EADS Snapshot on

MENA Youth Unemployment

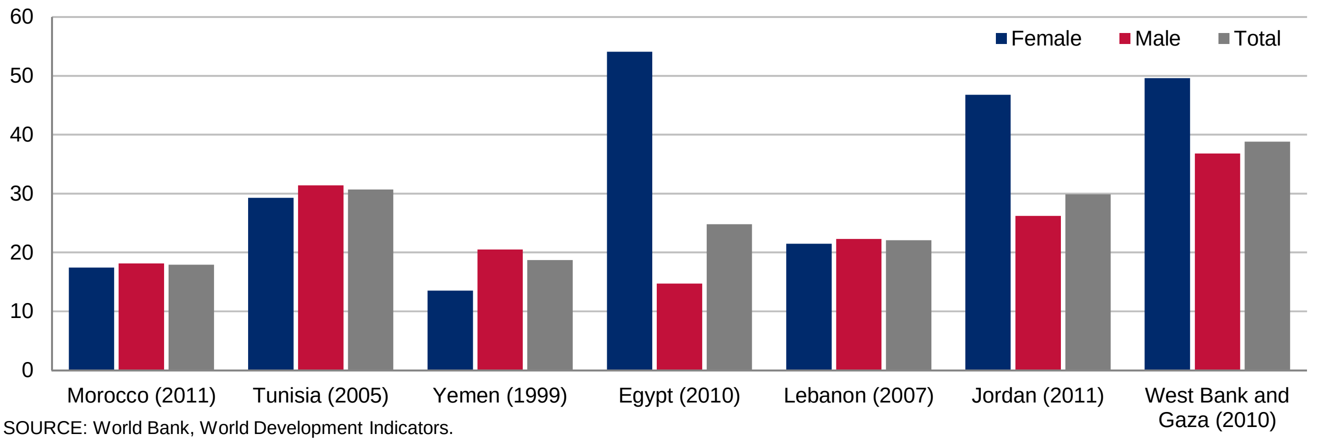
No. 83 December 2013

Arab youth have become the main force behind historical uprisings in the Middle East and North Africa (MENA) region. In December 2010, a young Tunisian fruit vendor burned himself in protest and started the Arab Spring, the genesis of which was the frustration and humiliation of young people who are unemployed or suffer from unsatisfying, low-paying jobs. These frustrations among unemployed and underemployed youth spilled out onto the streets at the beginning of 2011, leading to rebellions against existing political regimes in Egypt, Syria, Tunisia, and Yemen.

This snapshot concentrates on six key factors behind youth unemployment in the MENA region:

- demographic pressure,
- gender discrimination,
- skill mismatches,
- labor market rigidities,
- large public sector, and
- weak private sector.

Youth Unemployment by Gender in MENA Countries
(unemployment as a percent of the respective labor force ages 15–24)



SOURCE: World Bank, World Development Indicators.

Having the right education, skills, and job opportunities, youth are the necessary backbone for the development of robust economies. In the MENA region, 26 percent of the unemployed in the labor force are youth. The high levels of unemployment in the MENA region are caused by growth of the labor force due to the trends shift in the infant mortality, fertility, and population growth shown in charts in the demographic section. The differing gaps in female and male unemployment in different countries are partially explained by the female labor participation and gender gap charts in the gender section. Some of the barriers to solving the problems seen in youth unemployment are shown in the skill mismatches and weak private sector sections.

This snapshot analyzes nine MENA countries: Egypt, Iraq, Jordan, Lebanon, Morocco, Libya, Tunisia, West Bank and Gaza, and Yemen. When comparisons with other regions are made, the focus is on the 76 countries that received at least $2 million in USAID assistance in fiscal year 2011 and are not considered high income countries using World Bank GNI per capita data for 2012. Data presented in this snapshot come from a diverse set of sources. Due to data limitations, not all the nine countries are presented in each section.

