

Chapter 3

Education and the transition to work

Arab societies perform below the world average on educational attainment, achievement and equitable access. Once young people in the Arab region try to get work, they find that the main, traditional avenue to secure employment, the government, has been closed. Finding stable and satisfying employment is one of the most prominent challenges facing youth. Arab economies are not providing enough private sector jobs owing to poor policy stability, which hampers private investment, alongside red tape, a failure to build a manufacturing

base, little access to credit (outside a favoured circle), and, in the formal sector, tight labour regulations. Women are especially hard hit in multiple areas.

The policy prescriptions are fairly standard, which makes it all the more difficult to understand why governments have shown little interest in solving the problem over the last couple of decades. They include investing more in infrastructure and improving the business environment. Labour market programmes and micro-finance are less practical approaches.

3.1

Mixed educational outcomes among youth

“ There are entire generations of Arabs who have not learnt how to play a musical instrument, and who have not read literary works because they were not accustomed to do so in school. Creative pursuits taken for granted in developed country schools have simply been neglected in the Arab world, with damaging results to the creative potential of its people. ”

*Arab Human Development Report 2003
(UNDP 2003, p. 83).*

Education and social mobility

Education is the main path to social and economic mobility, but substantial inequality of opportunity in education is undermining the Arab social contract, in which the state, at a minimum, furnishes a level playing field in education. The analysis of this inequality must rely on measurements of educational attainment (quantity) and educational achievement (quality). These measurements are usually based on years of schooling and scores in standardized international tests.

One key dimension of access to education is economic development, according to which the Arab region may be divided into three groups: the oil-rich GCC; middle-income countries, including Sudan and Yemen; and low-income countries, such as Comoros and Somalia. The last two groups account for more than 86 percent of the region's population. The poorest countries are still struggling with inequities in access to basic education, such as enabling poor children, especially girls, to attend school. Issues of quality—central to the inequality of opportunity evident in the middle-income group—are important only to the extent that the middle-income countries overcome the inequalities. Inequality in achievement is no less severe in the oil-rich countries, but economic mobility in oil-rich countries is less dependent on equity in education than on the equitable distribution of oil rents.

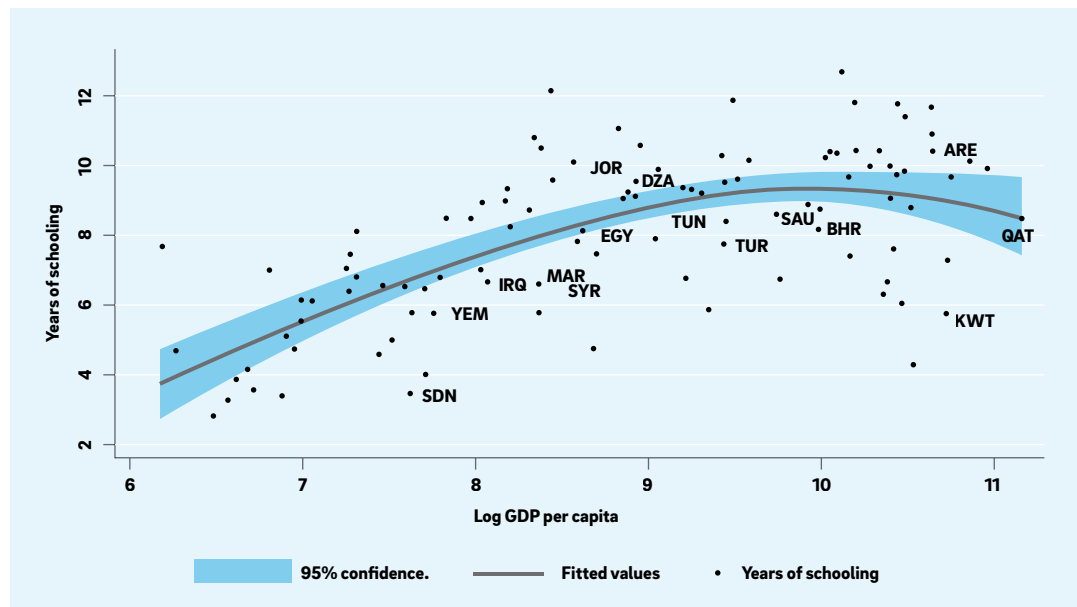
Educational attainment

The progress in access to education in the Arab region has generally been promising. Net enrollment rates have been increasing. The primary

enrollment rate rose from 76.6 percent in 1999 to 84.5 percent in 2013. The latter is close to the world average (89.0 percent). Many countries are close to achieving universal primary enrollment. Gains in enrollment can also be seen at higher levels of education; rates rose threefold in secondary education and in higher education over 1970–2003.¹ However, Arab countries suffer from under-enrollment in scientific disciplines among secondary and tertiary students and a continued reliance on outdated pedagogical techniques such as rote memorization.² This has resulted in educational systems that have mediocre performance in average educational attainment, equitable distribution and achievement.³

In average years of schooling, Arab countries fall below the international benchmark according to per capita GDP, even though, on this metric in the last two decades, they have been improving more rapidly than other world regions except East Asia. Average educational attainment is largely a function of economic development, which determines the amount of resources available for allocation to school construction and administrative costs. Richer countries enjoy greater levels of educational attainment, but, above \$10,000 per capita GDP (PPP), the relationship between GDP and educational attainment is flat. Among Arab countries, Jordan and the United Arab Emirates show the highest average educational attainment; Iraq, Sudan and Yemen the lowest. Apart from Algeria, Jordan and the United Arab Emirates, all Arab countries are either at or below the predicted mean in years of schooling (figure 3.1).

