labour market policies is a relatively new trend in developed and developing countries alike. When well-designed and targeted, active policies are effective in improving employability and in promoting employment. How these measures are integrated with other policy instruments is also very important. The

active approach is mostly based on public intervention measures aimed at the unemployed and young people. In parallel with world trends, active labour market measures are increasingly being implemented in the MENA countries, of which a notable example is Tunisia. The most common measures are vocational training courses and micro-credit self-employment schemes for the unemployed and young people. The scope of these interventions is generally quite limited and some measures are rarely implemented (e.g. guidance and counselling services).

An important feature of employment activation measures is the predominance of donor-funded interventions, partly a consequence of limited government budgets and the weak institutional capacity of national players. The existing donor-supported programmes (by the EU, World Bank, etc) focus on different types of employment and training schemes, but also include some public employment service reform initiatives (Tunisia and Morocco) or the establishment of pilot employment centres (Jordan and Egypt) aimed at building institutional capacities. Impact analysis of these measures is necessary, particularly in regard to their impact on employment and on the population groups who benefit most from the programmes (e.g. high-skilled or low/unskilled workers). The risk of deviation from the original intention may be high, due to the interests of local actors directly involved in the training (trainee, training provider and host enterprise). Nor is the net effect on employment clear, because of phenomena inherent to implementation, such as deadweight loss and substitution and displacement effects.

Tunisia is currently awarding high priority to employment activation by means of its

systematic efforts to develop an active labour market policy. According to the World Bank (2003), Tunisia spent about 1.5% of GDP on active measures in 2002, with the aim of offering a whole range of programmes covering different job-seeker skill levels; however only 5.3% of the labour force benefited from the programmes despite this high level of public expenditure. Moreover, the overall percentage of GDP earmarked for labour market policy funding remains limited.

The programmes underway in Tunisia can be classified into four groups as follows: insertion programmes, university graduate employment programmes, FIAP (*Fonds d'Insertion et d'Adaptation Professionnelle*) programmes, and micro-enterprise and self-employment programmes.²⁵ The insertion programmes are based on facilitating initial entry to the labour market by young people through work-based training and by encouraging enterprises to hire them. Target groups are university graduates (*Stage d'Initiation à la Vie Professionnelle 1*), post-secondary graduates (*Stage d'Initiation à la Vie Professionnelle 2*) and vocational high school graduates (*Contrat Emploi-Formation*). The university graduate employment programmes focus on encouraging enterprises to recruit and graduates to set up their own businesses, also providing further training to graduates to facilitate labour market integration. The FIAP programme²⁶ and micro-enterprise/self-employment programmes are operated by a number of public institutions and NGOs.²⁷

These programmes target different levels of skills and education as well as different professional sectors in Tunisia. When the number of beneficiaries and level of support given in each programme were analysed according to skill/education

²⁵ All information on the Tunisian programmes was supplied by Mohamed Chemingui and ANETI (*Agence Nationale pour l'Emploi et le Travail Indépendant*).

²⁶ Instruments as follows: A. Filling a vacancy; B. Assistance with business creation; C. Professional development; D. Subcontracting through partnership; E. Aid to geographical mobility; F. Requalification or retraining; and G. Promoting the private supply of initial training.

²⁷ BTS: Tunisian Bank of Solidarity; FNE: National Fund of Employment; FONAPRA: National Fund for the Promotion of Handicrafts and Small Trades; FSN: National Fund of Solidarity; UTSS: Tunisian Union of Social Solidarity; PRD: Regional Programme of Development; PDUI: Integrated Programme of Urban Development; PDRI: Integrated Programme of Rural Development. Development associations: granting of micro-credits.

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levels, the middle-high skill groups seemed to benefit most, but it is difficult to pass a final judgment on how accessible these programmes are to less qualified population elements. Although programmes that target unskilled workers exist, for both political and social reasons, they are often less privileged than the programmes targeting university graduates. University graduates are more active and more visible, and their enrolment in different public administration exams has led the government to give them priority. Unskilled job seekers tend to be more ignorant of possibilities due to the lack of key competences or prior qualification requirements. The Tunisian case is often cited as a model for the MENA region, due to the high numbers involved and the intensity of the measures implemented. Nevertheless, required is an impact assessment in terms of effectiveness, coverage and target groups.

