OVERVIEW

Jobs for Shared Prosperity

Time for Action in the Middle East and North Africa

Roberta Gatti, Matteo Morgandi, Rebekka Grun, Stefanie Brodmann, Diego Angel-Urdinola, Juan Manuel Moreno, Daniela Marotta, Marc Schiffbauer, and Elizabeth Mata Lorenzo

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Foreword

A job has always meant more than a salary. As a basic form of social engagement, it can be a critical source of self-fulfillment and self-worth. By that same token, unemployment and underemployment can have a significant psychological as well as economic impact. They can be a source of deep frustration and humiliation. The Arab Spring, and its call for jobs and dignity, made this connection explicit. The revolutions were also a stark lesson in how pervasive unemployment and underemployment can fuel instability. Along with the demand for more political inclusion, young people in particular took to the streets out of frustration with the lack of opportunities to put their skills and talents to productive use. Identifying and lowering the social and economic barriers that have idled large segments of the population continue to be one of the most significant policy challenges in the Middle East and North Africa region.

This report focuses on jobs as the key to understanding the many layers of exclusion that have produced the world’s highest youth unemployment rate and left three out of every four working-age women outside the labor force. Each chapter unpacks one of the multiple factors that affect labor markets in the region, ranging from the educational system to government policy and the current governance of the private sector. The main message is that the current regulatory environment, by protecting certain markets and a few privileged insiders, stands in the way of a dynamic private sector and the more and better jobs it could provide. The rules need to change to ease the entry of new firms, supported by better access to credit. This adjustment would increase competition and serve as a vital catalyst for the innovation and investment that ultimately lead to more demand for labor. The current incentives that affect decisions about where to work and when to hire also need to be addressed. This effort would include phasing out the fuel subsidies that encourage investment in machines over the hiring of workers and diminishing the pull of the public sector to allow labor to flow to where it would be most productive. Easing employment regulations, coupled with a strong and well-targeted social safety net to protect the unemployed, would facilitate both hiring and mobility. An educational system more in tune with the needs of the private sector would also be another vital source of growth and jobs, equipping students with the skills and knowledge required by innovative businesses.
These conclusions form the basis of a comprehensive road map for change. The report identifies the specific barriers in the way of inclusive growth and private sector–led job creation and offers a series of policy options for overcoming them. It does not stop there, however. In recognition of the urgency of the situation, and of the difficulty in achieving the necessary consensus to effect change, the report proposes a series of steps to initiate the process. It recommends embracing the new spirit of openness to engage a wide cross-section of society. The goal would be to establish a common understanding of the nature of the problem and a shared commitment to a program for solving it. The report further suggests ways of bolstering the credibility of the reform process with short-term interventions, such as youth-targeted employment programs and investments in essential infrastructure that address immediate needs and produce visible results.

The Arab Spring revealed the true extent of the many challenges the region faces, but it also offered immense opportunities for breaking with the past and adopting a development model that benefits all its citizens. This report offers a formula for seizing those opportunities.

Inger Andersen  
Vice President  
Middle East and North Africa Region  
World Bank
In the aftermath of the Arab Spring, when thousands of young women and men fought for the opportunity to realize their aspirations and potential, the question of jobs continues to be crucial in the Middle East and North Africa region. This report uses jobs as a lens to weave together the complex dynamics of employment creation, skills supply, and the institutional environment of labor markets. Consistent with the framework of the forthcoming World Development Report 2013: jobs (of which this report is the regional companion), this work goes beyond the traditional links between jobs, productivity, and living standards to include an understanding of how jobs matter for individual dignity and expectations—an aspect that was clearly central to the Arab Spring. Just as important, this report complements the economic perspective with an analysis of the political economy equilibrium, with a view to identifying mechanisms that would trigger a reform process.

As such, the report has three objectives:

First, it seeks to provide an in-depth characterization of the dynamics of labor markets in the Middle East and North Africa and to analyze the barriers to the creation of more and better jobs. It does so by taking a cross-sectoral approach and identifying the distortions and incentives that the many actors—firms, governments, workers, students, education, and training systems—currently face, and which ultimately determine the equilibrium in labor markets.

Second, the report proposes a medium-term roadmap of policy options that could promote the robust and inclusive growth needed to tackle the structural employment challenge for the region.

Third, the report aims to inform and open up a platform for debate on jobs among a broad set of stakeholders, with the ultimate goal of contributing to reach a shared view of the employment challenges and the reform path ahead.

This work builds on a large body of existing literature, among which are a number of World Bank publications across various disciplines, including, but not limited to, the regional education flagship, The Road Not Travelled: Education Reform in the Middle East and North Africa (World Bank, 2008); the regional private sector flagship, From Privilege to Competition: Unlocking Private-Led Growth in the Middle East and North Africa (World Bank, 2009); the regional financial sector flagship, Financial Access and Stability: A
Road Map for the Middle East and North Africa (World Bank, 2011a); the regional companion report of the World Development Report 2012 on gender, Opening Doors: Gender Equality in the Middle East and North Africa (World Bank 2012a); the regional reports Striving for Better Jobs: the Challenge of Informality in the Middle East and North Africa (Gatti et al. 2012) and “Public Employment Services and Active Labor Market Policies in the Middle East and North Africa” (Angel-Urdinola et al. 2012); and various Middle East and North Africa Economic Developments and Prospects Reports (such as World Bank 2011b).

Jobs in the Middle East and North Africa are a complex matter. This report captures many, though not all, of the contributing factors. For example, while the report addresses energy and agricultural subsidies, as well as the link between jobs and infrastructure, others issues of relevance for job creation—such as the role played by urbanization in the agglomeration process, or the role of conflict—are left for future research.

Finally, this report covers all the countries of the Middle East and North Africa region in line with the World Bank definition. However, availability of recent and good-quality data on firms and households, and access to information about institutional structures eventually shaped the geographic focus of the report.

References
Acknowledgments

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**Contributors**

While this report is the product of a collaborative effort, primary authors for the sections are as follows:

- **Preface and Overview**: Roberta Gatti
- **Chapter 1**: Diego Angel-Urdinola, Matteo Morgandi, and Elizabeth Mata Lorenzo, with inputs from Anne Hilger
- **Chapter 2**: Diego Angel-Urdinola, Elizabeth Mata Lorenzo, and Matteo Morgandi, with inputs from Anne Hilger and Thomas Walker
- **Chapter 3**: Daniela Marotta and Paolo Verme
- **Chapter 4**: Marc Schiffbauer with Bob Rijkers
- **Chapter 5**: Rebekka Grun, with inputs from Andras Bodor
- **Chapter 6**: Stefanie Brodmann and Juan Manuel Moreno
- **Chapter 7**: Matteo Morgandi and Bob Rijkers
- **Chapter 8**: Rebekka Grun, with inputs from Andras Bodor and Amina Semlali
- **Chapter 9**: Juan Manuel Moreno and Stefanie Brodmann
- **Chapter 10**: Roberta Gatti, Rebekka Grun, and Matteo Morgandi
Abbreviations

CAPMAS  Central Agency for Public Mobilization and Statistics
D-index  dissimilarity index
ECA     Europe and Central Asia
ELMPS   Egypt Labor Market Panel Survey
SYPE    Survey of Young People in Egypt
EU      European Union
GCC     Gulf Cooperation Council
GDP     gross domestic product
HBS     Household Budget Survey
ICA     investment climate assessment
LAC     Latin America and the Caribbean
LFS     labor force survey
LMPS    labor market panel survey
LSMS    Living Standards Measurements Survey
MENA    Middle East and North Africa
OECD    Organisation for Economic Co-operation and Development
PISA    Programme for International Student Assessment
TIMSS   Trends in International Mathematics and Science Study
TVET    technical and vocational education and training
USAID   United States Agency for International Development
**Main Messages**

**MESSAGE 1:** Labor markets in the Middle East and North Africa make poor use of the available human talent and resources, thus inhibiting the economic potential of countries and people in the region.

The Middle East and North Africa has a large reservoir of untapped human resources, with the world’s highest unemployment rate among youth and the lowest participation of females in the labor force. High-paying or formal jobs are few, and private employment is overwhelmingly of low value added. Overall, the region’s labor markets can be characterized as being inefficient, inequitable, and locked in a low-productivity equilibrium. High wage differentials and low mobility to better-quality jobs underscore the fact that human capital is not allocated to its most productive use. The fact that access to desirable jobs depends more on circumstances beyond individual control than on merit leads to an inequitable distribution of employment opportunities. Finally, while some of the most coveted jobs are in the public sector and provide high individual returns, these are not necessarily associated with the highest productivity for society.

**MESSAGE 2:** Change the rules to create a dynamic private sector that capitalizes on the full range of the region’s human capital.

The slow growth of firms and their limited capacity to generate quality employment are directly linked to the rules governing the business environment. Uneven enforcement of regulations, access to credit on the basis of privilege and connections, and lucrative markets still protected by multiple legal and regulatory barriers have combined to stifle competition. However, an aggressive simplification of business procedures and regulations, making them transparent and easily understood and holding the authorities that administer them accountable, could provide a remedy. Access to credit could be expanded by increasing bank competition, embracing regulatory reforms, and building information systems, which would allow banks to lend to more firms and small borrowers. A comprehensive reduction of barriers restricting entry and exit into protected markets would create the incentives to invest and innovate and thereby increase the demand for labor.
MESSAGE 3: Let skills flow into productive private sector jobs by realigning employment conditions in both the private and the public sector, and by rethinking labor regulation. Lower the barriers holding back women who want to work.

Strict regulations and a public sector that continues to offer better employment conditions severely limit the flow of skilled labor to the most productive sectors of the economy. While these restrictions protect a minority of existing workers, they have contributed to high rates of informal employment and joblessness, especially among youth and women. These distortions are further exacerbated by energy subsidies that make investment in machinery relatively cheaper than hiring workers. The introduction of unemployment insurance and a well-targeted social safety net would allow governments to ease labor regulations and gradually phase out very costly energy subsidies. Specific policies would be needed to lower the barriers that women who want to work face so as to guarantee a safe working environment and support for the extra domestic burdens that they shoulder.

