



Economic and Social Commission for Western Asia (ESCWA)

Committee on Social Development
Ninth session
Amman, 12-13 October 2013

Item 5 (a) of the provisional agenda

**PRIORITY ISSUES IN THE FIELD OF SOCIAL DEVELOPMENT
IN THE ARAB REGION**

EMPLOYMENT AND LABOUR MARKETS

Summary

Employment and job creation continue to be at the centre of political concerns in Arab countries. Government efforts to alleviate unemployment are limited by the sectoral structure of the economy, deep segmentation and the related lack of flexibility of the labour markets. The present report reviews existing research on the current structure of Arab economies and presents conclusions and recommendations for possible ways forward.

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Introduction

1. Arab countries today are challenged simultaneously on several fronts: about 2.8 million young people are entering the labour market every year, seeking full integration into political and social life.¹ Increasing migration and rising food and energy prices push existing social security mechanisms to their limits. The continued global financial crisis has strained local markets and national economies.
2. According to an Arab youth survey conducted in 2012 by the ASDA's A Burson-Marsteller, the rising cost of living and the aspiration for fair wages are high priorities for youth. Nevertheless, recent data imply that the minimum wage in a number of Arab countries is too high relative to average productivity and is thus an obstacle to employment.²
3. Both perspectives may actually be true, and the paradox is related to the highly segmented structure of the economies and the labour markets of most Arab countries. The present report explores the prevailing structures of the labour markets and their inherent rigidities, and looks at possible entry points for change.
4. The analysis is predominantly based on the previous research of the Economic and Social Commission for Western Asia (ESCWA), particularly *Labour Markets and Labour Market Policy in the ESCWA Region: Integrated Social Policy Report IV*, which predated the accession of Libya, Morocco and Tunisia to the Commission in 2012.

I. ECONOMIC STRUCTURES

5. Most countries in the region suffer from highly paradoxical economic and employment structures. On the one hand, the economic sectors that contribute the largest share of gross domestic product (GDP), particularly the oil and gas industries, provide a comparatively small share of employment. On the other hand, the industries with the highest shares of employment, particularly construction, tourism or other services, contribute a relatively small percentage of GDP. Corresponding disparities in productivity mark the division of economies into low-skill, low-productivity and low-value-added segments and few other sectors that are more rewarding, but comparatively small.
6. This dichotomy is repeated in several other dimensions: economies are divided into a relatively small formal sector and a vast informal sector. According to recent estimates, about one third of GDP and about two thirds of employment are derived from the informal sector.³ Similarly, a limited number of well-established and often State-owned enterprises contrast with a vast array of micro- and small enterprises. In the economies of Gulf Cooperation Council (GCC) countries, a further division is observed between a vast public sector, which employs most of the national workforce, and a multifaceted private sector operated mostly by foreign labour.
7. The gap in the enterprise structure, marked by the absence of a middle segment of competitive, medium-size private sector enterprises, points to a difficult business environment where State-owned enterprises crowd out broader private investment in productive sectors.⁴ The gap is also reflected in the concern that the rules are not the same for all. Although most countries have competition laws, competition councils or antitrust legislation, preferential treatment in access to land or finance or unequal application of tax laws produces a business environment which is highly unequal and marked by patronage and discretion.⁵

¹ World Economic Forum and OECD, 2011, p. 45. The estimate is based on ILO data of economically active population for 2005-2010.

² World Bank, 2012a, pp. 141-147.

³ Gatti et al., 2011, p. 6.

⁴ World Economic Forum and OECD, 2011, pp. 43 and 47.

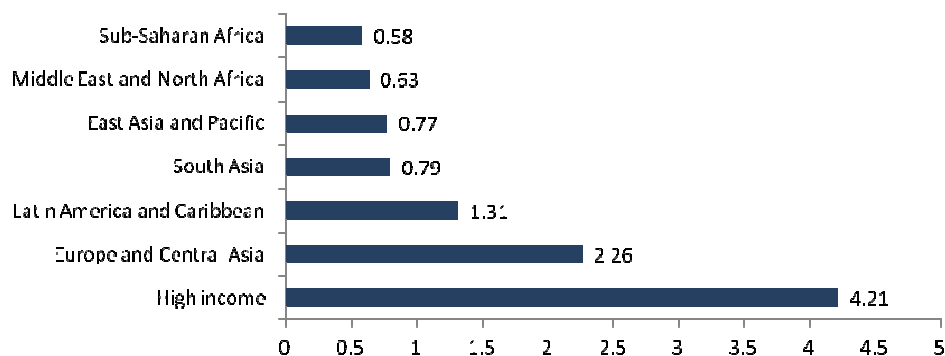
⁵ World Bank, 2009, p. 95.

8. Indeed, as competition between formal sector firms is low, so is general competitiveness and many firms in the region fail to attract private investment. Although private investment is very selective, it has increased over the past several years. To a large extent, capital flows either to mining and quarrying or to activities with limited value to the overall economy like construction and real estate. In 2010, two thirds of the US\$64.5 billion in foreign direct investment (FDI) to the Middle East and North Africa (MENA) region went to four countries: Libya, Qatar, Saudi Arabia, and the United Arab Emirates.⁶ Egypt and Lebanon received the next largest shares of FDI, and in Egypt 65.4 per cent of all FDI inflows went to the oil sector.⁷ In Tunisia, the share of FDI to the energy sector was 61 per cent.⁸ Apart from energy, most FDI inflows to the Arab region were vested into non-tradable sectors such as telecommunication, tourism and construction, which suggest that the manufacturing and export sectors in the region were insufficiently competitive to attract foreign investment.⁹

9. According to a recent assessment of competitiveness of Arab economies, a special weakness lies in the absence of a strong and vibrant culture of entrepreneurship. Whereas high-income countries on average tend to record four new firms annually per 1,000 persons of working age, countries in the MENA region register only 0.63 new firms (see figure I).