Faced with alarming unemployed graduate rates, Morocco commenced implementing active employment measures at the beginning of the 1990s. Measures targeting unemployed graduates are of three kinds: better labour market information and public employment services (reorganisation of the *Agence Nationale de Promotion de l'Emploi et des Compétences*), improved qualifications to ensure better employability (complementary training courses or in-company training), and the creation of better jobs (young investor loans and self-employment programmes). Measures targeting non-qualified workers emanate from the social policy of fighting poverty rather than from employment policy. Increasing numbers of programmes are carried out through partnerships with national NGOs and international cooperation funds; the micro-credit system is also popular. Eligibility criteria such as age, qualifications, length of time unemployed, and the existence of a business project are applied to young people; for the poverty reduction measures, selection criteria are primarily focused on social background (e.g. precariousness, vulnerability). Unfortunately, no impact assessment is performed for these programmes, with priority often awarded to achieving

quantitative objectives (e.g. maximising recruitment numbers). Compared to Tunisia, programme coverage and the number of beneficiaries are more limited, and as in Tunisia, young people seem to benefit more from the programmes than the unskilled.

Lebanon does not have any policy for implementing comprehensive programmes to integrate different categories of workers in the labour market. Due to a poor institutional framework, training is limited to one type of accelerated vocational training for young people. These courses, which provide short training in a range of manual or simple machining techniques for trades and crafts, require no more than basic skills or knowledge. The programme mainly targets poor achievers from the primary education sector and school leavers aged up to 15 years old. Another common type of intervention is self-employment training and micro-financing activities. Supported by the EU and launched in 2002, the Economic and Social Fund for Development is aimed at poverty alleviation through local community development and job creation. NGOs are particularly active in micro-financing; in 1999 there were a total of 19 sponsored micro-financing programmes, funded by loans of approximately US\$11 million distributed to 11,000 beneficiaries (Issa, 2005). Excluding religious welfare associations, NGOs spend more than the government (around US\$28.5 million in 1999) on vocational training projects and rehabilitation programmes for the disabled, delinquents, addicts and prisoners. Most of these activities are funded by donors.

In Jordan, a panoply of measures have been implemented under active labour market policies. A Development and Employment Fund was established in 1989 to provide technical and financial support to SMEs and to promote entrepreneurship and self-employment. Like most other self-employment programmes in the region, it has been featured by fiscal sustainability problems, incompetent utilisation of loans and low payback rates. Jordan is over-saturated with poorly educated and unskilled foreign workers, yet exports its own qualified professionals to

the Gulf. It has a huge domestic unemployment rate, and one explanation is the attitude of young people who are too proud to accept unskilled low-status jobs. In an effort to resolve this problem, the Jordanian government, in cooperation with the Vocational Training Corporation, the military and the private sector established an ambitious training project in 2002, offering a range of training specialisations (each composed of a disciplinary component offered by the military and a vocational component). The aim of the programme was to teach positive attitudes and strengthen work ethics. However, driven by supply rather than demand, this programme was found to be ineffective and folded after three years.

Egypt has many donor-funded active measures in place, without there being a clear national strategy and coordination. As a means of providing counselling and job search assistance, a project (ELMSR) funded by the Canadian International Development Agency has been implemented to develop a modern and efficient national employment service. This consists of establishing employment centres, improving professional staff skills, and enhancing the Occupational Information System (which includes an automated electronic labour exchange). As for labour market training, the World Bank-funded Skills Development Project aims to stimulate private sector demand for skills training by providing short-term training (less than six months) on production processes in tourism, construction and manufacturing; this programme is implemented on a cost-sharing basis with SMEs. The Social Fund for Development (supported by the World Bank and Germany) also implements a range of public works programmes aimed at eradicating poverty and improving quality of life for the illiterate and/or unskilled individual. A national programme for integrated rural development (SHOROUK) was launched in 1994 to both promote development based on grassroots participation and provide job opportunities for the rural unemployed. The main obstacles are a shortage of trained administrative staff, a lack of government funding sufficient to ensure the achievement of targets, and

the influence of powerful local figures in changing projects to suit their own interests.

The Egyptian Small Enterprise Development Organisation (SEDO) also provides financial and technical assistance and training to start-up and existing enterprises. Inspired by an assessment study that confirmed the need for such a programme, it represents the most important source of funding for small enterprises. SEDO operates through intermediaries (NGOs and financial institutions) and has established a number of one-stop-shops. Most beneficiaries borrow directly from SEDO rather than through banks and have had no problems in repaying loans. The Micro-Finance Programme is another programme that targets the active poor; it benefited more than 180,000 individuals between 1992 and 2005. The main challenge as far as these programmes are concerned is to achieve and preserve financial independence and sustainability; their viability, meanwhile, depends on the willingness of donors to subsidise loans with interest rates below the market rate.