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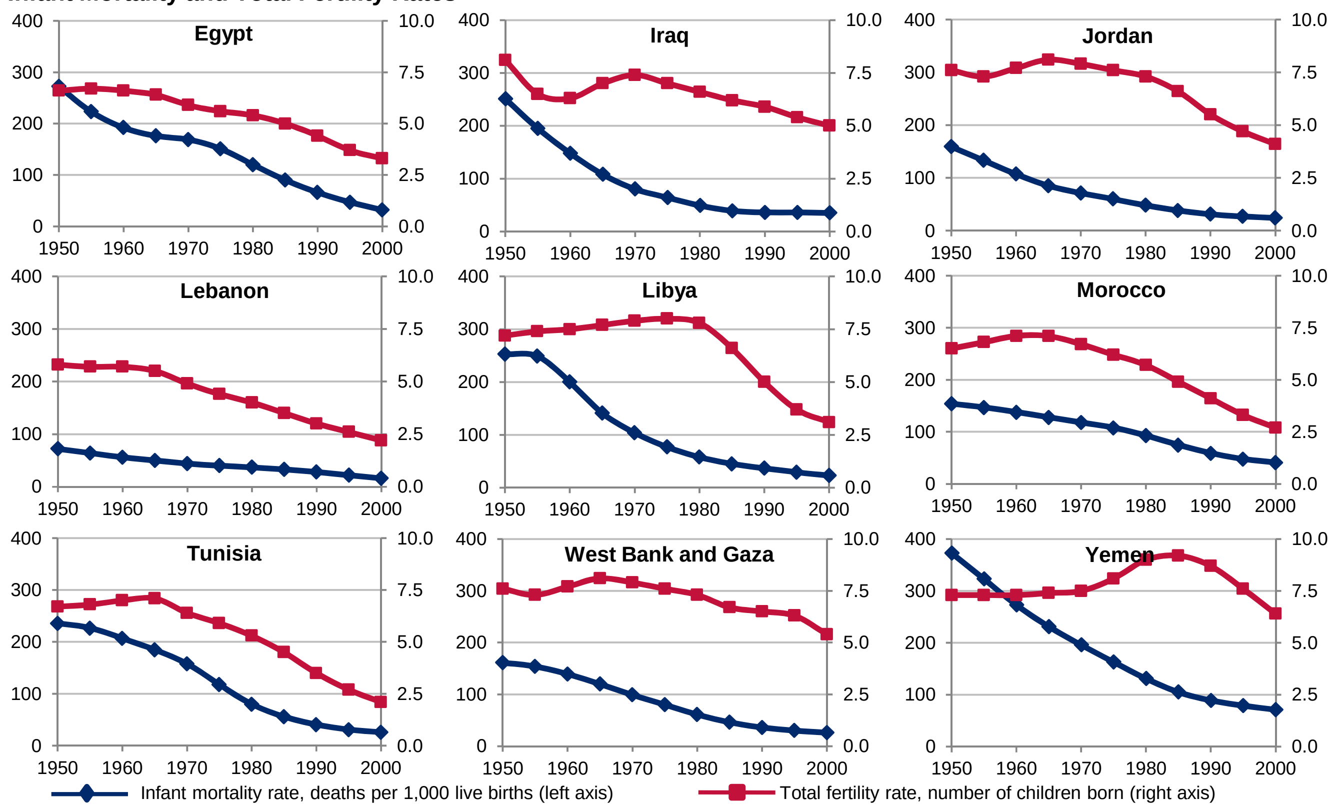
Demographic Pressure

The MENA region is undergoing demographic pressure from the combination of a significant decline in child mortality rates and a relatively slow decline in fertility rates in the second half of the 20th century. At the beginning, this led to an increase in the proportion of children under 15, then an increase in the proportion of youth (ages 15 to 24) as the proportion of children fell after fertility began to decline at a faster pace. Based on the *Youth in the Middle East and North Africa: Demographic Opportunity or Challenge?* by Population Reference Bureau, the increase in youth population combined with rapid growth in the overall population, has resulted in the most rapid growth of youth in the history of the MENA region.

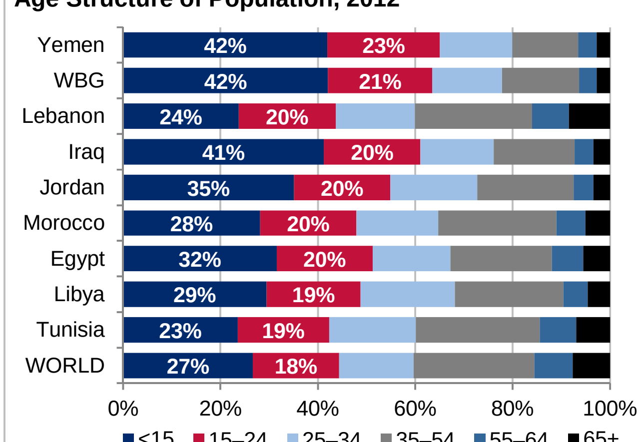
Infant Mortality and Total Fertility Rates



SOURCE: United Nations. World Population Prospects.