MESSAGE 4: Make young people employable by closing information gaps, improving quality and relevance of skills, and partnering with the private sector in training.

Although young people and families in the Middle East and North Africa invest heavily in education and training, the majority of youth cannot capitalize on such investments and use their skills to best advantage. The quality and relevance of the skills acquired are low, and the importance of merit in gaining a job is limited. Meritocracy in access to education and hiring, the availability of multiple pathways in education, and the provision of second-chance options are key elements for developing a productive workforce. More meritocracy signals market needs more clearly to educational and training systems. By doing so, it creates demand for the “right” skills in the “right” areas and reduces mismatches. Finally, the quality of education and its value in the labor markets need to be assessed regularly through standardized tests and the results fed back as a basis for reform and as a way to empower users.

MESSAGE 5: Use short-term interventions to respond to immediate needs while building the credibility and consensus for medium-term, game-changing reforms.

Establishing the right environment for the implementation of reforms requires a broad consensus on the nature of the employment problem and building inclusive constituencies for change. Some of the critical first steps are improving access to data and information, including the full range of social actors in the reform dialogue, and implementing short-term programs that deliver visible results and thereby support the credibility of the process.
Overview

Introduction

Jobs are crucial for individual well-being. They provide a livelihood and, equally important, a sense of dignity. They are also crucial for collective well-being and economic growth. However, the rules and the incentives that govern labor markets in countries of the Middle East and North Africa (MENA) region have led to inefficient and equitable outcomes both individually and collectively. In particular, several underlying distortions prevent a more productive use of human capital and have led to a widespread sense of unfairness and exclusion, of which the “Arab Spring” was a powerful expression.

MENA has a large share of untapped human resources. Unemployment and inactivity are more prevalent in MENA than in other middle-income regions like Eastern Europe and Central Asia and Latin America and the Caribbean (figure O.1), as a high proportion of the working-age population, particularly women, is inactive or experiences high unemployment.

Three out of four working-age women do not participate in the labor force and constitute 80–90 percent of MENA’s inactive population (see figure O.2). Unemployment is persistently higher than in other regions and overwhelmingly affects youth and women (figures O.3 and O.4). In some countries, such as the Arab Republic of Egypt and Tunisia (figure O.3), the highly educated are more likely to be unemployed. In most countries however, the majority of the unemployed are still medium- or low-skilled individuals. Among those who are employed, low-quality jobs—those characterized by low pay and productivity, and lack of access to social security—tend to be the majority. The formal private sector—quite likely the most productive segment of the economy—is small, and in no country in MENA for which data are available does the formal private sector employ more than 20 percent of workers. At the same time, public sector employment continues to be large in the Persian Gulf countries and in countries such as Egypt, Iraq, Jordan, and, to a lesser extent, Tunisia, making up between 60 and 80 percent of total formal employment (see figure O.5).

How can one interpret the realities of labor markets in MENA? What are the barriers to creating more and better-quality jobs? What policy options do governments have for addressing these challenges? And, finally, what political-economy processes might facilitate and enable reform? This report tries to answer these questions by...
JOBS FOR SHARED PROSPERITY

FIGURE O.1 Composition of the working-age population in MENA and two other regions, 2010

percent

Note: ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa.

FIGURE O.2 Rates of female participation in the labor force, by region, 2008

Source: ILO–KILM database.
Note: EU = European Union; OECD = Organisation for Economic Co-operation and Development.

Labor markets in MENA: Inefficient and Inequitable

Since a large share of the population either does not participate in any economic activity or gains little out of it because of the limited availability of high-value-added jobs, the labor markets in the region function at a low-productivity equilibrium. In addition, the allocation of talent is distorted toward the public sector, which has limited productivity in the aggregate but offers highly desirable conditions from the individual standpoint. This equilibrium is both inefficient and inequitable.

Inefficient allocation of human capital

A number of symptoms indicate that labor markets in MENA do not allocate human capital to obtain its highest return: (1) important wage differentials persist across sectors and individuals that are not explained by differences in human capital; looking at the development process through a jobs lens, with a focus on the region’s underlying labor demand, the incentives for investing in and generating relevant skills, and the regulatory environment as it affects job creation and quality. It then discusses how these factors have collectively produced the employment challenges in the region and what policy options would be effective in overcoming them.
workers’ mobility from low-productivity to high-productivity employment is very limited; and (3) geographical differences in labor market outcomes persist.

Wage differentials for similar levels of education

In many MENA countries, returns to education (especially primary and secondary education) are high in the public and formal private sector and very low in the informal sector. Figure O.6 plots the expected wage of an average worker by years of education and employment in the public, formal private, or informal private sector in Egypt and in Jordan. A typical worker in the formal private sector, with no experience and 12–16 years of education (equivalent to completing secondary and tertiary education, respectively), would earn a salary twice to three times that of a worker with similar education in the private informal sector.1

Low mobility across high-pay and low-pay sectors

Low mobility across different kinds of employment, especially toward better-quality jobs, indicates that labor markets do not arbitrage the allocation of human capital effectively across job opportunities. For instance, when data from the Egypt Labor Market Panel Surveys (ELMPSSs) are used to track changes in employment status for the same individuals from 1998 to 2006, results indicate high persistence in public sector employment and in formal wage work (see table O.1).

Although mobility is higher among informal wage workers, their chances of moving to better jobs over the eight-year period covered by the surveys are still limited. Similarly, self-reported mobility data from Jordan and Lebanon indicate that job mobility across informal and formal employment is lower in these countries than observed in comparator countries such as Mexico (Gatti et al. 2012).

Overall, the evidence points to limited labor reallocation, especially toward more productive jobs. Two factors contribute to this “mobility deficit.” First, high-value-added jobs are in limited supply. In addition, strict labor regulation prevents employers from dismissing workers in response to business needs. As a result, few vacancies are likely to open at any point in time, giving incentives to those who obtain jobs early in life to stay
in them for long periods and to those who do not to queue for an opening.

**Stark and persistent geographical differences in unemployment rates**

Stark and persistent differences in unemployment rates across geographical areas indicate that geographical mobility has a

**FIGURE O.5 Work status of employed individuals, selected MENA countries, 2005–10**


**TABLE O.1 Employment transition matrix in the Arab Republic of Egypt, 1998 and 2006**

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Source: World Bank, based on the Egypt ELMPS, various years.

Note: N = number. Sample data are for individuals between 31 and 64 years of age.
limited role in evening out differences in labor market outcomes within a country—another symptom that labor markets are segmented and operate in isolation. This phenomenon is exacerbated when better jobs are concentrated in particular regions (for instance, public sector jobs are often concentrated in the main metropolitan areas). Tunisia, for example, has important variations in labor market outcomes across regions; some of the interior regions bordering Algeria face particularly high unemployment rates (figure O.7a). Some of the regions with highest unemployment rates in 2005 (such as Gafsa and Tataouine) also displayed the highest rates of increasing unemployment between 2005 and 2011, suggesting that the workforce in these regions faces mobility constraints (figure O.7b). In parallel, labor force data for Tunisia indicate that among the lower skilled and female unemployed, the distance to available jobs is among the top reasons for refusing job offers.

Inequitable distribution of job opportunities

Desirable jobs in MENA are jobs that offer either protection and employment stability...
or a high income. The evidence suggests that, in many countries, the process through which individuals obtain these jobs often does not reflect effort or merit (as proxied, by education and experience) but instead reflects circumstances over which the individual has little control, such as gender, location, family connections, and parents’ education (figure O.8).

Building on the large literature on inequality of opportunity, the dissimilarity index (D-index) offers a synthetic measure of inequality in the distribution of labor market outcomes among groups with different circumstances (see Barros et al. 2008). When used to explain outcomes among youth in Egypt, Jordan, and Morocco, this index indicates that gender plays an overwhelming role in determining the extent of inequality in employment outcomes across individuals. This result is unsurprising, given women’s low participation in the labor force and the high rates of unemployment among women who do participate. Among young men, inequality of opportunity in all cases is explained mainly by exogenous circumstances outside the individual’s control. Inequality in the outcomes “formal employment” and “public sector employment” (which are correlated) is rather high for all countries (the D-index oscillates between 0.2 and 0.7) but is consistently lowest in Jordan and highest in Morocco (where these jobs are scarcer).

**Disproportionate effect of the low-productivity equilibrium on women and youth**

Labor markets in MENA seem to offer several paths to what could be understood as “success” in labor markets. Workers can achieve success through a well-protected job (especially in the public sector), through high-paying employment in the private sector, or through high-paying self-employment. However, the inefficiencies laid out earlier affect the chances of achieving a “desirable job” in different ways for different individuals. Figure O.9 maps the extent to which working-age members of different socioeconomic groups hold a high-paying or protected job. Groups are constructed along four main socioeconomic dimensions: gender, location (urban or rural), age (young or prime age), and skills (high or low).

Figure O.9 suggests that the allocation of these desirable but scarce jobs (benefitting 18 percent of the workforce in Morocco and 24 percent in Egypt) is not uniform across the population. In spite of important variations across countries, in general young people, women, and rural, low-skilled workers are markedly less likely to have such a job, while the opposite is true in the case of prime-age men.

An equally important point is that some of the most coveted jobs, such as those in the public sector, provide high returns individually but are not necessarily associated with the highest productivity socially. Data on individual preferences from Gallup show that in some countries the overwhelming majority of the population would rather work in the public sector and that this attitude persists among
the young generation, in spite of changes in hiring rates in the public sector over time in nonoil countries (see figure O.10). In this way, workers’ individual incentives push MENA labor markets to a low-productivity equilibrium: to increase the chances of securing a public sector job, young people choose advanced degrees that are less and less relevant to the private sector. Those who can afford it spend time “queuing” with the expectation of relatively high pay for low intrinsic productivity. In light of the fiscal constraints that countries are facing and the rising share of highly educated individuals in the labor market, this model of “success” is unsustainable.