4.5 VOCATIONAL EDUCATION AND TRAINING

Vocational education and training (VET) is an indispensable element in employment policy, as it provides a fast route to the labour market and is an integral part of lifelong learning strategies. Labour markets increasingly favour people with up-to-date skills and competences who are willing to undergo on-going development of their vocational and professional skills. Improved VET systems can increase the supply of individuals with the intermediate and technical skills necessary for economic development and can provide individuals with opportunities for reskilling and upskilling. Upskilling people with poor or no qualifications is, for example, a key to reducing social inequalities in society. The VET systems in the different countries in the MENA region are faced with similar challenges (ESCWA, 2003), which have also been identified in all five background reports commissioned by the ETF. These are as follows:

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- the absence of an overall vision for the entire education system, a lack of consensus on the exact role of VET in the system, and unclear differentiation between the social and economic goals assigned to the VET system;
- the insufficient human and financial resources allocated to the VET system and the resulting quality problems;
- outdated occupational profiles, curricula, teaching methods, textbooks and equipment, an imbalance between theory and practice, and a lack of practical work experience among teachers and instructors;
- the fragmentation and insufficient coordination existing among VET providers in addressing accessibility, transferability and accreditation issues;
- great internal and external rigidity due to centralised bureaucracies and the inability of trainers to design courses relevant to the needs of the modern labour market;
- the internal focus of the entire education system on higher education, combined with the low status and low relevance of VET, which results in overproduction of higher education graduates;
- the lack of involvement of the private sector in the governance, funding and delivery of VET;
- the lack of established horizontal and vertical pathways between different qualification systems, the lack of incentives, and the absence of a spirit of competition;
- the lack of consideration of gender-sensitive issues and the dominance of traditional gender roles in the VET system.

Despite the support of important donors for VET systems in the MENA region, most systems concentrate on sub-sector reforms, creating islands of excellence but failing to provide coherent support to sectoral policy reforms. The Egyptian VET system is a good example of fragmentation and insufficient coordination: there are as many as 21 ministries, not to mention a number of agencies and public enterprises, with VET centres. The main VET providers are the Ministries of Industry and Technological Development, Military Production, Manpower and Emigration,

Housing and Public Enterprises. These offer a wide range of training courses lasting from a few weeks to four years; in all cases training is mainly vocational and semi-skilled. Training efficiency and quality is low, due to the separation of theory and practice. There are few properly trained trainers, given the low pay and low social esteem. Most equipment in training centres is antiquated and largely unsuited to trainee needs (Amer, 2005). Since the providers themselves are not allowed to retain any fees from courses, the courses do not meet the specific demands of private enterprises. There is thus no incentive to respond to labour market signals concerning the skills required in the economy. Teachers are underqualified, poorly remunerated and unmotivated. Teaching is based on rote learning and repetition rather than on analytical thinking. The entire system is geared towards public administration employment and not to jobs where critical and/or creative thinking is required. The result is a failure to adjust to the type and quality of skills that are needed by employers.

In Lebanon, the current training system also lacks funding and incentive mechanisms that enable the provision of training in careers requiring expensive equipment and competent trainers. Training is mostly limited to accelerated vocational training for mainstream school leavers. The courses are mainly theoretical with few practical components, and they lack focus on the basic tenets of learning or language aptitudes. Burdened with quantitative and qualitative deficiencies, most training institutes have no links with businesses. As for vocational training in the private sector, Issa (2005) confirms that most of the training centres are supervised by welfare associations and institutions, and around 80% only provide accelerated training for unskilled adults for humanitarian reasons, i.e. training is not necessarily linked to specific labour market needs. Around 6% of training centres are aimed at industrial apprenticeship training, while industrial skill development centres account for another 3%. These mostly target women (sewing, knitting, embroidery, flower arranging, cosmetology, hair dressing, and general housework).

There have been efforts to change these trends in some countries in the MENA region. In Morocco, vocational education has witnessed considerable development in the last two decades, after existing in the shadow of general education for a long time, and having been considered a poor second choice for families and young people. This process commenced with VET reform as an essential element in accompanying the economic restructuring process. The VET approach is one of the main tools for improving the interaction between training and employment and reducing unemployment among young people.²⁸ However, vocational teaching in Morocco suffers from three weaknesses that slow down its development: the low proficiency in French²⁹ shown by the trainees, the lack of understanding of professional realities by trainers, and the inadequate involvement of employers. The Moroccan private sector, moreover, is dominated by small informal companies, which does not help create the necessary professional environment for proper vocational teaching.