MENA has the second youngest population after sub-Saharan Africa. In Yemen (65 percent), West Bank and Gaza (64 percent), Iraq (61 percent), Jordan (55 percent), and Egypt (51 percent), more than half of the population is 24 years old or younger. In some countries such as Yemen and Iraq, fertility is still the driving force behind the growth and age composition of the population. The world (including all countries) median age in 2010 was 29, higher than all MENA countries except for Tunisia, which had the same median age average. Yemen (18) and West Bank and Gaza (18) have the lowest median age followed by Iraq (19) and Syria (22).

Age Structure of Population, 2012

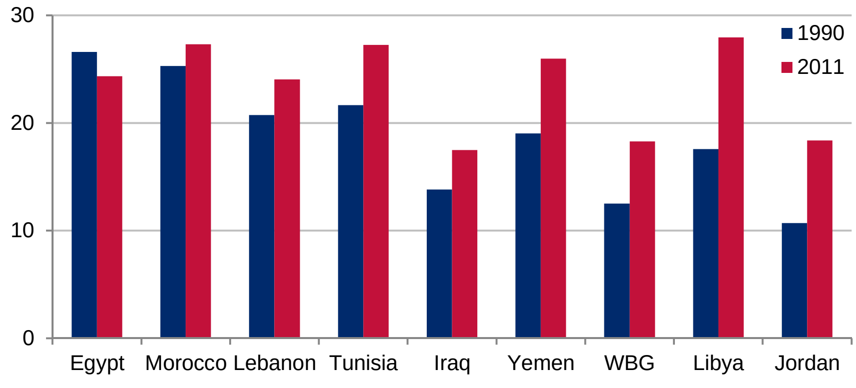


SOURCE: United Nations, World Population Prospects.

Gender Discrimination

Young female participation rates in the MENA labor force are the lowest in the world, with an average of 33 percent. The low rates are mainly caused by social norms and religious practices. For example, young Egyptian females are likely to work primarily to help cover the costs of marriage and establishing a household, but they often quit work after marriage. On the other hand, in Morocco and Lebanon, young females tend to work after marriage, but they stop after they start having children.

Female Labor Participation Rates (percent)

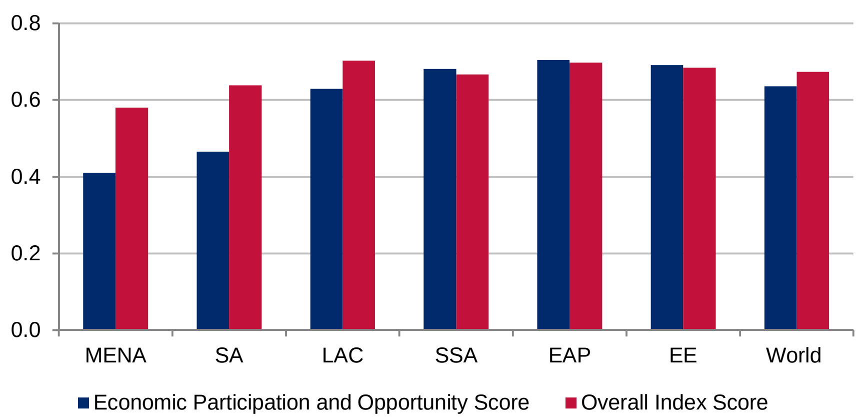


SOURCE: World Bank, World Development Indicators.

Female labor force participation rates have been on the rise. This is related to a declining in fertility rate, higher educational attainment, and changing social norms. The large increase in female labor force participation rates has contributed to the high rates of unemployment, especially among young females. High male unemployment rates in MENA encourage females to look for work in order to support their families, which increase female unemployment rates. In addition, social norms limit the local and international mobility of women in some of MENA countries.

Gender-based discrimination is very high in MENA region, and it is codified in family law, commercial and criminal codes, and laws governing political participation. Based on the *Global Gender Gap 2013* by the World Economic Forum, MENA women scored the lowest (0.41) on economic participation and opportunity, well below the 0.64 world average.

Global Gender Gap Scores, 2013



SOURCE: World Economic Forum, Global Gender Gap.