**FIGURE O.9** Share of workers with high-paying or protected jobs among the working-age population in the Arab Republic of Egypt, Jordan, and Urban Morocco, 2009 and 2010


Note: The x-axis represents the share of workers in group J (say, urban-male-skilled-adult) holding desirable jobs, as a percentage of the working-age population; the y-axis represents the share of that group in the working-age population. Group characteristics are abbreviated as follows: Urb: urban; Rur: rural; F: female; M: male; Primary: with primary education or below; Skill: with secondary education or above; A: adult (35–64); Y: youth (15–34). For instance, 79 percent of urban men aged 35–64 with secondary education or above were in well-paid or protected jobs in 2009 Egypt, and they represented 6 percent of the working-age population.
A distribution of job opportunities that limits the incentives to change

Although well-paid or protected jobs are few, a large number of households benefit from them because at least one household member is in this condition: for example, about 6 of every 10 households in Egypt and Jordan have at least one individual with a desirable job (figure O.11). With so many people benefiting indirectly from these jobs, the distribution of job opportunities, though unequal, constitutes a political-economy equilibrium that proves hard to alter. This equilibrium is a mixed blessing for the region. On the one hand, it can be considered a (very inefficient) safety net. Even if inequality in labor markets tends to be high, this distribution keeps overall income inequality at a moderate level in MENA countries. On the other hand, the equilibrium sustains relatively high reservation wages (that is, the lowest wage for which an individual is willing to work) among both women and youth in a large section of the population. It explains in part why households can afford to have so many unemployed youth and so many women outside the labor force. Finally, this distribution of job opportunities does not provide the best incentives for individual talent to find productive outlets.

Who are the most affected by the low-productivity equilibrium in labor markets?

Youth, women, and rural, low-skilled workers are the least likely to have a protected or well-paying job. As such, they are overwhelmingly inactive or unemployed or work informally for low pay. Figure O.12 represents the varying degrees of disadvantage or labor market exclusion that underlie these outcomes. For example, some women are inactive because they are not allowed to work (exclusion), while others might decide not to seek work voluntarily (choice).

The following sections explain the specific extent of disadvantage for each of these groups.
Youth in MENA face a limited number of good employment opportunities compared to the adult population. Depending on their socioeconomic circumstances, young people respond to labor market conditions either by weathering long-term unemployment, if they can afford it; working informally out of need; or becoming discouraged and stopping their job search altogether. Many young women remain inactive because of choice or family pressure.

High joblessness and young people’s distance from the labor market
Unemployment is conventionally singled out as overwhelming evidence for a youth disadvantage in the labor market, as it is highest among the young. However, the share of young people out of school and out of work (OSOW) better captures the extent to which young people are not participating in the labor market and not building skills to participate in the future.

Figures O.13 and O.14 show that OSOW rates in MENA countries is pervasive and that it can be many times higher than unemployment rates, particularly for those with little education. For instance, according to household survey data, in Iraq unemployment among individuals aged 15–24 with a primary school education is 18 percent; perhaps more tellingly, though, 63 percent of individuals in the same reference group are neither in school nor working.

Moreover, for a large portion of out-of-school youth, inactivity is more prevalent than unemployment. While this fact is less surprising with respect to young women, given historical trends in the region, it is worrying that inactivity is more prevalent than unemployment even among male school leavers in many countries, including Egypt, Iraq, Lebanon, and the Republic of Yemen. Much of the inactivity among young men could be due to discouragement, which in turn is indicative of their hopelessness and progressive disengagement from labor markets.

Slow transition to work
High youth joblessness can be interpreted mainly as the result of a slow, incomplete transition from school to work—in other words, an extended period of entry into the
Less-educated job seekers appear to encounter much greater difficulty in finding any job whatsoever, and even many years after they complete their studies, the prevalence of unemployment decreases only partially for this group. For instance, in the West Bank and Gaza, it takes nine years for 75 percent of secondary-educated males (who no longer study) to enter employment. The transition is much shorter for tertiary-educated men, at three years. The situation is similar in Jordan, where it takes about three years for 75 percent of secondary-educated males to enter employment, against one year for the tertiary educated.

Working for the public sector continues to dominate young people’s job preferences. Public employment has become ingrained in society as the main path toward social mobility, even though it is no longer as viable as before. New cohorts of labor market entrants continue to expect jobs resembling those occupied by previous generations. Analysis of the internal rate of return to a government job in Morocco over a worker’s lifetime shows that even accounting for the forgone income during unemployment, the current generous conditions for public sector work continue to make queuing for a public job a frustrating but rational strategy for educated job seekers (Bodor, Robalino, and Rutkowski 2008).

Women

Low rates of labor force participation

On average, three out of four women in MENA are outside the labor force, and they constitute the vast majority of the inactive population. Although women’s participation in the labor force in the region has increased in the past few decades, that increase has been slow. At the current rate, and given the low starting point, it would take 150 years for MENA countries to reach the current world average for the labor force participation of women (World Bank 2012). Low levels of female labor force participation are explained primarily by the lack of participation among women without tertiary education.
education, the vast majority of the working-age female population (figure O.15).

The typical factors that determine an increase in women’s labor force participation worldwide, such as a decrease in fertility and improvements in education, also play a role in MENA. However, other factors, such as social norms and the role assigned to women within the family, remain important determinants. For example, evidence from Morocco indicates that women who are allowed to decide alone whether to participate in the labor force are much more likely to participate (figure O.16). The same data also show that, after marriage, women’s decision-making power is substantially reduced.

**Disadvantages for working women in MENA**

As in many other countries, in MENA women who work are often concentrated in specific occupations. Data for 2006 from Egypt, for example, show that most women work in agriculture and education (about 60 percent of all employed women), while most men work in transport, retail, tourism, and manufacturing (which are generally better-paid industries). In Egypt, women work disproportionately in the public sector, which offers employment conditions that are perceived as more suitable for them, particularly in respect to job safety. Overall, 54 percent of female workers in Egypt are estimated to work in civil service jobs, whereas less than 10 percent work in the private formal sector (see also World Bank 2010). Those women for whom public sector jobs are not an option end up working in informal jobs that pay little. Consistent with these patterns, at school women also tend to stream into the humanities and social sciences, while men study science and engineering, which are generally associated with higher wages in private sector jobs (World Bank 2012).

Although in MENA the average employed woman is more educated than the average employed man (World Bank 2012), female workers generally earn lower wages than men, especially in the private sector. However, the estimated gender gap varies significantly from country to country, highlighting the heterogeneity of the phenomenon in the region (figure O.17). Gaps are much wider in private sector jobs.
Women actually earn more than men on average, perhaps because only the best female workers self-select for formal public sector jobs.

The working poor

Who are the working poor? Earlier analysis of earnings, benefits, and working conditions has demonstrated that across MENA’s labor markets, informal jobs tend to be characterized by low pay and low productivity. Throughout MENA, informality consistently decreases as wealth increases, even though in some countries the phenomenon is widespread enough to affect the wealthier segments of the population as well, such as high-earning entrepreneurs (see Gatti et al. 2012) (figure O.18). Informality is a complex phenomenon; yet one segment of the informal workforce displays the lowest chance of accessing desirable jobs and the highest chance of being poor: unskilled rural workers, defined as those with a primary education or below who live in rural areas.

FIGURE O.17  Male-female wage gap in selected MENA countries, various years, 2006–10

Note: MENA = Middle East and North Africa. The sample is urban workers working between 30 and 60 hours per week.

FIGURE O.18  Informality rate by quintile of per capita consumption in selected MENA countries, 2011

Source: Angel-Urdinola and Tanabe 2012.
Note: MENA = Middle East and North Africa. The consumption aggregate was not available for Morocco for 2010 when this report was completed. Hence, in this figure, data for Morocco are from the 2001 Living Standards Measurements Survey (LSMS).
For instance, among the population working informally in Jordan, the probability of belonging to the bottom-income quintiles peaks among unskilled rural workers (figure O.19).

According to the definition adopted here, the working poor constitute a considerable share of the working population in many countries in the region, ranging from about 10 percent in Jordan to more than 50 percent in Yemen (figure O.20). The working poor are primarily employed in agriculture. Consistent with the slow structural transformation of the economy in many MENA countries, unskilled rural employment continues to be very prevalent even among young workers.

Unskilled rural workers are predominantly nonwage employees. In contrast, the prevalence of nonwage employment tends to be far lower among skilled and urban workers. In nearly all countries, nonwage workers are excluded from social security coverage and are therefore informal. Data indicate that this type of self-employment most often consists of subsistence entrepreneurship. Many of the unskilled self-employed report choosing this type of employment because no other suitable job was available to them.

Where are the barriers?

The following sections describe in detail the barriers that prevent the region from moving to a higher-productivity equilibrium. These include the macro- and microeconomic barriers that hinder the generation of more and better-quality jobs; existing labor market regulation that reinforces the status quo; employment conditions in the public sector that distort workers’ incentives; training and educational systems that lack incentives to build high-quality, relevant skills; and ineffective labor intermediation systems that further contribute to the lack of a level playing field for qualified candidates.

Is growth a problem?

MENA is a region with an extraordinary heterogeneity in socioeconomic characteristics,
TABLE O.2  Heterogeneity in MENA countries

<table>
<thead>
<tr>
<th>Labor availability</th>
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<tbody>
<tr>
<td>Labor abundant&lt;sup&gt;a&lt;/sup&gt;</td>
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<tr>
<td>Resource rich&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Resource poor</td>
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<td>Labor importing&lt;sup&gt;c&lt;/sup&gt; and resource rich</td>
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<table>
<thead>
<tr>
<th>Population size</th>
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<tr>
<td>Large&lt;sup&gt;d&lt;/sup&gt;</td>
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<tr>
<td>Small</td>
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<table>
<thead>
<tr>
<th>Income</th>
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<tbody>
<tr>
<td>Low income</td>
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<tr>
<td>Lower-middle income</td>
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<tr>
<td>Upper-middle income</td>
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<td>High</td>
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<table>
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<tr>
<th>Geography or colonial heritage</th>
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<tbody>
<tr>
<td>Maghreb</td>
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<tr>
<td>Mashreq</td>
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<tr>
<td>Members of the Gulf Cooperation Council</td>
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</tbody>
</table>

<sup>a</sup> Refers to net inflows of workers’ remittances.
<sup>b</sup> As defined by the World Bank (2004), "resource-rich countries" are those in which extractive industries account for, or are expected to soon account for, more than 50 percent of government revenue.
<sup>c</sup> Refers to net outflows of workers’ remittances.
<sup>d</sup> Population over 20 million.