Tunisia has, since the beginning of the 1990s, analysed and treated vocational training as a reform issue, introduced within the context of overall reform of the Tunisian economy and privatisation of public enterprises. In this context, an upgrading programme has been in operation since 1996, aimed at improving the competitiveness of enterprises. Vocational training has figured as one of the main components of this programme, which was placed under the tutelage of the corresponding ministry in 2002. The aim is to replace and/or to improve the level of educational establishments and associated social affairs centres. Training programmes are typically implemented by public and private operators.³⁰ The capacity of the public education system has been

improved via the creation or restructuring of centres, by improved exploitation of existing resources, and especially through the extension of training in cooperation with enterprises. This has helped to quadruple the inflow of registered trainees in the period 1995 to 2003.

Jordan is another country reforming its VET system. Its ministry of education offers a variety of programmes in 200 secondary level schools, the Vocational Training Corporation provides apprenticeship training in 50 vocational centres, and the Al Balqa Applied University offers practical education and training via 28 public and 25 private community colleges. Although originally designed to lead the reform in national vocational training programmes, the Al Balqa Applied University model is dominated by academic concerns and competes to offer associate degrees rather than industrial expertise. Each delivery system operates independently, and so there is a failure to successfully coordinate the programmes and qualifications offered in different vocational streams. Consequently, the VET system continues to be perceived as a second-resort educational option. The three providers mentioned above share drawbacks, such as insufficient liaison with industry, rigid and overly bureaucratic management systems, and programme irrelevance and inflexibility.

Given the challenges and developments described, two fundamental and systemic-level issues need to be addressed in the context of any proposed reform initiative in the MENA region. Firstly, there is a lack of the kind of overarching vision in regard to VET at the highest level of government that would serve to guide and coordinate reform initiatives. Secondly, there are many persistent systemic barriers against the creation of a VET system that is

²⁸ This strategy is defined in the *Charte nationale d'éducation et de formation*, adopted in 1999 and implemented as of 2000 (Bougroum, 2005).

²⁹ This difficulty is due to a linguistic divide between the general educational system and the vocational training system. Teaching in the latter is primarily in French whereas Arabic is the teaching language in the public-based general education system. Linguistic barriers also exist in some higher education subjects (e.g. the technical and scientific areas).

³⁰ The *Agence Tunisienne de la Formation Professionnelle* is the major vocational training provider in the public sector and practically the only one operating in the industrial sector. The *Agence de Vulgarisation et de Formation Agricole*, the *Office National du Tourisme Tunisien*, and the ministries of defence and of public health also provide vocational training (Chemingui, 2005).

industry-driven, competency-based, flexible and responsive. These include the pervasiveness of the academic model, bureaucratic civil service procedures, weak industrial structures, a growing number of informal micro-enterprises, highly centralised financial procedures, and a lack of performance management systems. Unless these problems are dealt with at the systemic level, success with less far-reaching changes will be limited.

Furthermore, vocational guidance services, which need to be an important component of any reform, should be made available to all students and trainees before and after they exit the education system. In general, choices on education and training are made on the basis of prestige, family traditions and proximity of schools. If training and education does not facilitate recruitment, then most young people will end up working in fields which have nothing to do with their educational background (De Gobbi and Nesporova, 2005). According to a report by the United States Agency for International Development (USAID, 2003) on the well-educated young in Morocco, as many as two thirds of humanities graduates are unemployed, and about one third of university graduates turn to vocational training to acquire practical skills after realising that their university degrees do not equip them for the job market. Therefore, the existence of an overall vision of the education system as a whole and of the role of VET in the system is crucial.

4.6 CONCLUDING REMARKS

The term flexicurity was initially used to describe a successful combination of labour market flexibility and security that was particularly applicable to certain European countries, such as Denmark or the Netherlands. The term then broadened to being a descriptor that classified a certain kind of labour market in Europe (European Commission, 2006b). Now both a concept and an approach, it is viewed by many experts as a suitable response to the new employment and social challenges faced by contemporary societies. It is

based on a negotiated deal, between government and social partners, to lower employment protection and to increase employability and worker security, with the ultimate aim being to enable labour market transitions and encourage worker mobility. Although developed in the specific historical/social context of western Europe, the concept can easily be extended to all countries as a policy objective, and differing degrees of balance between flexibility and security can be achieved by the interaction of the four key elements of the flexicurity concept in any local context: a) sufficiently flexible contractual arrangements; b) effective active labour market policies; c) credible lifelong learning systems; and d) modern social security systems. According to this approach, countries can juggle these elements synchronically so as to develop different combinations of policies that can be implemented to serve their policy goals.