Figure 3.1 Average years of schooling: most Arab countries are below the mean expected for per capita GDP



Source: Salehi-Isfahani 2014.

Note: For 171 countries, the figure shows the relationship between mean years of schooling among 15–19-year-olds and log per capita GDP.

Inequality in educational attainment—an important determinant of overall inequality—is higher among the Arab countries as a group than in any other major country grouping (annex 2 table A.4).⁴ Yet, in the region, inequality in educational attainment in some countries, such as Jordan and Palestine, is far below the regional average and closer to the average in East Asia than to the average among Arab countries.

The gap between educational progress and development outcomes has encouraged some policymakers to consider alternative paths of educational advancement. Some observers have noted that economic growth, equality and poverty reduction have not occurred in parallel with educational progress in the Arab countries.⁵ Though the gap is typically attributed to a lack of flexibility in the educational system, some countries are beginning to introduce educational reforms, including reorganizing university curricula, assuring quality tertiary education and expanding vocational training programmes. The last aims to include programmes for entrepreneurship, as well as greater integration with the private sector.⁶

According to 2012–2013 survey data collected for the School to Work Transition Surveys of the ILO in four Arab countries, Egypt, Jordan, Palestine and Tunisia, the top two reasons youth give for ceasing their studies are failure in school exams and no interest in education (annex 2 table A.5).

Other reasons given are a desire to begin working, economic reasons, or personal reasons such as wanting to get married (particularly female respondents). The surveys allow us to explore the trajectories of youth transitioning from education to work.

Educational achievement

In education, Arab countries lag in achievement relative to their performance in attainment. Although quality of education is more difficult to measure because of the multiple dimensions in which individuals with a given number of years of schooling may differ in their productive skills or human capital, one aspect of quality that is fairly easy to measure is the level of learning in a given subject. Several international tests, such as the TIMSS, the Programme for International Student Assessment and the Progress in International Reading Literacy Study, aim to measure learning in different subjects. Many Arab countries that have taken part in rounds of the TIMSS since 2003 consistently score below the world average of 500, and many score below the intermediate international benchmark of 475 (table 3.1).⁷ This poor performance has been attributed to many aspects of Arab educational systems, including too little public provision, too little computer testing, and weak labour market signals.⁸

Table 3.1 Average TIMSS scores, 8th grade students in mathematics and science, by year and gender

	Mathematics								Science							
	Boys				Girls				Boys				Girls			
	1999	2003	2007	2011	1999	2003	2007	2011	1999	2003	2007	2011	1999	2003	2007	2011
Algeria	389.4	...	...	...	384.1	...	...	...	407.8	...	...	...	408.4	...
Bahrain	...	385.8	383.3	396.9	...	417.4	415.4	434.7	...	423.9	437.4	430.1	...	452.2	499.5	483.8
Dubai	395.5	453.7	...	...	410.6	475.3	...	...	436.5	453.5	...	...	448.5	487.1
Egypt	...	415.8	405.5	...	...	415.5	403.8	...	...	432.5	411.1	...	...	432.4	423.3	...
Jordan	413.7	409.0	413.2	394.2	421.1	438.0	436.4	421.2	431.3	460.8	463.6	430.1	451.2	487.8	499.1	472.7
Kuwait	345.4	...	...	...	364.0	...	...	...	395.5	...	...	...	441.1	...
Lebanon	...	442.0	461.9	464.7	...	435.0	446.3	451.6	...	399.7	425.0	417.9	...	400.3	413.6	413.3
Morocco	345.8	398.7	389.7	377.2	327.9	383.8	378.5	376.7	334.2	407.0	404.4	379.9	315.5	397.2	404.9	382.9
Oman	350.0	342.4	...	...	402.1	399.3	...	...	396.4	384.7	...	...	455.3	457.4
Palestine	...	392.1	355.7	399.5	...	398.3	388.3	415.2	...	434.7	394.9	414.1	...	445.3	426.6	435.7
Qatar	279.9	410.5	...	...	317.3	423.3	...	...	274.1	413.8	...	...	332.0	441.7
Saudi Arabia	...	337.8	317.2	384.6	...	324.6	339.4	401.8	...	393.0	383.0	421.9	...	407.3	423.8	449.9
Syria	...	360.9	409.9	386.3	...	354.4	391.1	372.1	...	418.6	464.1	429.9	...	405.4	451.7	421.3
Tunisia	460.5	424.0	434.4	426.6	436.3	399.7	411.8	413.5	442.7	417.4	458.2	441.2	417.3	393.4	437.0	428.1
UAE	442.9	...	...	...	463.2	...	...	...	446.0	...	...	...	475.1

Source: NCES various years (1995–2011 results).

Note: The table presents average scores for the participating Arab countries in various rounds of TIMSS since 1995. The world average for TIMSS scores has been calibrated at 500 in 1995 to allow comparison over time and between countries.

TIMSS: Trends in International Mathematics and Science Study.

"...": Not available or not applicable.