Five out of the seven lowest performing countries on female labor force participation and estimated earned income are from the MENA region. The Egypt overall index score has decreased this year, mainly because of the decrease in the enrollment in secondary education, and the worsening perception of wage inequality between females and males for similar type of work. Lastly, Yemen has ranked last in the MENA region in the enrollment in secondary education indicator.

Skill Mismatches

Labor market mismatches in the MENA region are caused by a failed educational system and the inability of the economy to produce highly skilled jobs. MENA produces more graduates in the humanities and social sciences (appropriate for employment within public sectors) than in science and technology. All participating Arab countries in the *Trends in International Mathematics and Science Study (TIMSS) 2011* scored below the international average in mathematics and science for 8th graders. MENA was the only region with all its member countries scoring below the international average. These results show that the educational system in the Arab world is underperforming compared to the rest of the world in these subjects. TIMSS analyzed the following MENA countries: Jordan, Lebanon, Tunisia, West Bank and Gaza, and Morocco.

A McKinsey Center for Government report, "Education to Employment: Designing a System That Works," relates that employers that actively engage with schools and students get more qualified talented workers. Employers place a greater importance on "soft skills" such as work ethic and teamwork above computer literacy. Nevertheless, the McKinsey report describes how the educational system in the MENA places little emphasis on problem-solving, group work, and building interactive teaching skills that could develop soft skills. Firms express significant dissatisfaction in finding workers in the MENA region with acceptable soft skills.

Distribution of Mathematic Achievement, 2011

Rank (out of 42)	Country	Score
1	Korea, Rep. of	613
	International Average	467
25	Lebanon	449
30	Tunisia	425
35	Jordan	406
36	West Bank and Gaza	404
40	Morocco	371
41	Oman	366

SOURCE: Institute of Education Sciences.

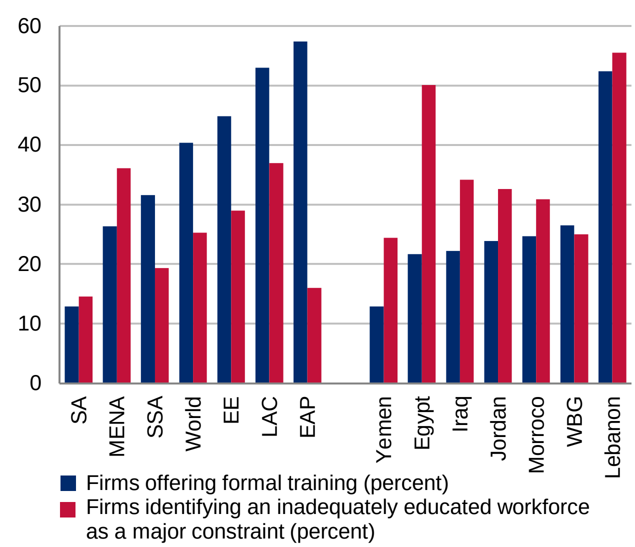
Distribution of Science Achievement, 2011

Rank (out of 42)	Country	Score
1	Singapore	590
	International Average	477
28	Jordan	449
29	Tunisia	439
34	West Bank and Gaza	420
36	Oman	420
39	Lebanon	406
41	Morocco	376

SOURCE: Institute of Education Sciences.

According to the *Enterprise Surveys* by the World Bank, an inadequately educated workforce in the MENA region was identified by businesses as a major constraint for their current operations. The region had a high percentage of firms dissatisfied with its educational system (36 percent)—which is well above the 25 percent world average. This implies that there is a need to improve the relevance of education and training to meet the needs of the economy, employers, and learners. Moreover, only 26 percent of firms offer formal training in the MENA region—the second lowest percentage after South Asia (13 percent). In addition to inadequate workforce, MENA scored low on access to finance, electricity, corruption, and tax rates.