Figure I. Firm entry density by region and in selected economies, 2004-2009

A. Firm entry density by region



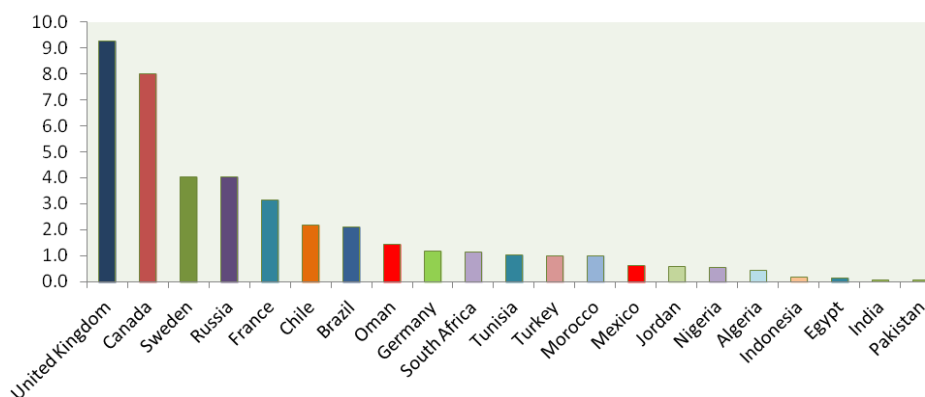
⁶ Statistical Database of the United Nations Conference on Trade and Development.

⁷ Central Bank of Egypt, 2012, p. 95.

⁸ http://www.investintunisia.tn/site/en/article.php?id_article=841.

⁹ World Economic Forum and OECD, 2011, p. 58.

B. Firm entry density in selected economies



Source: Based on World Bank 2010 and World Economic Forum and OECD, 2011, p. 48.

Note: Entry density is calculated as the number of newly registered limited liability firms in the corresponding year as the per cent of the country's working age population.

10. The absence of a broad middle segment of competitive, medium-size firms increases the volatility of economic fluctuations and decreases the quality and sustainability of growth. While the economies in the region had an overall average growth rate of 4.8 per cent over the past decade, the average GDP per capita growth rates over the period 2000-2009 was only 2.5 per cent. This comparison shows the urgent need for a broader economic base, a more diversified economic structure and improvements in productivity such that overall growth can translate into a higher standard of living.

11. Productivity increases have been difficult to achieve over the past decade (see tables 1 and 2). Available data show that in Egypt, Iraq, Palestine and Yemen between 40 and 55 per cent of the employed are working in sectors with below-average productivity. In some GCC countries, trends are more encouraging, but high employment in the public sector often exerts pressure on average productivity.

TABLE 1. LABOUR PRODUCTIVITY IN MINING AND QUARRYING*

Country	2004	2005	2006	2007	2008	2009	2010
Jordan	44 536	44 980	51 243	54 898	...	...	...
Kuwait	4 682 268	4 663 553	4 429 576	3 995 655	4 296 896	3 138 171	2 952 047
Palestine	42 976	53 356	42 208	51 603	68 029	46 338	44 296
Qatar	1 176 110	915 576	531 798	...	400 414	584 860	...
Saudi Arabia	...	...	1 016 446	977 557	986 294	919 080	...
Syrian Arab Republic	96 023	83 489	83 435	84 441	85 367	85 847	...
Tunisia	114 235	122 719	113 546	141 347	...	...	...
United Arab Emirates	993 150	898 245	983 436	875 290	808 205	...	...

Source: ESCWA, 2012b, table I-3.

* Labour productivity indicates the value added of mining and quarrying, including electricity and water supply, per capita in constant 2005 United States dollars.

TABLE 2. LABOUR PRODUCTIVITY IN MANUFACTURING*

Country	2004	2005	2006	2007	2008	2009	2010
Egypt	11 354	11 355	11 356	11 357	11 358	11 359	11 360
Jordan	13 051	13 061	14 790	14 411	14 428	15 003	...
Kuwait	60 029	60 431	59 369	58 143	46 823	50 274	54 677
Morocco	16 964	18 730	17 662	18 365	19 490	20 023	20 601
Oman	71 515	71 516	71 517	71 518	71 519	71 520	71 521
Palestine	10 182	10 946	8 207	9 159	9 704	8 749	...
Qatar	82 466	79 493	64 900	...	62 146	70 010	...
Saudi Arabia	...	...	47 685	48 300	48 409	47 349	...
Syrian Arab Republic	1 730	1 697	1 614	1 895	1 915	2 187	...
Sudan	14 315	14 502	15 419	16 271	...	...	...
Tunisia	11 472	12 006	11 635	11 284	...	...	...
Yemen	7 752	7 349	6 178	11 426	11 747	9 654	8 419

Source: ESCWA, 2012b, table I-4.

* Labour productivity indicates the value added of manufacturing per employee in constant 2005 United States dollars.