3.2

Inequality of opportunity in education

The chance of a most vulnerable girl (has illiterate parents, lives in a rural area, and is in the bottom wealth quintile) ever attending school is only 6 percent in Yemen against 95 percent in Tunisia. Their inequality of opportunity in education varies hugely. This measure refers to the extent to which circumstances beyond children's control determine their educational attainment and achievement. The most important circumstances are family background (parental income and educational attainment) and community characteristics (urban or rural location and the quality of schools). Thus, for example, well-educated parents can use their own resources of time and money to invest more in the human capital

of their children. International comparisons indicate, meanwhile, that, in some Arab countries, the inequality of opportunity is at least as great in educational achievement as in attainment.⁹

Ragui Assaad and others provide estimates of the inequality of opportunity in attainment for the seven Arab countries on which harmonized survey data are available.¹⁰ They estimate the extent to which circumstances affect two measures of attainment: a categorical variable that indicates whether a child has ever attended school and a categorical variable that indicates whether, having attended, the child reached secondary school (grade 9 or higher). Both measures display a wide range across countries in the inequality of opportunity in attainment. Thus, Iraq and Yemen are the least opportunity-equal countries, and Jordan and Tunisia are the most opportunity-equal countries (table 3.2). According to the simulations of the authors, all countries considered in the study provide near-perfect chances for children from the most advantaged backgrounds of entering school and reaching secondary level, but only Tunisia comes close to providing the same opportunities for children from the least advantaged backgrounds. In the remaining countries of the study, the probabilities of ever attending school and of reaching secondary school depend significantly on family background.

Table 3.2 Simulated probabilities of 12–17-year-olds attending school and reaching secondary level, by family background

	Ever attending school (%)				Reaching secondary school (%)			
	Most vulnerable		Most advantaged		Most vulnerable		Most advantaged	
	Boy	Girl	Boy	Girl	Boy	Girl	Boy	Girl
Egypt	83	75	100	100	54	43	100	99
Iraq	38	24	100	100	8	3	94	96
Jordan	99	89	100	100	52	46	91	100
Palestine	81	66	100	99	25	31	92	93
Syria	91	79	100	100	17	10	93	96
Tunisia	100	95	100	100	41	30	100	99
Yemen	40	6	100	99	27	4	99	99

Source: Assaad, Salehi-Isfahani, and Hendy 2014.

Note: Predicted probabilities of ever entering school and reaching secondary school by synthetic backgrounds of rural, illiterate parents, in lowest wealth quintile (most vulnerable); and urban parents with above secondary education in top wealth quintile (most advantaged). Sample covers children 12–17 years of age who live with their parents.

Unequal access to schooling in Yemen, one of the poorest countries, is not surprising. In such poor countries, access to schools, especially at the secondary level, is generally limited to larger cities and richer families because governments lack the resources to build and run schools more widely. Yet, Iraq's similarity to Yemen is surprising, given that Iraq is an oil-rich nation with a GDP per capita four times higher than that of Yemen, with a sizeable middle class and a mostly urban population. The inequality of opportunity observed in educational attainment in Iraq testifies in part to the effects of years of sanctions and war that have undermined the government's capacity to provide schooling.

Arab countries fail to provide the skills needed for the workforce partly because there are too few school facilities and qualified teachers. In most non-Arab countries, higher education and a university degree generally ensure positive labour market outcomes among the recipients. However, in many parts of the Arab region, already high unemployment rates tend to rise with skill level, and vulnerability to unemployment appears highest among people with secondary educational attainment.¹¹ This fosters a deep sense of disappointment and discouragement among youth and pushes many young people to hide out in the educational system rather than face a desperate job search.

3.3

A tough school-to-work transition

Joining the labour market

Among world regions, the Arab region has the highest rate of labour force exclusion among young women. More than two thirds of women in Arab countries in the 15–29 age-group are not in the labour force, compared with 20 percent among young Arab men and 50 percent among young women worldwide (annex 2, figure A.7).¹²

Some have attributed women's low labour force participation rate to conservative social norms.¹³ Yet, the lower female participation rate is a tragic waste of resources. Well educated women especially represent an untapped potential in the Arab world. The inclusion of women in the workforce would have several positive outcomes, including enhanced productivity, greater visibility of important issues revolving women and the family, and, frequently, the greater impact of women on society more generally. One estimate indicates that the national income of the economies of the Arab Countries could expand by as much as 37 percent if gender gaps were eliminated.¹⁴ Economic participation is a cornerstone of women's empowerment, which should be one of the main targets of human development in the Arab world.¹⁵

Employment

Job creation, particularly decent and sustainable job creation, is the most challenging issue facing the region. If the workforce continues to grow at current or similar rates, 60 million new jobs will need to be created in the next decade to absorb the large number of workforce entrants.¹⁶

Informality is one of the characteristics of employment in the region, and a large number of youth work in the informal sector where jobs are unstable and offer low wages and poor working conditions.¹⁷ For instance, over 2000–2005, 75 percent of new labour market entrants in Egypt were employed in the informal sector, a startling jump from only 20 percent in the early 1970s. Similarly, during 2001–2007, 69 percent of new jobs in Syria were in the informal sector.¹⁸ In 2011, vulnerable employment across the Arab region accounted for almost 30 percent of all jobs.¹⁹ The problem is even serious among low-income youth, who are more likely to settle for informal or unpaid family work.²⁰

Traditionally, young individuals found their first job in the public sector. In Egypt, for example, the public sector absorbed 70 percent of the workforce in 1980, compared with 16 percent in the informal sector and barely 8 percent in the formal private sector. In 2000, the public sector employed only 23 percent of the workforce, compared with 42 percent in the informal sector and 10 percent in the formal private sector.²¹ Even though the preference for public sector employment remains high, few such opportunities now exist except in the GCC and Jordan, which seem to be able to sustain public sector employment (box 3.1; annex 2, table A.6).

Box 3.1 Steffen Hertog Characteristics of the GCC labour market

All GCC labour markets share two fundamental characteristics: private labour markets are dominated by foreigners, and the role of government is outsized in employing nationals.