FIGURE O.21  Five-year moving average of real GDP growth rates in GCC and in Non-GCC MENA countries, 1960–2010

Source: World Development Indicators 2012.
Note: GCC = Gulf Cooperation Council; MENA = Middle East and North Africa.

In the 1960s and 1970s, most countries experienced solid growth arising from public investments in infrastructure, education, and health which were financed by favorable oil prices. The high growth rates (averaging 7 and 6 percent respectively in the 1960s and 1970s) reflected not only the accelerated accumulation of production factors, but also the increased productivity linked to much-needed investments in physical and human capital. As international oil prices plummeted in the 1980s, however, the foundations of growth in earlier decades collapsed. With eroding macroeconomic balances and growing debt burdens, and despite heavy external assistance (which permitted spending for several more years), investments declined dramatically, and the rate of growth of the physical capital stock almost halved compared to the previous decade.

As the government-led development model became increasingly unsustainable in the late 1980s, a number of countries (including Morocco, Tunisia, and, soon after, Jordan) embarked on programs of macroeconomic stabilization and policy
reform, followed in the 1990s by the Gulf Cooperation Council (GCC). Reforms varied markedly in timing and intensity, but all included reducing subsidies and public spending, liberalizing trade, encouraging exports and investment, and strengthening the institutional foundations of a market-led economy. These structural reforms allowed the region to catch up on several fronts. Export growth increased. A shift away from procyclical fiscal policy and from a government-led growth model also helped reduce macro imbalances, particularly in Gulf countries. As a result, average real gross domestic product (GDP) growth rose from 3.6 percent a year between 1996 and 1999 to around 5 percent between 2000 and 2008 (figure O.21). These changes were associated with increases in total factor productivity and labor force participation, with a limited role for physical and human capital accumulation compared to the past. In particular, changes in total factor productivity became the main driver of growth in the early reformers such as Jordan, Morocco, and Tunisia.

Disappointing employment outcomes

Despite the recent extended stretch of solid growth in the past decade (which has, however, slowed since the 2008 crisis), employment outcomes in the region continue to be of concern on two main fronts:

- In the past decade, the number of jobs created, while quite responsive to the level of growth, was not sufficient to absorb the increasing number of new entrants into the labor market. Employment grew—and at a higher rate than in other regions of the world (figure O.22)—but so did the working-age population (figure O.23), as most MENA countries are experiencing a “youth bulge.”
- Jobs were created in relatively low-value-added sectors, and public employment continued to account for a substantial share, especially in Gulf countries. This phenomenon reflects the slow pace at which structural transformation has
JOBS FOR SHARED PROSPERITY

generally associated with high value added, they are capital intensive and generate little employment directly. At the same time, however, oil revenues have been instrumental in increasing employment by financing the creation of more public sector jobs.

An unfinished reform agenda

Many argue that the slow structural transformation in the region is the result of an unfinished reform agenda. Sound fiscal and monetary policies—prerequisites for sustained economic performance—are still to be implemented in MENA, as is a level playing field that would allow the private sector to play a pivotal role in achieving structural change. A number of specific factors inhibit the needed changes:

• **MENA’s real exchange rate volatility**, which is the highest in the world. A volatile real effective exchange rate reduces the incentive to invest in nonresource- tradable sectors by increasing uncertainty. In turn, it reduces development prospects in more dynamic sectors of the economy, which are not capital intensive and have a higher potential for creating employment.

• **Procyclical and discretionary fiscal policies**, which rely on costly universal energy and food subsidies and result in a lack of high, sustained investment.

• **A failure to establish rule-based modes of interaction with the private sector**, which has limited the incentives for the private sector to grow and generate jobs.

As a result, while the private sector plays a larger role in MENA today than before, it is far from being a strong engine of growth. For instance, the contribution of private investment to growth is among the lowest in the world (figure O.26). Except for some of the resource-poor countries (oil importers in the Maghreb), where the ratio of private investment has actually increased owing to a substantial increase in foreign direct investment, the composition of investment

![FIGURE O.24 Changes in the composition of GDP in selected world regions, 1980–83 and 2007–10](image)

Source: Diop, Marotta, and deMelo, forthcoming.

Note: GDP = gross domestic product.

occurred in MENA (although results vary across countries) with respect to economies elsewhere in the world. Manufacturing contributes little to both value added and employment growth (figures O.24 and O.25). Instead, low-value-added sectors, such as construction, have driven most of the employment creation in the past decade. At the same time, agriculture continues to play a relatively large role in contrast to comparator countries that instead saw labor shift from agriculture into services. As discussed in the recent MENA Economic Development and Prospects report (World Bank 2011b), natural resources remain a major growth engine in the typical MENA country. While extractive industries are
still favors public investment in most of the resource-rich countries. Most private investment directed to the region has been biased toward either capital-intensive or low-skill, labor-intensive sectors (such as oil, construction, and tourism) rather than toward more dynamic, employment-creating sectors like financial services and manufacturing (figure O.27).

This evidence suggests that while GDP growth was solid and some employment was created, an understanding of the quality of growth, and more specifically of the dynamics of the private sector, is necessary for identifying the determinants of the region’s underperformance in employment outcomes.

The private sector: A dynamic based on privilege

The private sector in MENA displays little dynamism: it has one of the world’s highest average firm age, the highest average age of firms, and one of the lowest rate of new firm creation. This suggests that the private sector is not a dynamic, employment-creating sector but rather a dynamic based on privilege (figure O.25).

**FIGURE O.25** Sectoral contribution to annual employment growth in a typical MENA country and other selected countries, average 2000s


Note: MENA = Middle East and North Africa.

**FIGURE O.26** Private sector gross fixed-capital formation as a percentage of GDP in selected countries, average 2004–09


Note: GDP = gross domestic product. MENA = Middle East and North Africa.
of its chief executive officers, and one of the lowest firm densities in the world (see World Bank 2009; Klapper and Love 2010) (figure O.28). Recent evidence from firm censuses in Morocco and Tunisia shows that even when firms enter the market, they stay small and do not grow. For example, a comparison of representative firm trajectories in Brazil and Jordan indicates that while firms start out larger in Jordan, they grow more slowly over time than in Brazil. Over a 10-year period, for example, a firm in Brazil becomes about twice as large as one in Jordan (figure O.29). Overall, the process of creative destruction—that is, the birth of innovative firms and the exit of unproductive firms that characterize regions with higher and sustained growth such as East Asia—is substantially attenuated in MENA.

**Lack of a level playing field**

The lack of a level playing field inhibits the employment growth of firms. Firms’ slow growth and limited capacity to generate employment are linked to the quality of the business environment. A comparative analysis of the characteristics of business environments worldwide shows that while MENA countries have made important advances in reforming, they still rank consistently low on two key dimensions: the enforcement of regulations and access to credit.

Legal and regulatory ambiguity expands the scope for discretion in public agencies, and reforms designed with little transparency or consultation compound the unpredictability of the investment environment. Firms in MENA complain bitterly about inconsistent and unpredictable policy implementation,
and data reveal a high variation across firms in the enforcement of regulations. By raising entry costs, the unpredictable implementation of policies reduces competition, reinforces a status quo characterized by limited dynamism, skews firms’ incentives toward rent-seeking activities, lowers turnover, and diminishes the probability of innovation (World Bank 2011b).

On the other hand, firms in MENA—small and large—have the second-lowest access to credit in the world, surpassing only Sub-Saharan Africa. Probably as a consequence, MENA’s banks have highly concentrated portfolios focused on large enterprises. For example, non-GCC MENA countries have the highest ratio of top 20 loan exposures to total equity.9 Both discretionary implementation of regulation and limited access to inputs are particularly constraining for young enterprises, which have been shown to create the

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**FIGURE O.28** Average firm entry density for selected emerging economies, 2004–09

![Graph showing firm entry density for selected economies](image-url)

*Source: Klapper and Love 2010.*

*Note: Entry density measures the number of newly registered limited liability firms per 1,000 working-age people (those between ages 15 and 64). Average 80 countries represents the average entry density in the 80 developing countries for which data are available.*

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**FIGURE O.29** Relation between firm size and age in Brazil (2009) and Jordan (2006)

![Graph showing firm size and age](image-url)

*Source: World Bank, based on Enterprise surveys in Jordan (2006) and Brazil (2009); private domestic firms only.*
majority of jobs. With limited competition, incumbent firms enjoy privileges and face little or no pressure to innovate and create new avenues for growth.

**Effects of distorted input prices**

In MENA, input prices are distorted and create an antilabor bias. Energy subsidies, which are common and substantive in the region, increase the relative cost of labor in relation to the cost of energy and thereby limit labor demand. For instance, in 2007 Egypt’s energy-intensive industries consumed more than 80 percent of the country’s fuel oil and 28 percent of the diesel oil, which together receive 50 percent of the total energy subsidies (Aboulinein, El-Laithy, and Kheir-El-Din 2009). In fact, many MENA countries figure among those with the highest energy content per unit of GDP in the world. Fuel subsidies are doubly disadvantageous: they not only repress demand for labor in the short run, but also suppress incentives to innovate, thereby impeding productivity growth, which is the crucial determinant of long-run labor demand. They tend to disproportionately benefit older and publicly owned firms, which in turn are likely to use more outdated technologies and consequently more energy.