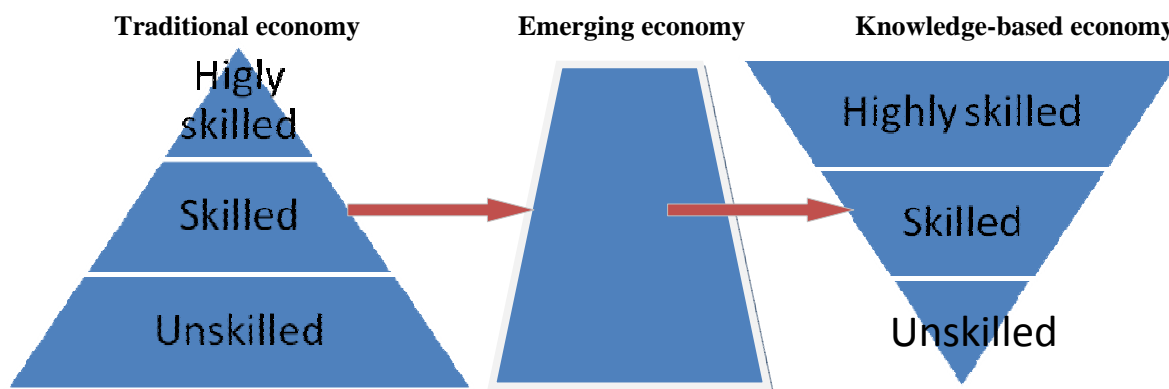
12. High levels of labour input in economic output is also an indicator of the development stage of the majority of Arab economies. Out of 14 countries included in the World Economic Forum *Arab World Competitiveness Review 2010*, the economies of only two countries (Bahrain and the United Arab Emirates) are classified as innovation-driven. Eight economies are seen as driven by efficiency (Jordan, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic and Tunisia), and four largely depend on their resource endowment and are classified as factor-driven economies (Algeria, Egypt, Kuwait and Libya).¹⁰

13. Consequently, labour productivity can be seen as an indicator of the knowledge content of a given economy as it shows how far enterprises rely on labour input or technology to enhance human skills. The tendency in Arab economies towards low use of available talent, especially skills acquired through formal education becomes apparent while looking at the labour market and especially the high unemployment of graduates.

14. Structural transformation in a number of Arab economies and diversification away from oil has long been on the agenda, and in general, the transformation is on an encouraging path. The share of manufacturing in the economy, as well as services such as telecommunications, trade and tourism are increasing rapidly. Manufacturing is now the second largest sector in Egypt and Jordan.¹¹ However, many manufacturing enterprises in the region rely on low-skill, low-value-added and low-productivity labour, often performed by foreign migrant workers. That trend further emphasizes the low knowledge content of the economy. An illustration of the labour content of the different development stages is given in figure II.

¹⁰ World Economic Forum, 2010, pp. 8-9.

¹¹ United Nations Statistics Division: National Accounts Main Aggregates Database, available from <http://unstats.un.org/unsd/snaama/>.

Figure II. Labour composition of different stages of development

Source: Based on Tzannatos, 2012.

15. Especially in GCC countries, but also in the other member countries of ESCWA, there appear to be conflicting agendas. On the one hand, almost all development plans and models for the future set the objective of building a knowledge economy and, correspondingly, make significant investments in education and advanced infrastructure. On the other hand, the economies of many countries are based on cheap labour, low skills and low productivity. That model is not able to use the knowledge and skills of a young and ambitious workforce. It does not offer attractive jobs to those young people, who were educated at great expense. As a result, they fill the ranks of the unemployed.

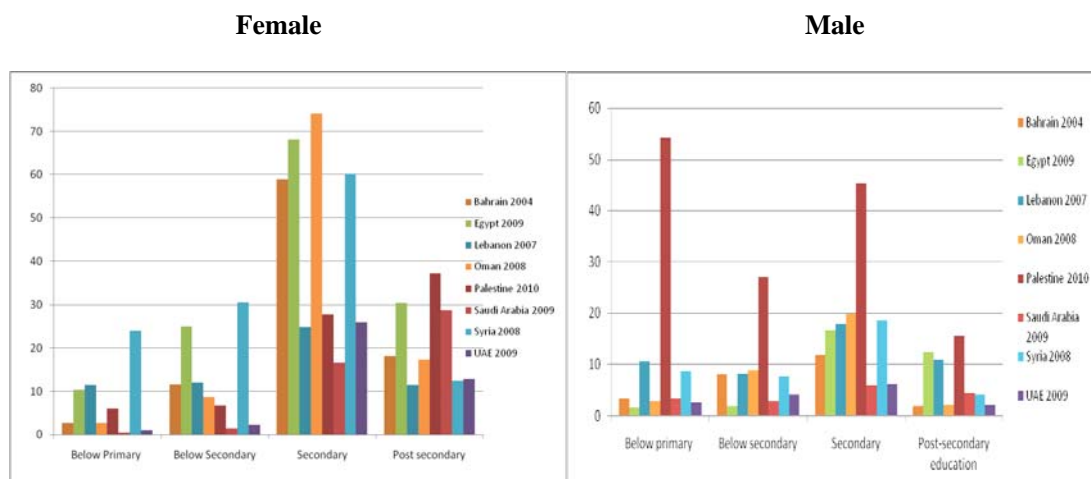
II. LABOUR MARKET STRUCTURES

16. A substantial change in the economic structure, such as a move away from public sector employment, changes from agriculture to industry and services, or from low to high productivity industries requires the flexibility of the workforce and a high capacity to quickly reallocate human resources. Otherwise it results in increased unemployment. In general, the more the labour market is divided and segmented, the smaller the capacity of the economy to adjust to shocks and changes.

17. The most striking feature of the structure of unemployment in Arab countries is that it is especially high among the most educated in the workforce. In most countries of the Organisation for Economic Co-operation and Development the trend has gone in the opposite direction. In those countries in 2009, the unemployment rate of university graduates was 4.4 per cent, whereas among those who never completed high school, unemployment stood at 11.5 per cent.¹² By contrast, in a number of Arab countries, unemployment rates of the better-educated are often almost double the rates of those workers with lower education levels. That trend is especially pronounced among women (see figure III).

¹² <http://www.oecd.org/newsroom/educationcrisisreinforcesimportanceofagoodeducationsaysoecd.htm>.