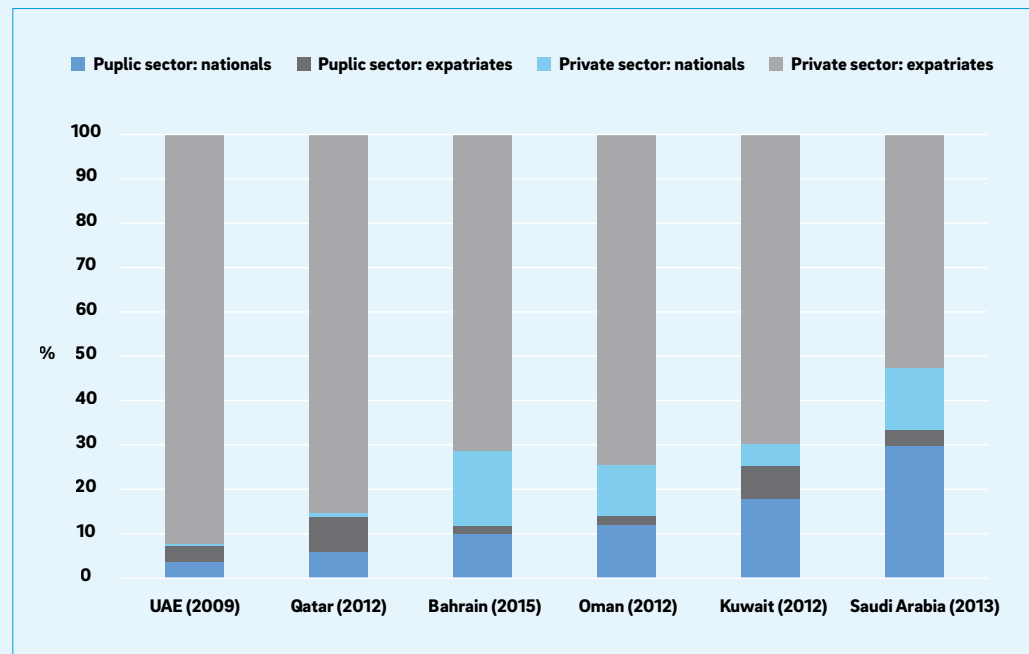
The main economic causes of GCC labour market segmentation are essentially the same across cases: employer-driven open migration regimes leading to large imports of cheap, low-skilled workers, gaps in labour rights between nationals and foreigners within and across sectors, and generous public employment policies.

Although around 20 percent of nationals typically have a public sector job in developed and developing countries, there are more nationals in the public sector than in the private sector in all GCC countries. Average wages for nationals in government are higher; benefits are better; working hours are shorter, and jobs are more secure.

GCC governments have historically used government employment as the main channel for sharing wealth with their citizens. As states and economies have matured and populations grown,

the economic rationale for this form of patronage has become less obvious, while distortions have become more salient. Thus, government employment is rationed in the lower-rent GCC countries (Bahrain, Oman and Saudi Arabia), leading to highly inequitable distribution. This removes national talent from the private sector and parks it in often-idle public sector jobs. It severs the link between local business and the citizenry. It weakens the incentives to acquire an education relevant to the modern economy, and it creates overhead costs and, arguably, weakens the quality of administration. As the GCC's working-age populations continue to grow at 2 percent or more a year, mass government employment is also becoming fiscally unsustainable. The experience of the 1980s and 1990s shows that public salary spending tends to crowd out development spending in austere times because the former is difficult to eliminate. Already, salaries and benefits as a share of total government spending in most GCC countries lie considerably above the global average.

Figure B3.1.1 Distribution of employment by sector and nationality in the GCC



Source: Labour Market Regulatory Authority (Bahrain), Public Authority for Civil Information (Kuwait), Central Bank (Oman), Qatar Statistics Authority, Central Department of Statistics (Saudi Arabia), report team estimates combined with 2005 census data (United Arab Emirates).

At the same time, in combination with low prevalent wages in the private sector, the lure of government employment leads to low labour market participation among nationals. Many young adults are in a state of *waithood*, remaining on stand-by until they are hired by government instead of actively searching for jobs in the private sector. Labour market participation rates among nationals in the GCC range from 36 to 51 percent, compared with two thirds in advanced economies. The rates are especially low among women, for whom fewer government jobs are available (with the partial exception of Kuwait).

The private sector is characterized by low labour productivity owing to its dependence on low-skilled migrants and the rigid sponsorship system, which undermines labour mobility, thereby weakening the incentives for skill accumulation and efficient matching. In all GCC countries but Oman, labour productivity has declined since 1990 despite rapid economic growth. This pattern is shared by all high-rent countries worldwide that strongly rely on migrant labour. The old distributional model is gradually becoming obsolete, but a new one is not yet available.

Note: Steffen Hertog is professor at the London School of Economics and Political Science.

High youth unemployment rates are one of the most distinctive features of Arab labour markets. They have been nearly twice as high as the rates in other global regions since the early 1990s (figure 3.2). The ILO estimates that youth unemployment will keep rising, reaching 29.1 percent in the Middle East and 30.7 percent in North Africa by 2019, whereas the peak rate in other world regions will not exceed 18 percent.²² Moreover, while unemployment rates have surged in, for example, the European Union in recent years, Europe has a functioning social welfare system. In the Arab region, many youth are excluded from work altogether or are engaged in temporary marginal informal activities.²³