**A regulatory environment that reinforces the status quo in the labor market**

Labor regulation in MENA is quite heterogeneous—it is more restrictive in Maghreb countries and more flexible in GCC countries—but all labor markets in the region contend with a relatively heavy public sector. The design of social insurance systems also influences the dynamics of labor markets: very generous, costly pension systems cover a small minority of workers, while the lack

**FIGURE O.30** Labor taxes and contributions as a percentage of base salary in world regions, 2011

![Graph showing labor taxes and contributions as a percentage of base salary in world regions, 2011.](image)

Source: IFC and World Bank 2011.

Note: GCC = Gulf Cooperation Council; OECD = Organisation for Economic Cooperation and Development.
of well-functioning unemployment insurance and poverty-targeted social safety nets makes job losses extremely costly for the majority.

**Effects of rigid employment protection on labor mobility**

In some countries, important wage rigidities contribute to unemployment, queuing, and informality. In Tunisia, for example, collective wage agreements work by levels, reflecting employees’ education and competencies. These agreements assume that a university education is needed for the highest levels. Wage floors are then set accordingly, often above what workers with less than a university degree, who would still be qualified for those jobs, are paid on the market.

As a result, the salary differences are quite remarkable in most sectors, and unemployment is likely at each of these levels whenever the mandated wage exceeds the actual productivity of the workers that are available to fill the position.

The level of labor taxes can affect many decisions of firms and workers—including whether to operate informally, whether to open vacancies, or whether to accept job offers—and further exacerbates wage floors.

MENA countries, especially those outside the Gulf, have relatively high labor taxes and social contributions, ranking only after countries in the Organisation for Economic Co-operation and Development (OECD) and Eastern Europe, where, however, social insurance and public services have much higher coverage and scope on average than in MENA (figures O.30 and O.31).

In addition to wages, contract duration (temporary, fixed term, or open ended), working hours, and dismissal procedures (including severance pay) define the employment relationship. In the past decade, a number of countries (Egypt and Morocco, for example) reformed their labor codes; in Egypt, this reform resulted in substantially more flexible hiring procedures. Indeed, with the exception of Algeria and Djibouti, fixed-term contracts for permanent tasks are now allowed in all

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**FIGURE O.31** Labor taxes and contributions as a percentage of base salary in MENA countries, 2011

![Graph showing labor taxes and contributions as a percentage of base salary in MENA countries, 2011.]
countries. Dismissal (from the formal sector), however, remains more difficult in MENA than in any other region of the world. Most MENA countries (all but most Gulf countries, Lebanon, and Morocco) require the employer to notify a third party (such as a government agency) for the dismissal of just one worker, and severance pay is particularly high in Egypt.

**Important role of the public sector**

The public sector has traditionally played an important role in the region, employing anywhere between 14 and 40 percent of all workers (figure O.32). Employment conditions in the public sector (job safety, access to social security, higher wages, and generally low pressure to be productive, among others) compete with and may even crowd out employment conditions in the private sector. Generous public employment conditions provide a de facto reservation wage, if not a wage floor, for those with higher education, thus making the public sector the implicit rule setter for the labor markets in the region.

In addition to advantageous wages and benefits, extremely low risk of dismissal, and relatively low demands for productivity, “double dipping” is a possibility. For example, evidence indicates that in Egypt one-quarter of the personnel in public health facilities is absent on an average day (Grun, Etter, and Jillson 2010). As a result of all these factors, the overall employment package continues to determine the preference of job seekers, including youth, for working in the public sector.

**Effects of generous social insurance systems**

The design of pension systems constitutes a further barrier to mobility in labor markets in the region. Pension systems in MENA are relatively new, having recently evolved from covering only civil servants (figure O.33). Their coverage is still limited, leaving about 60 percent of the labor force without protection against old-age risk.

Notwithstanding the fact that pension systems in MENA notionally have a favorable ratio of contributors to retirees, they are increasingly unsustainable financially. In part, the generosity of benefits drives the imbalance between contributions and liabilities of the system. Internal-rate-of-return computations indicate returns between 6 and 17 percent, significantly higher than those of other investment instruments. With such high returns, workers would want to participate in pension systems if they could. This indirect evidence suggests that in many cases lack of participation in social insurance is due to exclusion rather than to opting out.

With a large share of the private sector engaged in low-value-added production,
social security contributions often become unaffordable for firms, resulting, in the aggregate, in a limited contributory base for pension systems (thus further increasing pension liabilities) and making public sector jobs all the more desirable.

Overall, by segmenting the market into a small set of protected insiders and large pools of outsiders who have little or no protection and security, the relatively rigid wage structure, overall high social security contributions and strict dismissal constrain the development of a healthy, dynamic labor market.

Skill gaps and asymmetric information in job search

In economies where (1) the private sector has limited dynamism, (2) the public sector offers attractive employment conditions, and (3) relatively rigid labor regulations maintain labor market divides, the incentives to cultivate relevant skills can be distorted. In particular, in moving from school to work, youth in MENA need to make a successful “double transition.” First, they need to obtain skills, competencies, and credentials of sufficient quality to become employable; second, they need to position themselves in a labor market characterized by poor signaling and substantial segmentation.

Challenge of becoming employable

Over the past decades, MENA countries have significantly expanded access to education, with substantial growth in enrollment in secondary and tertiary education (see World Bank 2008). However, employability—defined as the capital of skills, competencies, academic certificates, and professional qualifications, as well as the capacity to function in a job—remains a challenge in the region.
The quality of learning in MENA as measured by international standardized tests, for example, is still below the level expected given MENA countries’ per capita income (figure O.34). At the same time, evidence points to pervasive mismatches of skills. Compared to firms elsewhere in the world, more firms in MENA contend that inadequate labor force skills, both technical and soft, impede growth (figures O.35 and O.36).¹⁰

Three key factors rooted in the incentives prevalent in MENA’s training and educational systems contribute to these outcomes: (1) a logic of selection rather than learning; (2) poor links between the educational system and the private sector; and (3) the perception that the public sector is still the main client of the educational system.

A prevailing logic of selection

A “logic of selection”—manifested in rigid tracking in secondary education and high-stakes examinations—dominates educational systems instead of a “logic of learning.” An ample literature shows that early tracking and streaming¹¹ can have negative consequences for subsequent education and labor market outcomes, particularly for pupils from lower socioeconomic backgrounds who tend to perform less well in early selection (Ireson, Hallam, and Hurley 2005; OECD-PISA 2006; Jakubowski et al. 2010). In particular, one disadvantage of highly stratified systems is that transitioning from a lower to a higher track is difficult and thus not common. In educational systems in MENA, tracking happens relatively early in pupils’ lives, which substantially limits transition pathways and viable second chances. For example, in Egypt, only 5 percent of graduates from technical secondary schools transitioned into postsecondary vocational education in 2008–09, down from 8 percent in 2003–04. The low quality of the training provided by the technical and vocational education and training (TVET) system reinforces the low perceived status of technical training and exacerbates the effects of tracking. As such, this type of system perpetuates and reinforces exclusion from labor market opportunities and segmentations.

Private sector links with the educational and training sector

When the private sector and the educational and training sector operate in isolation, information and signaling failures occur on both sides, resulting in skill gaps and mismatches (IFC and ISDB 2011; World Bank 2008). In MENA, educational and training systems lack the information to respond to the needs of the private sector, whereas the private sector lacks the capacity or the interest in playing its role in a demand-driven

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**FIGURE O.34** Quality of education as measured by TIMSS and PISA, 2007 and 2009


Note: GDP = gross domestic product; MENA = Middle East and North Africa; PISA = Programme for International Student Assessment; TIMSS = Trends in International Mathematics and Science Study.
skill development system. This miscommunication is a particular concern for the TVET system, in which employers have a crucial role in ensuring that skills acquired through that system are relevant for the labor market.

**Perception of the public sector as the main client of education and training**

The public sector continues to be the main client of educational and training systems and thus the main shaper of students’ choices and expectations. Some countries have already undergone structural adjustment (Morocco, for example), and others have considerably slowed public sector hiring (Egypt). Even so, the fact that governments continue to play an important role in providing jobs in MENA and that public sector jobs (although more scarce) are still the most coveted by youth distorts incentives for skill formation. Students strive to attain degrees that fit with public employment, but those degrees are increasingly irrelevant to the private sector, leaving graduates without the skills demanded by the market. In Tunisia, for example, about half of university graduates opted to study the humanities and social sciences, curricula favored for entering the public sector (figure O.37). A recent tracer study in Tunisia found that almost 50 percent of graduates in the humanities and law had still not found a job 3.5 years after graduation, while more than 80 percent of medical school graduates had found a job by that time (Ministry of Employment and Professional Insertion of Youth and World Bank 2009).

**A meritocracy deficit in the labor market?**

The increasing demand for transparency and equality of opportunity in accessing jobs heightens the importance of merit and clear rules for job seeking and hiring. Young people and their families have high expectations for the future, they invest heavily in education and skills, and they expect these investments to pay off eventually. Yet from what students, graduates,
JOBS FOR SHARED PROSPERITY

Socioeconomic strata, they can affect the distribution of job opportunities, putting those from less affluent families at a disadvantage. Professional services can help firms tap a large pool of talent and find the best matches in skills and competencies for any given vacancy; yet firms in MENA make limited use of such recruitment practices. Indeed, non-GCC countries score the lowest compared to other regions in the meritocracy of hiring (see figure O.39). In contrast, GCC countries score extremely high, probably because of the large recruitment of expatriate workers.

The prevalence of informal job-matching methods is consistent with a number of explanations. Small or family-owned firms—which are the norm in the region’s private sector—might have little or no incentive to invest in searching wide pools of talent. The structure of product markets (little competitive pressure) or the pervasiveness of arbitrary rule enforcement, which makes other qualities such as trust more relevant, could also dictate this choice. Although improvements in competition and transparency are likely to increase incentives to find better matches, the infrastructure and regulation that could increase information flows are also lacking.