Figure III. Unemployment by level of education in selected ESCWA countries
(Percentage)



Sources: Bahrain: LFS 2004; Egypt: LFS 2009 (data from CAPMAS); Lebanon: National Survey of Household Living Conditions 2007; Oman: LFS 2008; Palestine: LFS Database 2000-2010; Saudi Arabia: LFS 2009; Syrian Arab Republic: LFS 2008; United Arab Emirates: LFS 2009.

Note: Different levels of education are consolidated into four categories.

18. In that regard, Tunisia is a special case in point. In 2010, the unemployment rate of Tunisians who had attained a secondary education or higher was double the national unemployment rate.¹³ Likewise, in certain sectors in Morocco, the unemployment rate of those with higher education attainment lies significantly above the rate of workers with intermediate or lower education.¹⁴

19. Conversely, lower rates of unemployment at lower educational levels correspond to the development stage of many Arab economies as illustrated in figures III and IV. In most of the countries for which data are available, the majority of the workforce is educated to a below-secondary level.¹⁵ Despite their higher numbers in the workforce, unemployment in that group is visibly lower and often less than half the rate of the educated segment of the labour force. That shows that the labour market in the informal sector, which absorbs most of the less educated workforce, is large and more flexible than the formal sector, to which educated workers aspire.

20. As mentioned above, the informal labour market is estimated to absorb up to 70 per cent of the labour force in the region. The informal sector is characterized by micro- and small enterprises and workers in that sector generally have attained a lower level of education.¹⁶ Together, those factors account for the lower productivity of most firms in the informal sector. They are usually too small to take advantage of economies of scale, revenues are insufficient to make larger investments and the workers lack the skills or education that can enable innovation.

21. Available information about wages underlines the segmentation of the labour market. Data from Egypt, Jordan, Palestine, the Syrian Arab Republic and the United Arab Emirates all point to higher average wages in the public sector than in the private sector. However, such data need to be taken with caution.

¹³ Tunisia, National Institute of Statistics, 2011. Calculations based on table 26, p. 24 and table 36, p. 28.

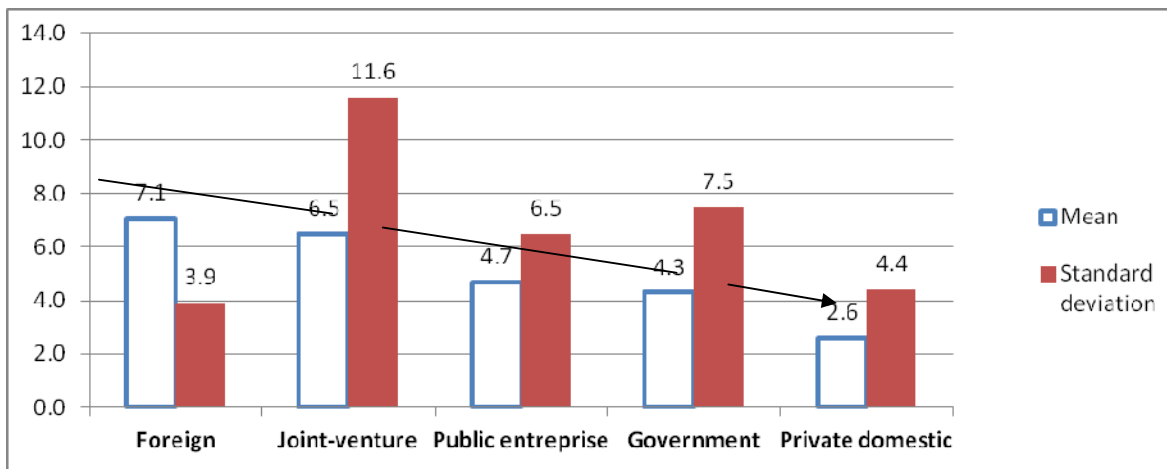
¹⁴ Morocco, Department of Statistics, 2010, p. 36.

¹⁵ ESCWA, 2012a, p. 12, table 4.

¹⁶ Gatti et al., 2011, p. 18.

In Jordan and Palestine, public sector wages are higher only for those with lower levels of education and for workers at the bottom of the wage distribution, while the private sector tends to pay higher wages to better-educated workers.¹⁷ In Yemen wages in the formal private sector are higher than public-sector salaries,¹⁸ as are wages paid by international corporations or joint ventures in Egypt (see figure IV).

Figure IV. Egypt: Hourly wages in subsectors



Source: Based on El-Ghamrawy and Amer, 2011, p. 5. Data stem from the 2006 Egyptian Labour Market Panel Survey.

Note: Wage is expressed in Egyptian pound per hour.

22. That leads to the conclusion that the wage differential between the public and the private sectors very much depends on the way it is calculated. If data stem from labour-force surveys as in the case in Egypt, then wage calculation will most probably include wages paid in the informal sector, which tend to depress the average private sector wage.¹⁹ If data stem from establishment surveys, as is the case in Jordan, data tend to include only formally registered enterprises, which does not necessarily adequately represent wages paid in micro- and small enterprises and does not cover the informal sector.²⁰

23. Wages in the informal sector tend to be lower, significantly below those of formal sector workers. The size of the wage gap varies across countries and amounts to about 10 per cent in the Syrian Arab Republic and about 50 per cent in Morocco. In Egypt and Lebanon the wage gap amounts to 30 per cent, but for women in Egypt, the wage gap can exceed 50 per cent.²¹

24. Lower wages in the informal sector are compounded by other disadvantages related to longer working hours and less annual leave, poorer working conditions and the lack of social security, pension or health insurance coverage. In the MENA region almost 70 per cent of workers are not covered by social security schemes.²²

¹⁷ For Jordan see http://www.dos.gov.jo/dos_home_e/main/index.htm. For Palestine see Miaari, 2009, p. 24.

¹⁸ <http://www.cso-yemen.org/content.php?lng=english&>.