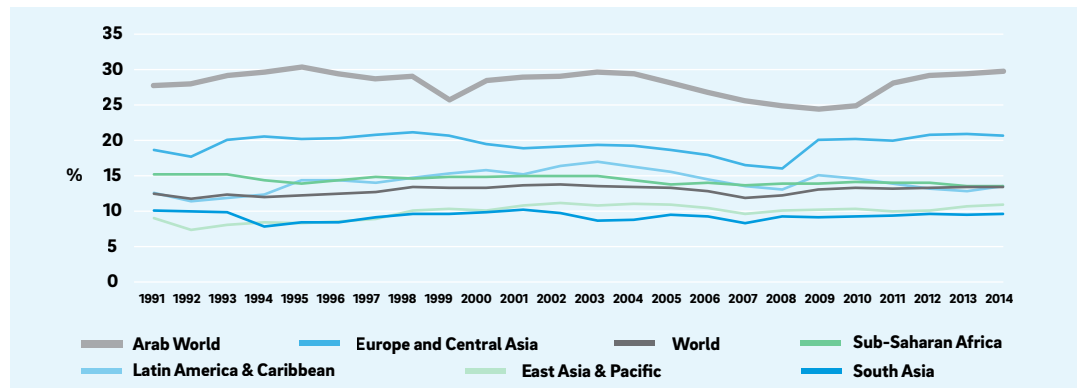
In some Arab countries, unemployment duration exceeds a year for more than half of their youth without work, and fewer than 10 percent find new jobs within a month. Such periods of unemployment among job seekers can have serious consequences beyond income. Extended unemployment causes skills to wither. The damage to health may be as extensive. Psychologists associate unemployment with anxiety, low self-esteem and depression. The longer youth are unemployed, the more detrimental are the effects on health. Long-term joblessness also increases the risk of not reentering the labour force. Employers are less likely to hire candidates who have been jobless for more than six months.²⁴

One explanation for the long periods of unemployment is insufficient labour demand. More than 40 percent of youth in some Arab countries believe there are not enough jobs available (annex 2 table A.7). In some countries such as Jordan and Tunisia, the mismatch between job requirements and applicant qualifications is a substantial barrier to finding a decent job.

Personal contacts play a central role in youth's ability to find jobs. Friends and relatives are the dominant resource (more than 70 percent) for youth in Egypt and Palestine, though in Jordan and Tunisia visiting and socializing with potential employers take on increasing importance (annex 2 table A.8).

Among young women, unemployment rates are the highest in the world, almost double the rates among young Arab men, 48 versus 23 percent.²⁵ Similarly, the ratio of the share of women to the share of men in vulnerable employment in the region is the world's highest (177 percent versus 102 percent in Latin America and the Caribbean countries and 121 percent in sub-Saharan Africa).²⁶ Women also receive lower wages than men in the Arab region.²⁷ Adjusted for age, education and experience, the male-female wage gap reached 20 percent in Jordan, 25 percent in Palestine and 35 percent in Egypt in the public sector. The wage gap is far wider in the private sector, reaching 80 percent in Egypt.²⁸

Figure 3.2 Youth unemployment rate (% of total labour force ages 15–24, modelled ILO estimate), 1991–2013



Source: World Bank 2015b.

3.4 Constraints on job creation

Economic growth in the Arab countries over the past 50 years has been accompanied by substantial volatility, a result of reliance on resource extraction and narrow fiscal policies.²⁹ Arab countries have not incentivized private investment outside oil and gas, sectors that create few jobs. Macroeconomic and political instability discourages potential new market entrants and investment or expansion by established firms.³⁰ Small- and medium-sized enterprises (SMEs), which often have the greatest potential for employment growth, are usually the most sensitive to this lack of stability.³¹

The lack of private investment, coupled with the inefficient regulatory capacity of most Arab countries, has stifled the emergence of a competitive private sector capable of creating employment opportunities among today's youth.³² The structural reforms of the 1990s increased the role of private investment in the economy, but unproductive public investment still dominates. The ratio of private to public investment expanded by nearly half from the 1980s to the 1990s, but still lagged far behind the ratios in OECD countries and East Asia.³³ Private investment

is skewed towards new SMEs or large firms. There is limited empirical evidence that SMEs are an important source of jobs or growth, and productivity growth in large firms is small or negative.³⁴ What investment exists is tilted towards real estate and resource extraction.³⁵ These investment distortions have held back any real expansion in the region's manufacturing base over the past 20 years.

A key constraint to developing the private sector is access to credit. The relative share of Arab firms reporting difficulties with credit is 39 percent, the second largest in the world, and the share of firms using banks to finance investments is 7 percent, the smallest in the world.³⁶ These challenges are faced disproportionately by smaller firms.³⁷ Public banks tend to dominate the banking systems, and they favour large, well-established firms, mirroring the behaviour of private investors.³⁸

Another institutional straitjacket is the red tape private firms must deal with in doing business. Some of it is unique to the region, such as export restrictions.³⁹ Inefficient customs processes are also impediments.⁴⁰ Although many business policies are comparable with those elsewhere, Arab governments do not implement them reliably. Existing policies should be enforced rather than rewritten.⁴¹ This is clear in the World Bank's Doing Business indicators, which find that the policy environment in the region is similar to that in East Asia and the Pacific and more substantial than those in Latin America and the Caribbean, South Asia, and Sub-Saharan Africa.⁴²

Inadequate physical infrastructure (roads, phone networks, and the like) hinders productivity.⁴³ Investment in infrastructure—measured as capital accumulation per worker—fell during the 1990s and 2000s following structural adjustment.⁴⁴

The variety of political and social institutions across Arab countries is also problematic. Dalia Hakura—using an index of institutional quality that includes quality of bureaucracy, rule of law, government stability and corruption—demonstrates that the weaknesses of Arab political institutions likewise hinder productivity.⁴⁵ Some analysts argue that poor institutional quality is the greatest barrier to the development of the private sector.⁴⁶

Labour regulations stymie job growth. First established in the 1960s and 1970s as part of a social contract in Arab countries, they hamper formal firms in responding to economic shifts, thereby discouraging small firms from joining the formal economy.⁴⁷ Active labour market policies, including national employment strategies, are also thin on the ground (box 3.2). Those that have been applied have shown little success.