Limited role of intermediation

The widespread use of informal networks is a sign of information asymmetry and of signaling failure. Information asymmetries in labor markets can be overcome to some extent through intermediation services, and public and private employment agencies can play an important role in job matching. For employers, these agencies facilitate contacts with job seekers and even provide assistance with screening and selection. In non-GCC MENA countries, public intermediation services are still relatively new and underdeveloped. Most display low capacity and efficiency, with public employment service workers carrying excessive caseloads and adopting a generally passive approach to job matching.

FIGURE O.37  Distribution of university graduates by field of study in MENA countries, 2004–10

![Diagram showing the distribution of university graduates by field of study in MENA countries, 2004–10.](image)

Sources: Edstats (database); Tunisian data from L’enseignement supérieur en chiffres, Année universitaire 2010–2011; Bureau des Études, de la Planification et de la Programmation.

Note: MENA = Middle East and North Africa. Data from Tunisia refer to students enrolled during the academic year 2010–11.
What policy options?

The employment challenge in MENA is structural. The previous sections underscored how the rules that govern the distribution of growth dividends—including limited competition in the private sector and restrictive regulation of labor markets—have also limited economic growth and employment creation.

To move MENA toward a higher-productivity equilibrium with more and better-quality jobs (figure O.40), a medium-term agenda is needed to shift the current equilibrium along two dimensions: a more efficient and fluid allocation of resources and a more equitable access to opportunities. Realigning incentives for firms to invest and grow will be essential to unlocking the potential of the private sector. At the same time, a rebalancing of employment protection regulation and incentives in the public sector will be needed to promote a more dynamic labor market and to capture the benefits of growth in greater job creation more fully. Finally, better governance will be needed to equip educational and training systems to respond to the new signals coming from the labor market.

Aligning incentives to invest, innovate, and generate employment

With burdensome business regulations and discretionary enforcement, poor access to credit, and subsidies that distort energy prices, the private sector—particularly the high-productivity segment—is suboptimally small and lacks the incentives to diversify, innovate, and invest. These constraints can be addressed, among other ways, by lifting barriers to competition, making access to production inputs more equitable, and promoting a culture of entrepreneurship that encourages experimentation and learning.

Removing distortions that repress labor demand

Reducing the cost of labor relative to other factors of production (such as capital and material inputs) is likely to stimulate job creation. Since tax and subsidy schemes in MENA place labor at a disadvantage, reducing labor taxes or reducing subsidies on other factors of production should create more employment opportunities and, in the medium term, accelerate growth through better allocative efficiency and innovation. These actions would free fiscal resources to further stimulate job creation.

The current subsidy system favors energy-intensive production processes that rely on outdated technology. Ensuring that firms internalize the true cost of energy would enhance competitive pressure and stimulate the adoption of more advanced, energy-efficient modes of production. Such a reform would level the playing field for small and medium enterprises and private sector firms, given that their competitors (large and public...
JOBS FOR SHARED PROSPERITY

firms) currently benefit disproportionately from energy subsidies.

Without a doubt, the removal of subsidies would have political and economic repercussions. To create the political support to enact and sustain reform, governments must compensate the losers adequately and credibly and sustain their transition to more energy-efficient production. Another option for simultaneously increasing employment and fiscal space would be to reexamine agricultural subsidies. For example, removing wheat subsidies (which account for a large share of agricultural subsidies in MENA) could have important impacts on agricultural employment. Wheat production is relatively capital intensive, unlike the production of other crops, such as olives, which require more labor. In lieu of providing wheat subsidies, governments could finance investments to increase agricultural productivity. The removal of energy and agricultural subsidies could have especially powerful effects in labor-abundant countries such as Egypt and Syria.

Enabling firms to compete and invest

Reduce the costs of entry, exit, and adjustment

Creating more jobs requires existing firms to expand, new firms to start operations, and, paradoxically, the destruction of unproductive firms that use inputs inefficiently. All of these developments become more feasible when competitive pressure is unleashed and contestability is enhanced. Most MENA countries, particularly those with burdensome business environments, have considerable scope for adapting business regulations to encourage firm entry and facilitate the exit of unproductive firms (through more efficient and rapid bankruptcy procedures, for example). In addition, access to many markets remains restricted. For instance, the legal or accounting professions in Morocco and Tunisia are subject to licensing processes that are not clearly spelled out and leave room for discretion.
Create a level playing field
The case for regulatory reform is especially pronounced in countries where discretionary enforcement of regulation has been used more as a vehicle for rent distribution. Institutional reforms that improve the accountability of the public administration can foster a consistent implementation of rules and regulations and may include several elements. First, transferring responsibilities and decision making to lower tiers of the public bureaucracy while making (lower-tier) civil servants accountable to a broader base could enhance accountability and reduce the scope for opportunistic behavior. Second, it is important to increase the capacity of the lower ranks of the bureaucracy. Third, restructuring recruitment and promotion schemes in public administrations based on merit or commitment to a development strategy instead of regional and sectarian considerations would progressively reduce incentives for rent seeking.

In parallel, empowering antitrust agencies could also effectively bolster competitiveness. Recently established authorities on competition would benefit from clear-cut legal autonomy from the executive branch, which currently approves decisions on competition cases while presiding over the very public enterprises that often maintain monopolistic positions.

Promote trade to relax demand constraints
Opening up economies to trade can also enhance competition. Increased openness could pay a double dividend, because tapping into the global demand pool would be an effective way of complementing domestic demand, which is manifestly insufficient to create adequate employment opportunities. It would also spur productivity growth both by serving as a disciplining device for inefficient firms and by allowing firms to capitalize on knowledge spillovers.

Expand access to credit to help firms grow and invest
Another precondition for the efficient functioning of markets is fair and equitable access to credit. The limited development of the financial sector reflects a stark absence of legislation, probably owing to insufficient interest among incumbent institutions in widening access to credit. A new set of policies focused on strengthening financial infrastructure, increasing bank competition, and developing nonbank financing (such as venture capital) would not only improve access to finance in the MENA region, but also lay the foundation for more sustainable economic growth.\textsuperscript{13}

Rebalancing the social contract to promote more dynamic labor markets
How can countries in MENA foster labor markets that give all groups an equal chance, enable the labor force to move toward the most productive sectors, and eventually support a dynamic private sector? This question is not unique to MENA, as many other economies, including advanced ones, are grappling with similar issues. While the answer must be country specific, striking a productive balance between flexibility and the protection of workers will be key to promoting inclusive and dynamic labor markets. Attaining this balance will involve decisions about the minimum wage, wage agreements, and public sector wage scales. It will also involve decisions about the regulation of contracts, including hiring and dismissal procedures and working hours in both the private and the public sectors. Finally, it will involve decisions about the characteristics of social insurance systems.

To achieve inclusiveness, move toward a higher-productivity equilibrium, and foster a more equitable distribution of opportunities in labor markets, these decisions need to rest on a broad-based consensus that involves the whole citizenry. In this sense, not only the regulatory framework around labor markets but also the social dialogue needs to be rebalanced, so that those who have been traditionally outside the decision-making process—informal
workers, youth, the unemployed, and women—can participate in a bargaining that, through wage and rule setting, affects them directly. Several specific measures could improve the design of social insurance and labor regulation in MENA:

- **Wages.** Algeria, Tunisia, and, to a lesser extent, Jordan have relatively well-organized, traditional social partners (trade unions, employers, parliaments, and the government), but they do not yet include representation of new social partners (civil society organizations, youth, women, the unemployed, and informal workers). Opening up the dialogue on collective wage agreements might result in a more inclusive wage-setting process.

- **Contract provisions and worker protection.** Most countries in the region would benefit from reviewing their employment legislation and instituting more moderate worker protection (especially for dismissal, which includes a rethinking of the strong divides between fixed-term and open-ended contracts), combined with better income security through provision of effective unemployment insurance.

- **Unemployment insurance.** In labor markets with less rigid and less costly dismissal regulations, appropriately designed unemployment insurance schemes can provide adequate protection to workers. With the gradual disappearance of lifelong jobs and an increasing need for job mobility, income protection for workers in transition between jobs will be increasingly important. Only a few countries in the region have unemployment insurance systems (Algeria, Bahrain, Egypt, the Islamic Republic of Iran, and Kuwait). However, even the systems that are in place are underused owing to a lack of public awareness, restrictive eligibility conditions, the difficulty of and the stigma attached to documenting a “just-cause” firing decision, and low overall layoff risks among covered open-ended contract employees. Emerging examples of newly designed unemployment insurance systems include the Jordanian Unemployment Insurance Savings Accounts: such accounts reduce work disincentives by allowing recipients to keep their own unused unemployment contributions and offer the possibility of extending coverage to informal sector workers.

- **Pensions.** Many countries will need to redesign their pensions systems. Parametric reforms or shifts to defined contribution systems could prevent pension debt from spiraling up. At the same time, social partners are increasingly demanding greater coverage, something that could substantially close the divide between system insiders and outsiders. Sequencing will be very important to success, as reforms to improve the sustainability of current systems will need to be enacted before coverage can be extended.

- **The role of the public sector.** It is unlikely that countries such as Egypt, Jordan, or Syria will inject much dynamism in labor markets or promote incentives to create better jobs without a reform of civil service employment. Most countries will need to review the risks and returns offered by the employment package in the public sector by revisiting career and performance incentives, accountability mechanisms, and wage and job security.

- **Barriers to women’s participation in labor markets.** Explicit attention is needed to reduce the barriers to female labor market participation and assist those women who wish to enter the labor force. Policies that could help include ensuring that women can travel to work safely and that the workplace itself is safe; increasing the supply of and access to affordable care for children; reforming and improving parental leave policies without reducing incentives to hire women (such policies also have several positive externalities); increasing women’s capacity to start and run their own businesses and obtain credit; and revising
laws that still limit women’s access to productive assets.15

Realigning incentives for skills that matter

In a region that generates far too few jobs, and far too few high-quality jobs, and where merit influences the allocation of jobs to only a limited extent, the educational and training systems receive scrambled signals that do not emphasize skill acquisition as the route to employment. Instead, the signal is to acquire the “right” degree from the “right” university and then queue for a public sector job. The results are little pressure to change traditional patterns of pedagogy (which maintain high selectivity and rigid tracking), a declining TVET system, and eventually a system with relatively poor outcomes at the end of the compulsory schooling cycle.