¹⁹ Average of work hours and weekly wages in public and private sectors (1999-2011), are available from http://www.capmas.gov.eg/pages_ar.aspx?pageid=338.

²⁰ Data are collected in October. Micro- and small enterprises are covered through a sample survey.

²¹ Gatti et al., 2011, p. 22.

²² Ibid., p. 6.

25. The beginning of the present report noted the paradox between the aspirations of Arab youth for better wages and data that suggest that, as a function of productivity, the minimum wage is already too high. That paradox indicates two opposing perspectives from two very different worlds of work. Many young people, especially those with lower levels of education, start their work life in the informal sector. Their aspirations for decent wages and work conditions are understandable, because few of them have the chance to transition from the informal to the formal sector in the course of their career.²³

26. The minimum wage of the formal sector often functions as a ceiling for wages in the informal sector. Although the minimum wages in Arab countries are considered high relative to the average value added per worker, the imbalance is caused by pervasively low productivity as discussed above rather than by generous wages. The considerable investment in education undertaken by Arab countries has failed to translate into economic growth because better educated workers, who are capable of greater productivity, remain unemployed. They are looking for jobs that do not exist.

III. LABOUR-MARKET POLICY

27. Government intervention in the labour market is meant to reduce existing segmentation and bridge gaps. Instruments available to Governments to shape the structure of the labour market, to ensure equal opportunities for all social groups and to facilitate overall mobility of workers range from employment legislation (discussed below) to a set of measures commonly referred to as active labour-market policies that aim to increase labour-market participation, provide training activities and public works programmes and support entrepreneurship.²⁴ Their overall objective is to provide protection against fluctuating economic conditions, support the match between labour supply and demand, raise the quantity and the quality of human resources available to the economy and improve the functioning of the labour market. At the same time, active labour-market policies may also target social aspects of employment by supporting the integration of vulnerable groups into social and economic life. This chapter will examine the following labour-market policies in more detail: labour-market regulation; activation policies; employment services; training programmes; public works programmes; employment subsidies; and the promotion of small and medium enterprises (SMEs).

A. LABOUR-MARKET REGULATION

28. The main purpose of labour regulation is to achieve two contrasting goals: to provide an adequate level of income and social protection to workers, and to facilitate labour mobility at the same time. Until recently in Arab countries, the method to achieve both ends had been to stipulate relatively strict employment protection on paper while being lax on enforcement. That allowed for a degree of overlap and mobility between the formal and informal economies, enabling the formal sector to employ people without formal work contracts or without registering them with social security institutions.

29. Over the past decade, however, labour laws have been reformed, notably in Egypt, Oman and Yemen in 2003; in Iraq and Qatar in 2004, in the United Arab Emirates in 2007; in Saudi Arabia in 2005, and in Jordan, Kuwait and the Syrian Arab Republic in 2010.²⁵ Most reforms relaxed the conditions for fixed term contracts, making it easier for employers to adjust their workforce to economic conditions.

30. Certain obstacles, however, may arise from relatively high severance payments in some Arab countries.²⁶ In the absence of unemployment insurance and faced with insufficient capacity to administer

²³ Ibid, p. 23.

²⁴ For a recent summary of active labour market programmes in the region see ESCWA, 2012c.

²⁵ ESCWA, 2012a, p. 29.

²⁶ For a list of severance benefits by country see World Bank, 2012a, pp. 141-147.

such a programme, developing countries often resort to high severance payments in order to protect workers. The cost to employers is high, and functions as an incentive to engage workers informally. Increasingly, countries in the ESCWA region are considering unemployment insurance as a possible alternative. At present, there are effective schemes in Egypt and Bahrain. In Jordan, unemployment insurance is currently being phased in as a defined contribution scheme.²⁷ Saudi Arabia and Oman introduced a programme of unemployment benefits in 2011, and a similar move is being debated in the United Arab Emirates.²⁸

B. ACTIVATION POLICIES

31. The main objective of activation policies is to increase the human resources available to the economy. A secondary objective may also be to reduce dependency on social assistance or to reactivate persons in long-term unemployment.

32. Given high unemployment rates in most Arab countries, activation policies may not seem to be a high priority. Indeed, the mobilization of additional human resources while many are jobless sounds counter-intuitive. However, the high segmentation of the labour market means that parts of the population are active only in specific segments and are unwilling or unable to accept other types of jobs. The coexistence of high unemployment and high inward labour migration in many countries signifies an undersupply of national labour in certain segments of the market.

33. Labour market participation is especially low among women in most of Arab countries. Available data show that between 70 and 80 per cent of working age women in ESCWA member countries are either unemployed or inactive. Of the 71 million people employed in the ESCWA region, only 13 million (about 18 per cent) are women.²⁹ In Morocco in 2010, 25.9 per cent of working-age women were active in the labour market.³⁰ The rate for Tunisia in the same year was 24.8 per cent.³¹

34. Labour-force participation figures have to be taken with caution as most labour-force surveys tend to underestimate the engagement of women in subsistence activities, nevertheless it may be worthwhile to consider targeted activation programmes. Among ESCWA member countries, Saudi Arabia has started clear activation policies. Faced with a very low participation rate among women, the Government has undertaken targeted policy measures to increase female labour-force participation. By more forcefully implementing a law dating from 2006, Saudi women are supposed to replace male foreign migrant workers in most of the retail shops catering to women.³² At the same time, the ministry of labour has started an initiative to encourage women to work from home.³³ Those initiatives are part of the overall strategy to nationalize the workforce in the country, which has recently been reinforced by a new policy to impose fines on companies which employ more foreign workers than Saudis.³⁴ Similarly, Oman strives to attract more people to employment in the private sector rather than waiting for public sector jobs.³⁵

²⁷ <http://www.socialsecurityextension.org/gimi/gess/ShowTheme.do?tid=3545>.