In the MENA context, it can be seen that there are deficiencies in all these four elements, considered to be key ways to achieve well-functioning labour markets. Flexible contractual arrangements are in fact very common due to the large informal sector, but this is achieved through non-observance of the rule of law and the curtailment of worker rights, and at the expense of high protection for a small group of people. Informal employment may improve the labour market situation in quantitative terms and provide poor households with incomes, but in most cases it does not contribute to any substantial improvement in job productivity and future prospects. The majority of workers are and continue to be outside the scope of any public intervention. This brings us round to another crucial element affecting the MENA region: adequate income support for the unemployed poor. Social security systems tend to subsidise relatively better-off segments of the population. They fail to benefit the most disadvantaged members of society or to ensure better transition or allocation of labour.

A policy shift towards meeting the needs of the neediest members of society is required, in the form of better

re-employment assistance provided by public employment services, broader access to active labour market programmes, and access to vocational training systems throughout the life-cycle of targeted groups. Active labour market policies and training aimed at assisting the poor can help lift them out of poverty and contribute to formalising the workforce. The roles played by labour market institutions

and actors (efficient implementing agencies, strong social dialogue, and independent research institutions for monitoring purposes) are important in any new policy design and implementation, although this will first require a significant degree of capacity building of institutions and actors in the region. Furthermore, the whole process needs to be supported by improved macroeconomic conditions.

5. WAYS FORWARD TO LABOUR MARKET REFORM

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This report focused on certain issues related to labour market functioning in the MENA region. On the basis of a brief review of key labour market indicators, the report has identified a number of problems, such as low labour force participation and employment rates (in particular for females and young people), restricted access to good jobs resulting in large informal employment sectors, and little mobility between labour market segments. The overall conclusion of the report is that labour markets in the MENA region may not be allocating human resources to their best uses—a crucial requirement for the success of any policy aimed at increasing employment and fostering economic growth. The report concludes that, besides the challenges implied for the education and training system in terms of quality improvement, comprehensive and multi-dimensional structural reforms are necessary in the MENA labour markets.

Given the urgency of addressing the growing unemployment rate, a need for change has gradually come to be assumed in the region, and political willingness to

reform labour markets has consistently been expressed since the beginning of 1990s. Youth unemployment in particular has placed pressure on governments to develop emergency measures. By the beginning of this decade, some countries in the region had begun to develop more precise and explicit reform strategies, for example, to deal with the growing rate of unemployment (particularly among young people) or, over the mid-to-long-term, to restructure the labour market so that a productive private sector can play a central role as a creator of employment.

Reforms to reduce the public sector and the emergence and development of a formal private sector touch upon several aspects of the macroeconomic system, such as broadening the private sector through a policy for deregulating (privatisation) and upgrading enterprises, modernising public administration, and updating legal and regulatory frameworks (the taxation and legal systems, the family code, the labour system, etc.). In the economic restructuring process, reforms will need to be carried out simultaneously

on several fronts. Coordination with other economic and social policies (e.g. controls over capital flows, company and investment legislation, energy and transportation infrastructures, social security system, etc.) will be crucial to successful labour market reform. Structural adjustment programmes, for example, should be designed to have an impact on unemployment, and investment incentives and tax exemptions will need to be linked to employment. Public action of this nature will have significant long-term implications for the social and employment structures of the countries in question.

There are several reform initiatives already underway in the region, aimed at improving the legal, administrative and institutional frameworks governing the labour market and enhancing partnerships among key stakeholders. Initiatives to reform labour market legislation and to modernise public employment services, for example, have been introduced in several countries. On the supply side of the reform process, the education and training sector has launched a number of programmes—mostly funded by international donors—in the elementary, secondary, vocational, and tertiary education areas, aimed at meeting the need to upgrade educational performance, relevance and quality. These programmes focus on implementing employment-driven education and training strategies that reflect the needs of the labour market, involve stakeholders, institute social dialogue, enhance governance, develop institutional capacity for defining policies and for decision-making, and increase and diversify sources of funding.