The key to increasing productivity and restoring a sense of dignity and agency among MENA’s young people is for educational and training systems to become more accountable to people, more responsive to the private sector, and more capable of promoting labor markets that value and recognize individual skills and competencies in a transparent, merit-based manner. If those goals are met, the incentives of students and educational systems will be reoriented toward the acquisition and provision of more relevant skills, provided that competition in the private sector becomes stronger, a level playing field is created between public and private employment, and labor markets in general are revitalized. At the same time, a number of institutional features can affect the ability of educational and training systems to productively capture and respond to these changes.

Closing stakeholders’ information and knowledge gaps

More access to education and training is not enough to realign incentives to teach and acquire the most relevant skills. To know which skills are required, and where, the large information and knowledge gaps related to learning outcomes and the supply of and demand for skills must be closed. This effort entails monitoring and evaluating the quality of education and, at the same time, reforming assessment and certification systems. Addressing knowledge and information failures, including through counseling throughout secondary school, will allow employers to better communicate what they require from the educational system, schools, and educators to improve quality and to better assess and certify learning, and families and students to make better decisions and form realistic expectations about the transition from education to work. Overall, more systematic, accurate, and publicly available information on what is accomplished by education and training will lead to more solid accountability of all institutions and actors involved.

Value learning and problem solving

The ultimate challenge for education in the 21st century is a paradoxical one: to design a race where everybody can win and where everyone has multiple ways to win. International experience shows that this goal can be achieved by making educational and training systems, particularly those at the secondary and TVET level, more inclusive, more directed toward learning, and less directed toward selecting and exclusively rewarding the academically able while leaving the rest behind. The priority is to prevent students from dropping out and to identify alternative training itineraries so that everyone can acquire relevant skills for a successful school-to-work transition.

Empower the private sector and realign incentives for public sector hiring

Making employability count through a renewed partnership between educational and training systems and the private sector will help align incentives. A new and more effective public-private partnership
framework in education and skill development should help create a common language and incentives for addressing the signaling failures from both sides.

**Improve efficiency through active labor market policies**

A better balance between publicly funded and private intermediation services will likely improve job search processes and lead to better matches between labor demand and supply. Some countries may also need to adopt legislation to enable and regulate private intermediation services. Most countries will need active labor market programs (that is, programs aimed at improving beneficiaries’ employment prospects or earnings capacity) for those who falter in the transition from education to work and for serving the workers who are most difficult to place or most in need of improving their skills. Although active labor market programs currently serve urban areas and the unemployed (some of whom can afford to be unemployed) almost exclusively, they will need to reach out to rural areas and informal workers. To increase effectiveness, services must also be rationalized and focused on case management. Finally, in all countries, better measurement and tracking of effectiveness—for example, of the insertion rate (that is, the proportion of program beneficiaries who find employment)—and feedback mechanisms from beneficiaries and the private sector will contribute to improved performance.

**The political economy of inclusion**

The analysis so far has shown that breaking the cycle of privilege and lifting the barriers to more and higher-quality employment will involve a complex set of reforms. Yet the question of jobs in MENA is not new, and many of the “technical” recommendations discussed so far are well known. If this is the case, why have these reforms not been enacted before? Conversely, what could finally trigger the needed reform process? And what strategies can help countries face the post–Arab Spring challenges in the short term?

**A complex historical legacy**

Historically, the social contract in many countries in the region anchored the support of often autocratic, long-lived regimes to a system of rent sharing among minority coalitions. In this system, elites benefited from rents derived from their leading positions in organizations that controlled certain sectors of the economy or from rich natural resources. To maintain their dominant position, elites used different strategies to limit access to these rents, including discretionary application of regulation and significant labor market rigidities. For example, the lack of access to credit limited the entry of new firms and increased privileges for incumbent firms.

At the same time, elites constrained the ability of other social groups to challenge their dominant position by restricting the right of association, press freedom, the role of civil society organizations, and access to data and information. In many countries, this combination resulted in narrow-based social dialogue that limited accountability to the majority of the population. This system reinforced divides both within the private sector (where a few privileged firms thrive while many struggle to survive and fail to grow) and within labor markets (where only a minority of insiders enjoys gainful employment).

The stability of this equilibrium relied also on elites’ ability to share these rents selectively through subsidies and public employment. For example, public employment has been actively used as an instrument for guaranteeing secure jobs for middle- and upper-class university graduates and subsidies for ensuring a minimum standard of living for the whole population. However, such heavy interventionism in the economy and in labor markets has muted incentives for the private sector to grow, innovate, and generate high-quality jobs.
Looking ahead to post–Arab Spring MENA

The powerful demand for democracy and voice of the Arab Spring carry unprecedented opportunities to move toward a more inclusive development model. Engendering true change in the rules of the game will be challenging, however. Governments are under tremendous pressure to deliver results rapidly, which might lead to populist, fiscally costly measures that continue to reinforce existing privileges. Long-time outsiders might see the current political changes as their opportunity to finally become insiders, which would merely imply an alternation of elites. Moreover, evidence indicates that it is especially difficult for new democracies to credibly commit to policies with broad-based benefits at the expense of highly organized small interest groups, something that can be even more daunting amid the current drop in growth and fiscal revenues.

Yet the Arab Spring is testimony to a powerful demand for change, one that has toppled decades-old autocratic regimes. It is, however, important to accompany the progressive forces that are working to disrupt the status quo with measures that facilitate transitioning to a new equilibrium—that is, measures that build credibility for the new governments and mitigate the future cost of reforms. Given the pressure that governments receive to repeat “more of the same,” it is important that these transitory measures be compatible with the new midterm agenda of reform.

The following sections explore three complementary approaches that would allow governments to respond to short-term challenges while preparing the ground for more structural, medium-term reforms. First, improving access to data and information and allowing for public expression would enable governments to inform the people about the necessity of reform and to improve the common understanding of key issues. Second, leveraging the dialogue with newly emerging social forces could change the nature of the policy dialogue from a narrow base to a more inclusive process. Finally, governments could concentrate on generating early gains that both respond to immediate concerns and are compatible with a medium-term agenda of inclusive growth. Figure O.41 summarizes the links among enabling conditions that disrupt the low-productivity equilibrium, potential short-term actions, and reform objectives.

Leveraging new political forces for an inclusive dialogue

A new political landscape continues to shape the region, affecting the roles of both traditional social partners (trade unions and employers, for example) and new social partners (civil society organizations representing outsiders such as youth and women, the unemployed, and informal enterprises). An inclusive social dialogue that gives these new partners a voice can help build a shared view of labor market challenges and consensus around reforms that are beneficial to all. Such reforms include a minimum wage that protects workers without harming the job entry chances of others; collective wage agreements that balance inequality concerns with the entry chances of inexperienced youth; the establishment of the features of a social insurance system that can progressively cover the entire workforce; or the improvement of governance in educational and training institutions.

Improving data openness

Access to data and information is crucial for accountability, transparency, and effective citizen participation in policy formulation. How should governments open up access to data? First, they can eliminate legal barriers that prevent the public from accessing anonymized microdata. A number of countries in Latin America and Eastern Europe have made important strides in this area; in MENA, countries such as Tunisia are providing a leading example that things can change. Second, building a critical mass of expertise in and outside of statistical agencies will allow for consistent use of data for policy making and will support the creation of a shared view of policy priorities. In other countries, institutions such as labor market
Observatories have contributed productively to developing this type of expertise.

**Generating early measurable gains**

Governments in MENA are now operating in a fluid and complex political landscape. Investing in early measurable results will help consolidate their credibility and build the terrain for the game-changing reforms to come. Examples of these interventions follow:

- **Targeted programs to improve opportunities and employability of young people.** Instead of creating more permanent civil service jobs in response to popular pressure, rigorously evaluated publicly funded youth and “cash for work” programs can contribute to employment creation in the short run and promote skills building as a bridge to future employment, when designed according to international best practices.

- **Early childhood development interventions to facilitate female participation in the labor force.** A developed industry for child care education could directly create a large number of jobs among women, while also allowing many more parents (young mothers) to be economically active. In addition, international evidence (MIT 2005) suggests that high-quality early childhood education and care help prepare young children to succeed in school and eventually in life.

- **Filling important infrastructure gaps for direct and indirect job creation.** Investment in infrastructure could be a natural “early gains” measure for creating jobs in MENA. Depending on design, this intervention can have high labor content and play a strategic role in connecting people to markets.

- **Reform credit regulations to benefit credit-starved small firms.** Evidence suggests that in the short run, increased access to finance, including microfinance, can foster new business growth and especially investment growth among the credit-starved
firms. This reform would require the political will to increase competition between banks, allow new entries, and reduce state ownership of financial institutions. While the immediate gains in job creation might not be large, improving access to credit could provide an important signal of the government’s commitment to fostering a more open and inclusive business environment. By improving the conditions of firm entry, access to credit could also endogenously expand the constituency for change and reform in the private sector.

- **Produce tangible signs of improved social services to citizens.** The demand for greater inclusion can also be satisfied by helping citizens monitor the delivery of local services and in this way improve service providers’ performance (Reinikka and Svensson 2004). For instance, in education, countries in other regions are providing greater autonomy to schools and encouraging stronger local scrutiny from parents through the empowerment of parents’ councils. Publication of data on performance and resource flows and the use of scorecards that allow citizens to evaluate delivery are additional methods of increasing accountability.

Without credible governments, transparent information, and a truly inclusive social dialogue, it will be hard for the region to live up to its great potential and for all to benefit from it.