²⁸ For Saudi Arabia see Knickmeyer, 2012. For Oman see <http://www.imf.org/external/np/ms/2011/121911.htm>. For the United Arab Emirates see Al Subaihi, 2012.

²⁹ ESCWA, 2012a, p. 9.

³⁰ Morocco, Department of Statistics, 2010, p. 14.

³¹ Tunisia, National Institute of Statistics, 2011, table 23, p. 22.

³² Allam, 2012a.

³³ Allam, 2012b.

³⁴ Hamdan, 2012.

³⁵ Kerr, 2012.

C. EMPLOYMENT SERVICES

35. A special feature of strong labour-market segmentation is low mobility between the informal and the formal sectors in most economies. Employment services and other programmes targeting informal sector workers could help them moving out of work situations that are often precarious. Services like job matching, counselling and career guidance are usually considered highly cost effective and efficient.

36. Unfortunately, employment services are often of very limited reach, especially outside GCC countries. In Jordan, between 2004 and 2010, only 3 per cent of registered jobseekers found employment through the National Employment Centre.³⁶ The situation is similar in Lebanon and Palestine. In Lebanon, between 1998 and 2005, the National Employment Office received an average of 1,370 job requests per year, but only few jobseekers found employment.³⁷ By contrast, close to 50 per cent of registered jobseekers claim to have found employment through labour intermediation mechanisms in Egypt. Further investment and improved institutional efficiency will allow even more workers to benefit from public intermediation services.³⁸

37. Workers in informal markets usually search for and find jobs through networks of neighbours, relatives and friends and are rarely registered with an employment office. Governments must make special efforts to increase the transparency of the labour market and extend their services to the informal sector.

D. TRAINING PROGRAMMES

38. Training and vocational education programmes are widely used in the Arab region as Governments strive to address gaps in the labour market. Training programmes address the perceived lack of skills, the mismatch between what young people know and the requirements of employers and the difficult school-to-work transition. Egypt, Jordan, Morocco, Tunisia and a number of GCC countries have built up considerable training infrastructure.

39. However, not all systems are well-integrated especially with counselling and career guidance and support. Many suffer from duplication and fragmentation between providers and many do not reach out beyond young, urban, middle-class students.³⁹

40. Some GCC countries have recently succeeded in reforming their services for job seekers. The University Graduates 1912 Programme in Bahrain and the Training and Employment Programme of the Human Resources Development Fund in Saudi Arabia both combine employment-linked training with one or two years of subsidized employment. On another axis of reform, Yemen has constructed and equipped additional training centres in rural and other marginalized areas, which improves the outreach of training services. Morocco has achieved good results by introducing new forms of training. In cooperative training courses, students spend about half of the training time on-the-job, and at least one third in a vocational training centre. A form of vocational training by apprenticeship has been introduced primarily to improve the labour-market integration of youth, and participants can earn a diploma or a certification of acquired skills.⁴⁰

41. In addition to the public sector, a number of civil society organizations and private foundations are active in the delivery of training and employment services.⁴¹ For example in Jordan, the King Abdullah II

³⁶ www.mol.gov.jo/Portals/0/projects2009-2010.pdf [accessed 8 September 2010].

³⁷ European Training Foundation, 2006, p. 44.

³⁸ Semlali and Angel-Urdinola, 2012, p. 2.

³⁹ Angel-Urdinola et al. 2010, pp. 22-23.

⁴⁰ Boudarbat and Egel, 2012, p. 7.

⁴¹ ESCWA, 2012c, pp. 22-27.

Fund for Development established offices at Jordanian universities that provide career guidance and placement services through a network with public and private sector entities. The Qatar Foundation provides networking opportunities, career counselling and training to assist young people in successfully entering the labour market. In Lebanon, the Safadi Foundation provides educational support for young people in North Lebanon and advocates for improved public education. In the United Arab Emirates, the Emirates Foundation seeks to foster skills needed for work in the private sector and in global markets and promotes a volunteer programme for young people called *Takatof*.

E. PUBLIC WORKS PROGRAMMES

42. Some instruments in the active labour-market toolbox are especially centred on achieving the social objectives of providing employment to the poor and vulnerable strata of society and integrating marginalized groups into social life. The purpose is to find a dignified way of providing income support that avoids direct dependency on social assistance and keeps people active and engaged.

43. Public works programmes are designed to provide income to those who are most severely affected by economic crises. They pursue the twin objectives of creating employment for vulnerable people and creating vital economic and social infrastructure in marginalized areas. In the ESCWA region, Egypt, Iraq, Morocco and Yemen have experience with those programmes on a larger scale.

44. Outside the Arab region, India and South Africa have been experimenting with new approaches to public works programmes that feature stronger social protection. The Maharashtra Employment Guarantee Scheme and Mahatma Gandhi Rural Employment Guarantee Scheme in India and the relatively small Zibambele Programme in South Africa are examples of programmes that extend an employment guarantee to specific groups for a defined period of time.⁴² In cooperation with the Ministry of planning in Yemen and with the International Labour Organization, ESCWA is exploring the possibility of transforming the Labour Intensive Works Programme in Yemen into an employment guarantee scheme.⁴³

45. The potential of such programmes as a quick response mechanism in crisis situations is currently being exploited in Tunisia, where several donors and the Government created employment through labour-intensive work programmes. The focus is on improving the living conditions in disadvantaged regions in the country and in urban areas. In contrast to older programmes that provided insufficient skills development,⁴⁴ the new programme in Tunisia includes institutional support as well as capacity-building elements.