Under a comprehensive programme entitled MANFORME, launched in 1995, Tunisia has developed an ambitious project, in cooperation with social partners, for upgrading training services and enhancing worker employability. Vocational training aimed at developing qualified human resources is considered key to integrating Tunisia in the world economy. The first decade of reform focused on establishing infrastructures, particularly, the creation and/or restructuring of training centres, the

implementation of partnership principles, the development of training programmes, and the adoption of quality principles. This investment phase has largely been consolidated, although some structural investments remain to be implemented. Major international donors are the World Bank (a \$60-million loan), the *Agence Française de Développement* (a €72-million loan), the EU (a €45-million loan), and the Arab Fund for Economic and Social Development (a loan of 11 million Kuwaiti dinar). The EU has allocated a further €6 million to job creation and €30 million to sectoral support for vocational education and training for the period 2005 to 2008 (European Commission, 2005). Under MANFORME, the international donor community has supported a range of projects related to employment policy, the restructuring of the employment services offered by the *Agence Nationale de l'Emploi et du Travail Indépendant*, support for self-employment measures, and vocational training programmes for different target groups.

According to an employment project evaluation carried out in Tunisia by the Swedish International Development Cooperation Agency (Oxenstierna, 2001), an employment service based on the information and communications technologies and on training modules for staff as well as for job-seekers was easier to adapt and apply to local conditions. Many employment offices have been modernised in recent years and are consequently more efficient, with more job offers channelled through them and more job seekers assisted with obtaining jobs or training. However, the management model for state agencies, based as it is on a different culture and level of economic development, has resulted in a somewhat centralised and hierarchical structure, which, although it has the advantage of easier implementation, does not easily admit delegation of responsibilities and teamwork. Local offices have little independence vis-à-vis the central apparatus (including in regard to the recruitment of local staff), and a disproportionate amount of time is spent on administrative tasks.

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In Jordan, similar—although less comprehensive and more modest—reform programmes and projects have been implemented with the support of international donors. For example, funded by the Canadian International Development Agency is the Al-Manar project, which focuses on labour market information databases, electronic labour exchange and career counselling. In cooperation with the Aqaba Economic Zone, Al-Manar has developed the Employment Promotion Centre in Aqaba as a model to mediate between job seekers and employers in the region. Education Reform for Knowledge Economy (ERfKE-1) is another ambitious project aiming to transform the education system from the early childhood, basic and secondary stages so as to equip school leavers with the necessary skills to participate in the knowledge economy. This ambitious US\$380-million project is supported by nine international partners, primarily the World Bank (which contributes US\$120 million), but also the Arab Fund for Economic and Social Development, the Canadian International Development Agency, the British Department for International Development, Kreditanstalt fUr Wiederaufbau, the European Investment Bank, the Islamic Development Bank, the Japan International Cooperation Agency, and the United States Agency for International Development. Other examples are higher education reform funded by the World Bank and social dialogue and child labour prevention projects supported by the ILO.

Egypt also has a number of donor-funded programmes underway, related to labour market and training reforms. Major donors are the EU and the World Bank. All the programmes intervene directly in the labour market, given that they deal with vocational training, labour market information, SME support, etc. The EU funds a large VET project with a €33-million grant, a private sector development programme worth €45 million, and an industrial modernisation programme with a total fund of €250 million. A spinning and weaving sectoral support programme, worth €80 million, aims to restructure the public sector and address the issue of 30,000 redundant workers. The World Bank supports skills

development projects with a loan of US\$ 5.5 million, and the Canadian International Development Agency supports a labour market information and employment services reform programme with a CAN\$5-million grant. The Mubarak-Kohl Initiative is another donor-funded project that implements a dual vocational approach targeting secondary students for VET apprenticeships. Although the project is considered to be one of the most successful experiences in the field, its action is limited to the creation of an island of excellence.

In Morocco, job creation schemes and on-the-job training projects have been funded by the World Bank (a US\$51-million loan), and job creation and work-oriented training projects by the United States Agency for International Development (a US\$9-million grant). Technical and vocational training (a €38-million grant) and job creation projects (a €3.3-million grant) have been funded by the EU. French and Belgian funds have been provided for vocational training projects (€15- and 30-million loans, respectively), as also a Japanese grant to set up a vocational training school. Main international cooperation programmes being planned for the future are the MEDA II VET scheme for textiles, tourism and the information and communication technologies (a €50-million grant), German technical assistance for vocational training (a €5-million grant), French and Belgian funds for monitoring (aid of €5 million in total), and Canadian International Development Agency assistance for skills development (a CAN\$10-million grant).