Corruption, too, is holding back job creation. Many large, inefficient and politically connected private and public firms are sheltered from competition and protected by a policy environment remapped in their favour.⁴⁸ Thus, rather than investing in new production facilities or productive technologies, firms waste resources on greasing relationships with policymakers.

Many smaller enterprises do not join the formal economy to avoid the bureaucracy and regulation that are particularly onerous for smaller firms. This informality entails heavy costs, however, such as constricting the employment growth potential of Arab countries because informal firms are notably unproductive; worse, informal workers in Arab countries are less productive than their peers elsewhere in the developing world.⁴⁹ Nor do people employed in informal enterprises benefit from the protection of labour law, social security, health insurance and other key aspects of decent work.

Box 3.2 Active labour market policies: Promising rather than producing long-term jobs

Using active labour market policies, governments throughout the world have tried to help young job seekers join the labour market. Many of these policies are integrated policies, including training, public works programmes, wage subsidies and employment services. Some are run by the central government alone; others allow a role for the private sector.

During economic crisis, they have been effective, but, in encouraging longer-term private sector job growth, the policies have been largely redundant. During the 2000s, some were funded both locally and internationally, but implemented primarily through government providers. Most were of one of two types. The first relied on employment agencies, often combined with training programmes, such as the National Agency for the Promotion of Employment and Competencies, which was funded internationally and functioned as the monopoly provider of active labour market policy services in Morocco. The agency typified these programmes. It faced myriad bottlenecks, including graduating entrepreneurs who had difficulty accessing credit, subsidized job programmes that did not last beyond the subsidized period, vocational programmes that did not teach useful skills, and job placement services that put educated candidates in positions for unskilled workers.

The second involved cash-for-work programmes that had the immediate goal of creating employment, but

a secondary goal of transferring skills to programme participants to boost their long-term employability.

National employment strategies supported by active labour market policies require reform. National employment strategies in Algeria, Egypt, Jordan, Palestine and Tunisia tend to rely heavily on active labour market policy-type approaches, which may help overcome short-term challenges, but are not deliberate policies aimed at job creation and educational reform. A randomized control trial of an active labour market policy in Yemen—the Labour Intensive Works Project—showed the programme to be effective at generating short-term work opportunities for programme participants, but not at generating long-term employability improvements.

While several Arab countries—the five above, plus Lebanon, Morocco, Syria and Yemen—have active labour market policies run by NGOs and donors, most of these programmes lack the design features associated with success among similar programmes in other contexts. Thus, they lack coordination between programme implementers and the government; their labour-market training approaches do not reflect international best practices; they are not well designed for less well educated women and men; most lack any formal mechanism for communicating what the individual learned as part of the programme; and few are accompanied by monitoring or evaluation.

Source: The Report team.

3.5

Policies that could help labour markets in the Arab region

Labour market programmes: a palliative, but not much more

Active labour market policies could play an important role in smoothing the transition for youth into the labour market. The related programmes, such as career guidance and matching services, might help mitigate the challenges youth face after they leave the educational system, including offsetting the weak social safety nets for the unemployed and supporting entrepreneurship among youth.⁵⁰

Vocational training programmes are often considered a cost-effective way of addressing youth employment. The differences in youth unemployment rates in Europe between countries with well-developed vocational training systems and countries without these systems are often offered as evidence of the value of the systems.⁵¹ Yet, while apprenticeship programmes have positive impacts on employment outcomes across many types of countries, Van der Sluis, Van Praag, and Vijverberg (2005) conclude, after reviewing the effects, that there is only mild evidence of a positive influence on entrepreneurship.⁵² On-the-job training and private rather than public sector programmes appear more effective.⁵³ However, these conclusions are complicated by the adverse selection bias of these programmes.

Meanwhile, in the Arab world, the evidence is still limited.⁵⁴ Recent studies in Morocco find that unemployment rates among individuals participating after graduation in programmes

at a vocational training centre are roughly one-half the rates among other graduates (annex 2, figure A.8). Youth who undergo more extensive training are less likely to be unemployed afterwards.⁵⁵

Realizing the benefits that vocational training could have among young workers requires that two obstacles be removed: the apparent limited interest by the international community in supporting these efforts and the stigma associated with vocational training among the Arab public, which views vocational training as less desirable than other educational options.⁵⁶ One approach to overcoming these obstacles would be to encourage researchers throughout the region to explore the impacts of and best practices in vocational training. Entrepreneurship programmes such as the ILO's Know about Business often prove to be good potential sources of job creation.⁵⁷ These programmes frequently involve coordination with the private sector and focus on providing skills to help young people start businesses. Evidence that they work is scant and hardly reassuring. A recent assessment of entrepreneurship initiatives managed through a vocational training programme in Morocco found no evidence of a positive effect. The initiatives enjoyed only 2–10 percent of the expected uptake.⁵⁸ Data of the School to Work Transition Surveys show similar results: only 4 percent of youth entrepreneurs in Jordan and 15 percent in Palestine reported they benefitted from any type of training within the previous 12 months.