F. EMPLOYMENT SUBSIDIES

46. Employment subsidies are a second instrument to support the integration of vulnerable groups. In the ESCWA region such programmes are mainly targeted towards youth. Examples include the Jordanian National Training and Employment Project, the Graduate Employment Programme in Bahrain and also the Qatar Employment Programme that caters mainly to jobseekers age 15 to 29. Most programmes provide employment subsidies as part of an integrated package combined with career counselling and training. Subsidies may amount to up to 50 per cent of salaries, and some programmes such as the ones in Jordan or Bahrain also subsidize the employer's contributions to social security for a period ranging from six months to up to two years.

⁴² Hagen-Zanker et al., 2011, p. 4.

⁴³ The Labour Intensive Works Programme is a project of the Social Fund for Development in Yemen. It aims to provide vulnerable Yemenis with limited employment. The study will examine the programme under a social protection perspective and will assess the feasibility of establishing a limited right to employment for a period of one year.

⁴⁴ ESCWA, 2012c, p. 29.

47. In the region, subsidies are mainly provided for hiring and are rarely given to enable firms to maintain their workforce during an economic downturn, to prevent seasonal or cyclical unemployment or to support work-sharing schemes during economic crises.

G. PROMOTION OF SMALL AND MEDIUM ENTERPRISES (SMEs)⁴⁵

48. Support for entrepreneurship is an important area of activity, especially in GCC countries, where such programmes serve the additional objective of broadening and diversifying the economic structure. The Mohammed Bin Rashid Establishment for SME Development, the Human Resources Development Fund in Saudi Arabia, the Khalifa Fund for Enterprise Development and Enterprise Qatar are examples of programmes working to develop entrepreneurship with training and provide technical and legal advice and financial services. The Bahrain Development Bank has set up a business incubator centre.

49. On the other side of the spectrum in Yemen and Egypt, social funds for development support microfinance and microenterprises and function mainly as a poverty alleviation tools. Similarly the Development and Employment Fund in Jordan and the Public Corporation for Employment and Enterprise Development in the Syrian Arab Republic are dedicated to funding microenterprises to support income generating activities for poorer households which are often headed by women, and are located in marginalized areas.

50. Many programmes of that kind in several countries target youth. The Bahrain Development Bank has extended financial services to a broad spectrum of entrepreneurs in almost all economic sectors. The Social Fund for Development in Egypt, the Fund for Development of Youth Projects in Oman, the Centennial Fund in Saudi Arabia, Silatech in Qatar and the Shabab programme in the Syrian Arab Republic all offer their services to foster innovation and to nurture, fund and support young entrepreneurs.

51. With regard to effectiveness and sustainability of enterprise development programmes, international experience shows that greater success lies with an integrated provision of financial and non-financial services such as training and counselling. In the Arab region, the Khalifa Fund for Enterprise Development may serve as a good example of such integration.

Integrating services: the example of the Khalifa Fund

The Khalifa Fund has been established to support United Arab Emirates nationals, especially in Abu Dhabi, to develop SMEs. The Fund provides financial and non-financial services including the following:

- No interest loans and seed money in special cases;
- Assistance services or consultancy services, including in marketing and finance;
- Training programmes;
- Business incubation centres.

By the end of November 2012, the Fund secured financing for 356 projects at a loan value of approximately US\$160 million (AED590 million).

Source: <http://www.khalifafund.gov.ae/En/HomePage/Pages/default.aspx> [accessed 10 December 2012].

IV. CONCLUSIONS AND WAYS FORWARD

52. The employment crisis in Arab countries persists despite considerable investments and efforts of Governments and international donors alike to reform labour markets and initiate job creation programmes

⁴⁵ For more information on active labour market policies for SMEs see ESCWA, 2012c, pp. 31-36.

over the past decade. The MANFORME programme in Tunisia,⁴⁶ the Al Manar project in Jordan,⁴⁷ Vocational Education projects in Egypt and Morocco, and parts of the MEDA project in Jordan, Lebanon and the Syrian Arab Republic⁴⁸ have absorbed hundreds of millions of dollars in financial support. Yet the results are insufficient and unemployment and especially underemployment continue to unsettle societies, and easy answers cannot be expected.

53. An analysis by the European Training Foundation suggests that reform programmes have created ‘islands of excellence’ but failed to initiate broader systemic change.⁴⁹ The main obstacles to systemic change lie in the deep divisions that run through economies and societies alike. Relatively comfortable working conditions in the public sector and the formal private sector persist alongside dire circumstances in the informal sector. Where the main concern of the better-educated is to find an adequate job, the key issues among the lower educated are underemployment, low salaries and long working hours.

54. The size of the gap between the two worlds of work corresponds to the lack of a competitive entrepreneurial middle class. A class of skilled workers is needed to increase the productivity of the economy. In that regard, there is significant overlap between the effort to improve employment and to create greater competitiveness.

55. To enhance competitiveness, contradictory policy objectives must be examined. High public investment in education and technological infrastructure will not lead to the desired objective of a more diversified and knowledge-based economy unless the economic structure is changed and the economy is able to provide jobs for higher-skilled workers. The current reliance on low-skill, low-wage workers in low-productivity industries may offer considerable profit but may not lead countries to the next stage of development.

56. The first conclusion, therefore, must be that demand for labour must come from the economy. The State can influence and support this in several ways and can bridge some gaps for a limited period of time through public employment and public works programmes, but it cannot substitute for original private sector activity. In crisis situations, the State should step in, but ideally it would clearly limit its intervention to a specific period of time. The overall policy direction should support the creation of jobs for the educated part of the population while continuing to improve the conditions of existing informal sector employment.