In Lebanon, the primary interest of donors (including the EU) has been the rebuilding of educational infrastructures after the civil war. The EU supports the development of SMEs through its MEDA I and MEDA II programmes. Under MEDA I, the Lebanese government received grants amounting to €166 million between 1996 and 2001. Only two projects were related to employment: an industrial modernisation programme (an €11-million grant) and support for the establishment of small and micro-industries (a €12-million grant). Under MEDA II, of immediate relevance to employment are

rural development projects (€10 million), the Tempus higher education project (€3 million) and integrated SME support (€17 million). Germany, Belgium, Spain and France are the most active EU member states engaged in different vocational training system programmes, targeted to special groups through NGOs in Lebanon.

From our review of reform initiatives being implemented in the MENA countries, at least two favourable factors can be identified in regard to labour market-related reforms in the region. The first one is the urgent need to address the unemployment problem (particularly among young people) and the strong pressure being felt by public authorities in relation to dealing with the social and political implications of unemployment. This has led to initiatives such as the design of a national employment strategy, the reorganization of public employment services, the easing of labour regulations, the implementation of active labour market measures, and the enhancement of the relevance and quality of education and training systems. The emphasis given to each factor (including social security) in reform processes varies greatly from country to country, depending on local conditions. Nonetheless, this positive political environment helps interest groups and lobbies that support a smaller public sector and a larger private sector (liberal politicians and organised employers) to push for a more comprehensive reform agenda.

The second favourable factor is the availability of international donors willing to provide financial and technical assistance, which is an important help in terms of initiating the change process and strengthening the hand of change-minded local actors. Given tight public budgets in the MENA countries, donors provide crucial input to reforming labour market institutions, employment services, and education and vocational training systems. In most cases the reforms have been promoted and encouraged by donors such as the World Bank, the EU, the ILO, the United Nations Development Programme, and national development aid agencies.³¹ From the brief overview provided above it

can be observed that donors play a vital role in bringing a reform agenda into the MENA region. Donors have channelled significant amounts of funding and expertise into labour market and training reforms in the region, in accordance with the degree of political cooperation existing in the individual countries. The nature of this support is not only generous in terms of funding but also ambitious in terms of aims, geared as it is towards systemic reform (Tunisia, Morocco, Jordan) and complementing national strategies in some countries (Tunisia).

Early assessments indicate the results to be modest insofar as translating pilot initiatives into major systemic change. Although most of the individual projects have been evaluated as successful, the long-term and system-wide impact is as yet unknown. Many of these projects have created islands of excellence, and have not as yet led to systemic change. There are a number of reasons for these outcomes. In many cases, financial resources are insufficient to fund a comprehensive restructuring of the economy, and donor-funded projects are not financially sustainable. The governments in question do not as yet have the financial and skilled human resources necessary to implement a reform agenda, nor are they ready to risk their popularity by introducing the difficult policy measures necessary for comprehensive reform, the effects of which can only be seen in the long-run. Donor-funded programmes, moreover, are not always successful in mainstreaming project results to the whole system. Nor has the economic performance of the MENA countries in recent decades been very promising.

A weak institutional capacity seriously limits the absorption rate, by public bodies in the MENA region, of the financial and technical assistance made available by donors. Public policy has been designed and carried out in an uncoordinated way for so long that some local actors are unable to fulfil their new roles. The effective involvement of many actors (ministries, companies and the public) at the national and local levels is crucial to success.

³¹ Particularly USAID, CIDA, AFD, SIDA, FSP, BEI, GTZ, DFID, JICA, KfW etc.

5. WAYS FORWARD TO LABOUR MARKET REFORM

Institutions are not as yet equipped with the human and material resources necessary to be able to perform the required tasks (the case, for example, of most of the public employment services and labour inspectorates in the region). Individual initiatives by donor-funded programmes are sometimes implemented without dialogue, coordination and synergy with the institutions in even a single area, and so an interdisciplinary approach is extremely rare; Egypt and Lebanon are just two examples of overlapping initiatives and piecemeal change. Weak coordination between donor agencies with different agendas has also negatively affected the reform process. Last but not least, most of the countries lack an objective knowledge of the situation and/or a comprehensive national reform strategy for informed policy-making and implementation. As a result, the donor projects tend to remain isolated from national policies and the daily routines of local institutions.