Infrastructure: money well spent

Infrastructure investment has the potential to create significant short-term employment among youth. An additional \$1 billion in infrastructure investment could create more than 100,000 short-term jobs in labour-intensive enterprises.⁵⁹ If properly implemented, the long-term benefits of these programmes would also enhance the quality of public infrastructure, a key challenge facing the Arab countries. In particular, improvements in transport networks, which are often a key focus of these types of interventions, could be particularly beneficial for men and women in rural areas because it would expand their economic opportunities by enhancing their access to markets.⁶⁰

Investment support programmes: money not well spent

Despite the international focus on SMEs as a source of employment growth, access to credit remains tight for SMEs. The estimated financing gap is \$2 billion.⁶¹ Few of the products offered by financial institutions meet their needs. Evidence from Lebanon and Morocco shows that, if these products do meet the needs, SMEs willingly borrow.⁶²

The past 15 years have seen a rapid expansion in access to microfinance in the Arab world. In 2000–2009, the number of microfinance borrowers in Tunisia rose more than 35-fold (figure 3.3). Yet, despite significant initial optimism, most of these programmes faltered quickly. As of 2009, the only countries with any likely future for microfinance programmes were Tunisia and Yemen.

Labour market integration: the jury's still out

Labour market integration has long been important for the Arab world. Thus, employment in the resource-rich countries of the GCC has been a major source of export revenues (remittances) and jobs for other Arab countries. However, over 1990–2010, the number of migrant workers in the labour-receiving countries of the GCC more than doubled, whereas the share of migrant workers from labour-sending Arab countries fell from nearly half to only a third.⁶³ Thus, while workers

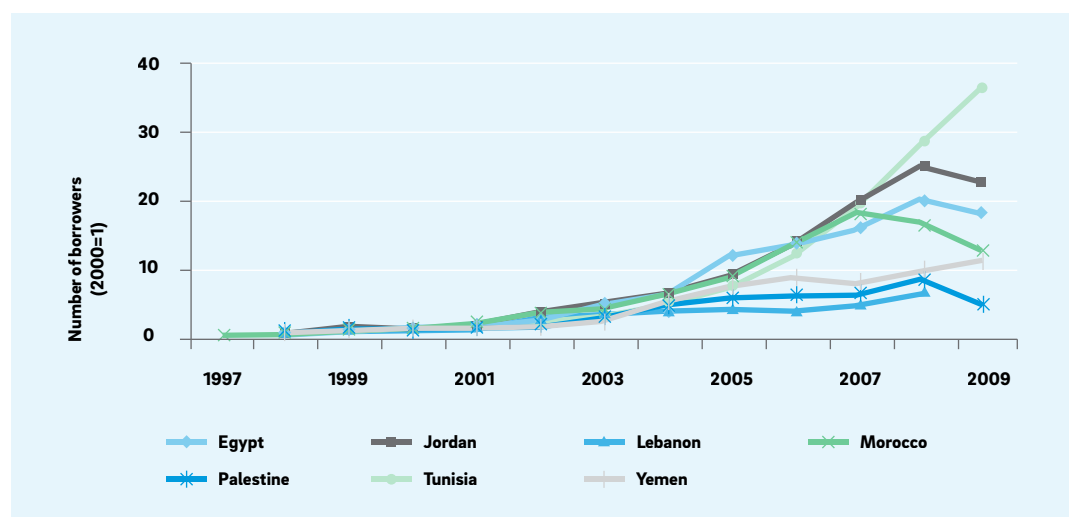
from Arab countries in the GCC countries tend to be more highly skilled, which likely reflects human capital flight from the poorer countries in the region, the number of jobs available to them has not grown as quickly as the number of jobs available to workers from non-Arab countries.⁶⁴

Identifying new approaches for expanding employment opportunities for Arab emigrants within the region has significant potential to ameliorate employment challenges in the poorer countries of the region. Demand- and supply-side programmes are more likely to benefit more mature workers with more experience rather than youth. For example, Mohamed Ali Marouani (2014) explores the impact of liberalization in contract-based employment in labour-receiving countries and argues that such reforms may be more feasible than other labour market reforms because the former are associated with fewer political and socio-cultural costs in host countries and may reduce human capital flight, while providing new opportunities for Arab graduates.⁶⁵ Hoekman and Özden (2010) argue that this type of temporary labour movement is mutually desirable for sending and receiving countries.

The business environment needs to be upgraded

Improving the business environment could have a positive effect on labour markets. Arab entrepreneurs continue to face relatively high

Figure 3.3 Growth in access to microfinance



Source: Report team calculations using Mix Market data and SFD Yemen 2011.

regulatory costs in starting and running their businesses, have less intellectual property protection than competitors throughout the world, and encounter significant inequity in how policies are implemented.⁶⁶ Loko and Diouf (2009), using data from the Maghreb countries, demonstrate that reforms in the business environment, as well as reforms to attract foreign direct investment and decrease public spending, are important for total factor productivity growth. (Box 3.3 supplies information on some of the challenges facing entrepreneurs in technology start-ups.)

Reforming the business environment will require substantive change in how the economies

of Arab countries function. Arab countries continue to make improvements in the domestic business environment. For example, about 20 pro-business reforms were implemented between June 2010 and May 2011; 13 Arab countries made at least one policy change. However, because effective reform will require changing local and international perceptions of the relationships between governments and economic enterprises, it will likely require major political economy shifts. Though some Arab countries, such as those in the GCC, have navigated this challenge, it is not clear that the lessons learned will be transferrable to other countries needing reform.⁶⁷

Box 3.3 Jamil Wyne: Technology entrepreneurs in Arab countries

In a 2013 study of the challenges facing start-ups in the Middle East and North Africa, the Wamda Research Lab surveyed more than 700 companies, nearly half in technology. The study classified technology companies as companies involved in software development and services, e-commerce and online services, gaming, or telecommunications and mobile phone services.

Profile of the entrepreneurs

Technology entrepreneurs tend to be slightly younger, have more access to higher education, have slightly less work or academic experience outside their home countries, work more often with co-founders and are more likely to be men than their non-technology counterparts.