- **A dialogue between policymakers and the private sector would be useful in order to reconsider the overall policy objectives and discuss the development path of the country.** The dialogue would aim to encourage investments that increase competitiveness and labour productivity. In GCC countries the dialogue would also include longer-term migration policy.
- **Comprehensive regulatory reform is needed.** The de-monopolization of product markets, namely dismantling formal or informal monopolies, applying laws and rules equally and reducing the required time and effort to start an enterprise are important factors that support job creation. Improved business regulation and governance are of higher importance for employment creation than a reform of labour regulation.⁵⁰ If good jobs were more widely available in other sectors, pressure on public sector employment would also be reduced.

⁴⁶ DFID and World Bank Group, 2003.

⁴⁷ <http://www.almanar.jo/almanaren/Home/tabid/37/language/en-US/Default.aspx>.

⁴⁸ http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/mediterranean_partner_countries/r15006_en.htm.

⁴⁹ European Training Foundation, 2006, p. 64.

⁵⁰ World Bank, 2012b, pp. v, 29 and 30.

- **Part-time employment should be encouraged on a broad scale.** The overwhelming preference for public sector jobs, especially among women, may result from the shorter working hours in public administration. Thus, part-time jobs might appeal to certain groups.
- **Support for entrepreneurship and SMEs, even if they are located in the informal sector, are valuable instruments.** In view of the fact that the vast majority of businesses in ESCWA member countries are micro- and small, the impact of successful SME support strategies can be considerable. Such support can range from improved access to finance, legal support services, and better business linkages with partners along the value chain.⁵¹ Egypt's National Suppliers Development Programme may serve as an example, where the Ministry of Trade and Industry works with a net of local potential supplier firms to meet the quality standards of a big multinational company.⁵²
- **Monetary and fiscal policies need to be attuned to the goal of increasing entrepreneurship.** To increase entrepreneurship, the following conditions are needed: a stable macroeconomic environment; controlled inflation rates; low and stable long-term interest rates; stable exchange rates; and a fair and efficient tax system. Well-developed banking and legal sectors must be trained to serve the needs of small enterprises.

57. The second conclusion is that Governments must rationalize and integrate the instruments they use to improve the functioning of the labour market. They must increase the transparency and fairness of the labour market, and overcome segmentation.

- **Employment services should be strengthened and outreach improved.** Counselling and training services should be integrated and there should be a more systematic connection to businesses and their requirements in a certain geographic and/or professional area. That requires a larger infrastructure that can offer opportunities to workers currently employed in the informal sector.
- **Improved labour-market transparency in the longer term requires a formalization of the recruitment process.** Except for public sector employment, recruitment currently follows the informal mechanism of personal contacts. Public announcements and standardized selection procedures would allow for better and more equal chances for people independent of social networks and family relations. A policy infrastructure must be developed to link all labour-market participants. Businesses, workers, training institutions, local banks, civil society organizations and State administration would ideally be part of a horizontal network that cooperates towards the objective of increasing opportunities and mobility.
- **The policy infrastructure should include well-organized employer associations and trade unions,** which are indispensable partners for Governments in improving labour-market governance.
- **Vocational education and training need to be designed as a link between the broader education system and specific needs of the labour market.** Vocational education and training cannot substitute for a high-quality education. They need to be designed in close cooperation with the private sector, regularly updated and integrated into a broader qualifications framework.

58. The third conclusion is that better integration of existing labour market policies and other social policies is needed. Better policy integration can reduce labour-market segmentation, increase labour

⁵¹ A comprehensive review of SME support policies in Turkey is available from OECD, 2004, *Small and Medium Sized Enterprises in Turkey, Issues and Policies*. Paris.

⁵² OECD, 2010, p. 35.

mobility and increase the quality of jobs and employment. Integration must include education and social protection policies.

- **Labour regulation must balance the interests of employers and employees, avoiding undue burdens on employers, but also holding them accountable to respect the law.** Instead of imposing high severance payments on employers, it may be more suitable to introduce viable unemployment insurance, the cost of which is shared between employers and employees. Labour inspections should be fair and credible, and not a tool for extortion.
- **The reform and expansion of social security systems must take the costs to employers into account.** Currently, the costs to employers are relatively high. Governments should consider replacing current fuel and food subsidies with subsidies for social security systems, especially pension and health-care schemes. Such subsidies have a longer-term effect and can be targeted more effectively than consumption subsidies.
- **Reform of social security regulation,** integration of fragmented funds and programmes and better portability of benefits and entitlements are needed to reduce the segmentation of the labour market and to support the mobility of workers across institutions and professions. **Education systems need to be integrated** into a broader national framework of qualifications, inclusive of private education institutions. The standardization of education content will provide prospective employers with a framework of skills that can be carried out by workers who have completed a specific type of degree. Several countries in the region (Bahrain, Jordan, Lebanon, Saudi Arabia and United Arab Emirates) have started working on such frameworks.

59. The fourth conclusion is that labour-market information systems and employment-related research must be improved. While most of the basic indicators are available, the level of detail and analysis is not always sufficient to guide rapid policy interventions in a highly volatile political and economic environment.

- **In addition to the basic labour-market indicators, more information should be collected in relation to the decent work agenda,** which includes information about work conditions, hours and wages in different sectors in addition to work injuries.
- **More systematic research needs to be directed to the informal sector.** Some of the statistical instruments used to collect employment-related data, specifically establishment surveys, insufficiently cover the informal sector. They must be complemented by specific research in order to adequately represent the working conditions of the majority of the population. Similarly, persons with disabilities and other disadvantaged groups need to be studied more systematically.
- **The quality of statistical data must be improved, along with the comparability over time.** In order to trace progress and the effect of different policy instruments, data collection must be sufficiently frequent, reliable and stable in order to reflect seasonal changes in society.
- **Access to high quality and detailed statistical data should be broadened beyond policymaking circles.** Since analytical capacity within public administration is often limited, the academic and professional research community should be encouraged to join the effort. Similarly, large private sector enterprises may be interested in specific labour market trends in order to refine investment decisions.

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