Even more important is the relevance of policy options that are imported from other countries. An experimental systemic change phase (involving innovative programmes and projects) is crucial, given that most adopted measures have been inspired by experiments in the developed world. By definition, they are based on assumptions such as a well-developed private sector, strong social partnerships, efficient public institutions, and an all-inclusive social welfare net—all far from the reality in the MENA region. The intended consequences of policy measures in one context may not be produced in another context, and so these measures need to be adapted to local conditions, particularly where local actors function on the basis of a network. In other words, local actors often belong to the same network of interpersonal relations and may act as a coalition in order to protect their own interests. The importance given by public authorities to the achievement of quantitative objectives during project implementation may also lead local actors to adhere to the logic of making up numbers at the cost of quality; this ultimately works against the credibility of any public intervention.

Any labour market change or reform process tends to induce resistance and opposition among those who may feel threatened by the planned changes. By definition, reform touches upon the vested interests of the power structures and inevitably leads to losses or gains of one kind or another. The question is how far reform can proceed without provoking a backlash that may endanger its continuance. For some authors, insufficient financial resources and sociocultural and institutional reasons are the main obstacles to the modernisation of systems. Unlike adjustments to technical and technological developments, which tend to occur rapidly, changes in attitudes and mind-sets tend to be extremely slow. Managing and monitoring a change process in specific sociocultural and political contexts is a complex task, and the change process can only unfold successfully if there is internal consistency between political support, financial and human resources, and social values.

Specific cultural phenomena and work attitudes are complicating the implementation of reforms in the MENA region. According to De Gobbi and Nesporova (2005), for instance, in Egypt there is widespread favouritism in recruitment and a lack of geographic and social mobility. Due to the traditional importance attached to the extended network of family and friends, vacant positions both in the formal (public and private) and informal sectors are filled by a relative or friend of an existing employee. Although this may generate a sense of loyalty towards the employer, it obviously creates mismatches between skills demand and supply, and also seriously hinders merit-based recruitment. Under these circumstances, without the right connections, finding a first job becomes particularly difficult. In addition, status has an impact on labour market entry, in particular among educated people with high job expectations. Personal and family status is closely associated with job status, to the point that it is sometimes preferable to be unemployed rather than have a low-prestige job. Thus, urban work is deemed to be better than rural employment, and white-collar jobs are preferable to blue-collar employment.

A restructuring of private production systems can certainly help overcome some of these problems. Creating an environment of fair competition and rule-of-law for companies (with an emphasis on higher productivity and cost efficiency) and reforming monetary and financial systems are important steps towards a functioning market economy. The public sector can no longer afford to be the only source of decent employment, so the private sector must also assume its responsibilities. A widespread attitude among private employers is to compete on the basis of low-cost labour rather than on the basis of high-quality products; they thus can only offer informal jobs and/or poor working conditions that do not comply with minimum legal standards (i.e. minimum wages, health and social insurance, reasonable working hours etc.). This attitude acts as a barrier in the transition to a market economy. Consequently, labour market reforms must be a component of a comprehensive programme of structural reforms that support economic growth, promote decent job creation, and expand employment and skill development options for all social groups.

Finally, the issue of rationalising public sector employment (both downsizing and restructuring) is a particularly thorny one. Except for Lebanon, whose public sector has historically been minimal, the MENA countries have traditionally had a strong public sector, and this has greatly affected the economy and labour market. The existence of relatively large public administrations operating according to more advantageous civil service (or similar) statutes distorts the labour market. Public sector jobs are attractive not only for the job security, good working conditions, generous pension rights and additional

benefits they offer, but also for their perceived job image (white-collar and urban employment, and less demanding but prestigious work). Although decreasing in nominal and real terms, public sector wages and related benefits continue to be a magnet, particularly to less ambitious workers. Apart from the eroding effect on work ethics, the lack of accountability and performance-based assessment in the public sector sets an artificially high benchmark for job expectations in the labour market. Thus, groups that benefit directly from the public sector (i.e. the government and the ruling party bureaucracy) may be considered as a major obstacle to reform.

The resistance to reform by public sector workers and unemployed graduates renders the mission of a reform process practically impossible. Graduates unemployment represents a loss of economic investment in education and encourages brain drain through migration. However, the sceptical attitude adopted by a large number of unemployed graduates who, rejecting any professional prospect in the private sector, insist on their right of access to public employment, as in Morocco, creates doubts as to the reliability of a public actions. It is also an indication of a deep mistrust of political systems. The difficulty in implementing comprehensive structural reforms may be partly related to the lack of social consensus and a profound crisis being experienced by political systems in the region. As promoted by some authors (Yousef 2004; World Bank 2004), a new social contract based on a review of the rights and responsibilities of individuals and of the state may be a necessary precondition for any comprehensive reform.

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