Age: Over half the technology companies surveyed had founders with an average age of around 30 when the company was founded.

Gender: The majority of the technology companies had male founders; only 16 percent of the entrepreneurs were women.

Education: Nearly all the entrepreneurs surveyed had at least a bachelor's degree when they started their company.

Expansion prospects: In the next one or two years, 70 percent of the surveyed entrepreneurs planned to open new offices either in different countries or in countries where they were already operating. Many hoped to expand into

Saudi Arabia (26 percent) or the United Arab Emirates (29 percent).

Size: These companies were relatively small, with an average of 15–20 employees.

Challenges: Thirty percent of the entrepreneurs indicated that obtaining investment was a challenge.

Financing: Greater shares of technology companies received better access to important resources such as angel investment (28 percent), incubation (24 percent) and venture capital (17 percent) than the non-technology companies surveyed. However, only 8 percent had obtained some funding from commercial banks.

Suggested improvements to benefit technology start-ups

Increase access to capital: Entrepreneurs pointed to challenges in obtaining investment. A larger pool of capital, comprising different types and sources of funding, could improve the access to finance.

Facilitate market entry: Many companies pointed to challenges in finding partners to help expansion abroad, as well as in general costs and legal hurdles.

Promote inclusion: The representation of women was limited at technology companies. This lack of inclusion suggests that enabling diversity in education and gender could help expand the pool of innovation.

Note: Jamil Wyne is head of the Wamda Research Lab, <http://www.wamda.com/>.

Endnotes

- ¹ World Bank 2015b.
- ² For example, see El-Haichour 2005; Valverde and others 1995; World Bank 2008.
- ³ UNDP 2003.
- ⁴ Földvári and van Leeuwen 2010; Benaabdelaali, Hanchane, and Kamal 2012.
- ⁵ For example, World Bank 2008.
- ⁶ World Bank 2008.
- ⁷ These tests have been conducted since 1995 with the participation of 13 Arab countries in the 2011 round. Students in the 8th grade are randomly chosen and tested on questions in math and science originating from a common pool but appropriate for the curriculum taught in that country's schools. TIMSS data are an essential source of comparative information on inequality of achievement in the Arab region. Student achievement is described according to the following assessment scales: Advanced International Benchmark (cutpoint score of 625), High International Benchmark (550), Intermediate International Benchmark (475), and Low International Benchmark (400).
- ⁸ Salehi-Isfahani 2012; World Bank 2008.
- ⁹ Salehi-Isfahani 2014.
- ¹⁰ Assaad, Salehi-Isfahani, and Hendy 2014.
- ¹¹ World Bank 2012.
- ¹² Chaaban 2013.
- ¹³ Clark, Ramsbey, and Adler 1991.
- ¹⁴ Cuberes and Teignier 2012.
- ¹⁵ UNDP 2005.
- ¹⁶ WEF 2012.
- ¹⁷ Dhillon and others 2009.
- ¹⁸ European Commission 2010.
- ¹⁹ ILO 2012b.
- ²⁰ Dhillon and others 2009.
- ²¹ UN ESCWA 2014b.
- ²² ILO 2015.
- ²³ Angel-Urdinola and Tanabe 2012.
- ²⁴ Ghayad 2013.
- ²⁵ World Bank 2015b.
- ²⁶ ILO 2012b.
- ²⁷ ILO 2012b.
- ²⁸ World Bank 2013c.
- ²⁹ Chaaban 2013.
- ³⁰ James 2009.
- ³¹ World Bank 2008.
- ³² World Bank 2009.
- ³³ Sala-i-Martin and Artadi 2003.
- ³⁴ Chaaban 2013; Jelili 2013.
- ³⁵ Chaaban 2013.
- ³⁶ IMF 2014a.
- ³⁷ World Bank 2009.
- ³⁸ Ersel and Kandil 2006.
- ³⁹ Bhattacharya and Wolde 2010.
- ⁴⁰ Bhattacharya and Wolde 2010.
- ⁴¹ World Bank 2009.
- ⁴² World Bank 2012.
- ⁴³ In Nabli 2007; e.g., Nabli and Véganzonès-Varoudakis 2007.
- ⁴⁴ Nabli and Keller 2002.
- ⁴⁵ Hakura 2004.
- ⁴⁶ Agénor and others 2007.
- ⁴⁷ Angel-Urdinola and Kuddo 2010.

- ⁴⁸ IMF 2014b.
- ⁴⁹ World Bank 2013a.
- ⁵⁰ Angel-Urdinola and Kuddo 2010; ILO 2013.
- ⁵¹ Ryan 2001.
- ⁵² See also Frick 2006; Rosholm, Nielsen, and Dabalen 2007.
- ⁵³ Friedlander, Greenberg, and Robins 1997; Kluge 2006.
- ⁵⁴ Existing analyses of vocational training in the region tend to use duration models to explore the correlates of postgraduation performance, e.g., Montmarquette, Mourji, and Garni 1996.
- ⁵⁵ Boudarbat and Egel 2014.
- ⁵⁶ Masri and Wilkens 2011.
- ⁵⁷ WEF 2011.
- ⁵⁸ Boudarbat and Egel 2014.
- ⁵⁹ Estache and others 2013.
- ⁶⁰ World Bank 2013a.
- ⁶¹ Stein, Goland, and Schiff 2010.
- ⁶² Nasr and Pearce 2012.
- ⁶³ Marouani 2014.
- ⁶⁴ Awad 2007.
- ⁶⁵ These types of labour imports typically provide services such as accounting, construction, engineering, information technology and legal services (Cattaneo and Walkenhorst 2010).
- ⁶⁶ World Bank 2012.
- ⁶⁷ World Bank 2009.