And if not now, when?
Appendix: Main data sources

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<th>Country</th>
<th>Survey</th>
<th>Year</th>
<th>Description</th>
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<tr>
<td>Egypt, Arab Rep.</td>
<td>Labor Force Survey (LFS)</td>
<td>2010</td>
<td>Egypt’s LFS 2010 was conducted by the Central Agency for Public Mobilization and Statistics (CAPMAS), with the goal of measuring the composition of the Egyptian civilian labor force, employment and unemployment levels, the characteristics of those who are employed, and the geographic distribution of the different individuals composing the labor force. The survey was conducted quarterly, using the population census as a sample frame, with a total sample size of 85,408 households per year.</td>
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<tr>
<td>Egypt, Arab Rep.</td>
<td>Survey of Young People in Egypt (SYPE)</td>
<td>2009</td>
<td>SYPE was conducted by the Population Council and CAPMAS, with support of the Information and Decision Support Center and the National Center for Exams and Educational Evaluation. The sample was designed to be representative at the national level and for four administrative regions (urban governorates, Lower Egypt governorates, Upper Egypt governorates, and the frontier governorates). The sample size of approximately 17,000 young people aged 10 to 29 was selected to provide estimates of key indicators related to adolescents and youth for the country as a whole and for the administrative regions and their urban and rural segments. The goal of the survey was to update the state of knowledge on youth and adolescents in Egypt on issues of health, education, employment, family formation, and civic participation.</td>
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<tr>
<td>Egypt, Arab Rep.</td>
<td>Egypt Labor Market Panel Surveys (ELMPS)</td>
<td>2006</td>
<td>ELMPS was conducted by the Population Council and CAPMAS with support of U.S. Agency for International Development Egypt and the Ford Foundation. The ELMPS 06 is designed as a panel survey and follows the same households and individuals that were interviewed in the Egypt Labor Market Panel Survey of 1998 and re-interviews them. Individuals who split from the original 1998 households in the intervening period are also tracked and interviewed together with their entire household. Of the 8,371 households interviewed in 2006, 3,701 were households that were interviewed in ELMPS 1998, 2,167 were splits from the original households, and 2,498 were part of an entirely new refresher sample. The sample size is 17,364 individuals and 8,371 households. The surveys contain rich information about individuals’ education, employment status, occupation, economic activity, firm size, wage, pension contribution, and the like.</td>
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<tr>
<td>Iraq</td>
<td>Iraq Household Socioeconomic Survey (IHSES)</td>
<td>2006/2007</td>
<td>The Ministry of Planning and Development Corporation and the Central Organization for Statistics and Information Technology conducted IHSES with the support of the World Bank, in an effort to reduce poverty and promote social development. Providing essential data for understanding the nature and causes of poverty among Iraqi households, IHSES is the largest household social and economic survey ever conducted in Iraq; it reached a total of 18,144 households. IHSES provides information on education, labor, health, income, and expenditure in Iraq. IHSES has a sample size of 17,822 households and 127,189 individuals.</td>
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### APPENDIX: MAIN DATA SOURCES

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<tr>
<td>Jordan</td>
<td>Jordan Labor Market Panel Survey (JLMPS)</td>
<td>2010</td>
<td>The JLMPS 2010 was carried out by the Economic Research Forum in cooperation with the National Center for Human Resource Development and the Jordanian Department of Statistics. For the first time in Jordan, detailed information about Jordanian labor market experiences and behaviors is available in JLMPS. JLMPS has a sample size of 25,969 individuals and contains rich information about individuals’ education, employment status, occupation, economic activity, firm size, wage, pension contribution, and the decision making related to labor force participation. JLMPS allows for a much richer linking of individual characteristics with labor market outcomes.</td>
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<tr>
<td>Lebanon</td>
<td>Lebanon Employer-Employee survey</td>
<td>2011</td>
<td>The Lebanon Employer-Employee survey was conducted by the World Bank. It is a nationally representative household-based survey covering a sample of 1,841 households. The survey collects basic information such as age, education, and employment for the entire household; detailed information on employment (current and history), skills and training, wages, and work benefits for each individual in the household over 15 years of age and is either unemployed, self-employed, or a salaried employee; and the level of cognitive and noncognitive skills of workers.</td>
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<tr>
<td>Morocco</td>
<td>Morocco Household and Youth Survey (MHYS)</td>
<td>2010</td>
<td>The MHYS 2009–10, administered from December 2009 through March 2010, collected information from a nationally representative sample of 2,000 households across the country (1,216 households were urban and 784 were rural) on their demographic and educational characteristics, economic activities, migration, and social program participation. Data on household asset ownership was used to construct a household wealth index and classify households into welfare deciles. In addition to the household module, which collected information on all members, a separate youth module focused on young people aged 15–29 in the 2,000 surveyed households. Consequently, information related to youth economic inclusion, community participation, and use of key public services was collected from 2,883 young individuals. The survey thus gathered information on understudied issues related to youth, such as labor force participation and intermediation, career choices and perceived employment opportunities, use of free time, and use of youth-oriented recreational and educational services that complement formal education.</td>
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<tr>
<td>Morocco</td>
<td>Labor Force Survey (LFS)</td>
<td>2009</td>
<td>Morocco’s LFS 2009 was conducted by the Haut Commissariat au Plan, Direction de la Statistique, on a nationally and regionally representative sample (the sample size was 1 percent of the total population). The survey contains information on the size and structure of Morocco’s labor force, including their demographic and educational characteristics, employment status, occupation, and economic activities.</td>
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<tr>
<td>Tunisia</td>
<td>Labor Force Survey (LFS)</td>
<td>2009, 2010</td>
<td>Tunisia’s LFS 2009 and 2010 were conducted by the National Statistics Institute. This survey covers the entire country using the population census as a sampling frame. The sample size in 2010 was 549,015 individuals. The survey consists of a household module, a module for the employed labor force, and a module for the unemployed. The survey contains rich information on the size and structure of the Tunisian labor force, including individuals’ education, employment status, occupation, economic activity, place of work, hours and days worked, reasons for and duration of unemployment, as well as prior employment.</td>
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<tr>
<td>United Arab Emirates</td>
<td>Labor Force Survey (LFS)</td>
<td>2009</td>
<td>The United Arab Emirates’ LFS 2009 was conducted by the National Bureau of Statistics. This survey collected information from a nationally representative sample of 11,024 households across the country, and was conducted using the population census as a sampling frame. The survey contains information on the size and structure of the UAE labor force, including their demographic and educational characteristics, employment status, occupation, economic activity, migration trends, and social program participation.</td>
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<tr>
<td>West Bank and Gaza</td>
<td>Labor Force Survey (LFS)</td>
<td>2008</td>
<td>The West Bank and Gaza LFS 2008 was conducted by the Palestinian Central Bureau of Statistics, as a part of the Palestinian Labor Force Survey Program. This survey is conducted quarterly, and in 2008 the total sample size was 30,180 households and 107,991 individuals aged 10 and older. The survey contains rich information on the size and structure of the Palestinian labor force, including the individuals’ education, employment status, occupation, economic activity, place of work, hours and days worked, wages, pension contribution, and the like.</td>
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<tr>
<td>Yemen, Rep.</td>
<td>Household Budget Survey (HBS)</td>
<td>2005/2006</td>
<td>The Household Budget Survey 2005/2006 was conducted by the Central Statistical Organization of Yemen. The HBS data contain information on household roster, economic activities, dwelling conditions, health, education, anthropometrics, income, durable goods, and consumption. One of the main objectives of the HBS 2005/2006 is producing aggregates of the statistical indicators at the level of the urban and rural communities of each governorate to support economic and social development planning at the central and local levels. HBS 2005 contains observations on 13,136 households and 98,941 individuals.</td>
</tr>
<tr>
<td>World</td>
<td>Gallup World Poll Survey</td>
<td>2009, 2010</td>
<td>The Gallup World Poll survey data is collected in more than 150 countries. The target population is the entire civilian, noninstitutionalized population ages 15 and older, and samples are probability-based and nationally representative (with some exceptions). A standard set of core questions is used around the world to measure global attitudes and behaviors, job creation, city prosperity, global migration, and well-being. In addition, supplemental questions might be asked in some regions. The typical World Poll survey includes at least 1,000 surveys of individuals per year; however, in some countries oversamples are collected in major cities or areas of special interest.</td>
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1. The expected wage is predicted based on a simple Mincerian regression. Interestingly, wage differentials persisted even when the direct measure of ability was accounted for (in Lebanon and Syria, where available data made this possible).

2. For a discussion on agglomeration, see World Bank (2010).

3. Protected is defined as having social security, and high-paying is defined either as yielding a wage above two-thirds of the wage distribution or as self-employed and belonging to a household in the top two income quintiles.

4. This definition leaves out pockets of the working poor in urban areas, but the prevalence of poverty is not as correlated with being low-skilled in urban areas as it is in rural areas.

5. The growth strategy during these decades was financed mainly by high oil revenues in resource-rich countries and by workers’ remittances and public borrowing in the resource-poor countries.

6. Changes in the drivers of growth, and particularly in total factor productivity growth rates, conceal stark differences between sectors within the same country, which warrant a more detailed country-level analysis to better identify and determine the impact of this change.

7. See also discussion in Gatti et al. (2012).

8. As analyzed in Diop, Marotta, and deMelo (forthcoming).

9. World Bank (2011, fig. 4.8, 103).

10. Soft skills include teamwork, leadership, and problem solving.

11. Tracking and streaming are alternative denominations of similar practices of the ability grouping of students. While tracking usually refers to totally different study programs for different groups of students of the same age (for instance, vocational and educational training programs in upper secondary education versus general ones), streaming refers to ability grouping in selected curriculum areas or subjects.

12. The use of informal networks for hiring is less prevalent among firms with foreign or mixed ownership. In Tunisia, for example, 34 percent of employees with a university degree working in private firms with Tunisian ownership report having found their job through friends or relatives compared with 24 percent in firms with foreign or mixed ownership (based on a Graduate Tracer Survey of the graduation cohort of 2004).


15. World Bank (2011b) discusses these issues in depth.

16. Microdata is information at the level of individual respondents. Anonymized means that it is not possible for the data user to track the information back to individuals, that is, to identify the identity of individuals in the data.


IFC (International Finance Corporation) and ISDB (Islamic Development Bank). 2011.
Education for Employment: Realizing Arab Youth Potential. Washington, DC: IFC.