Enterprise Surveys Indicators, 2011

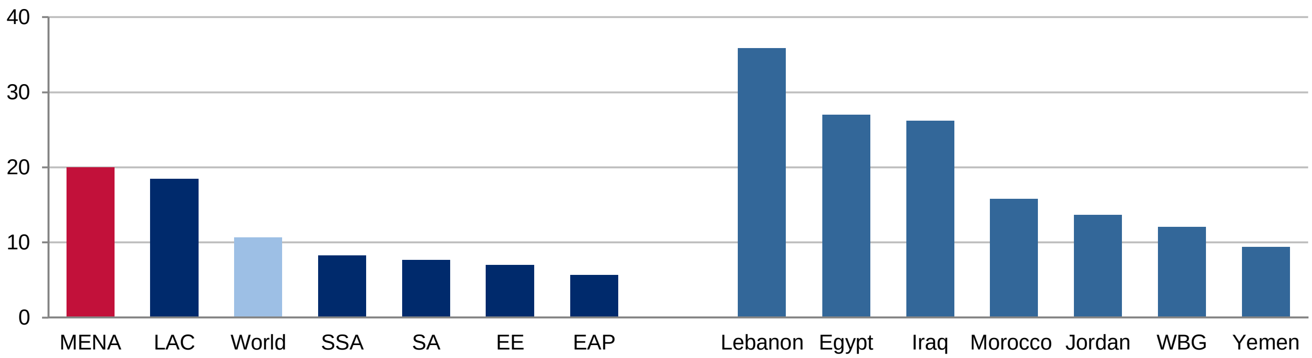


SOURCE: World Bank, Enterprise Surveys.

Labor Market Rigidities

Labor regulations restrict employability in the MENA and are a major constraint to the business environment. According to the *Enterprise Surveys* by the World Bank, 20 percent of the firms perceived labor regulations as major constraints to conduct work in the MENA compared to an 11 percent world average. In Egypt, according to the *Investment Climate Assessment (ICA)* survey, labor regulations and mandatory contributions continue to constrain many enterprises from growing their formal employment; 26 percent of the firms have issues with these labor regulations. In the absence of these existing regulations, firms indicate that they would hire more workers which would increase enterprises' engagement in youth employability.

Firms Identifying Labor Regulations as a Major Constraint, 2011 (percent)

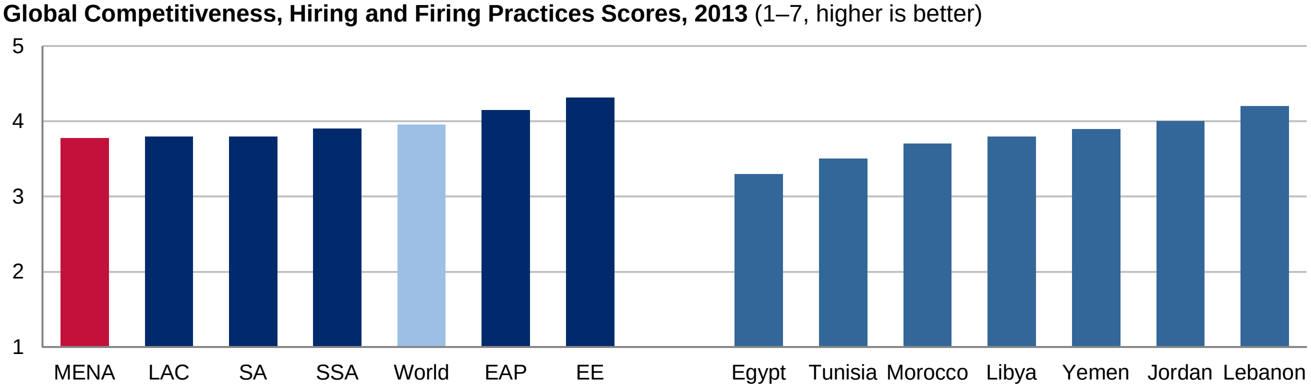


SOURCE: World Bank, Enterprise Surveys.

The MENA region has scored the lowest (3.8 percent) in the hiring and firing indicator according to the World Economic Forum's *2013 Global Competitiveness* report. This shows a lack of flexibility in the workforce that in return discourages firms from employing first-time job seekers and limits job creation. As a result, unemployment of youth rises and more workers are pushed into the informal sector where social protection is lacking. Hiring and firing restrictions on large firms in the MENA region cause the presence of smaller firms and unexploited economies of scale, which reduces overall productivity growth.

However, according to a World Bank report "Unlocking the Employment Potential in the Middle East and North Africa," many countries in the MENA region are initiating employment programs to increase hiring but are still paying less attention to restrictions on dismissal and layoffs which increase rigidities in their labor markets. The report also mentions that dismissal is administratively troublesome for MENA countries. For example, dismissed workers in Tunisia and Morocco have the right to pursue legal measures that can result in heavy costs for firms.

Global Competitiveness, Hiring and Firing Practices Scores, 2013 (1–7, higher is better)



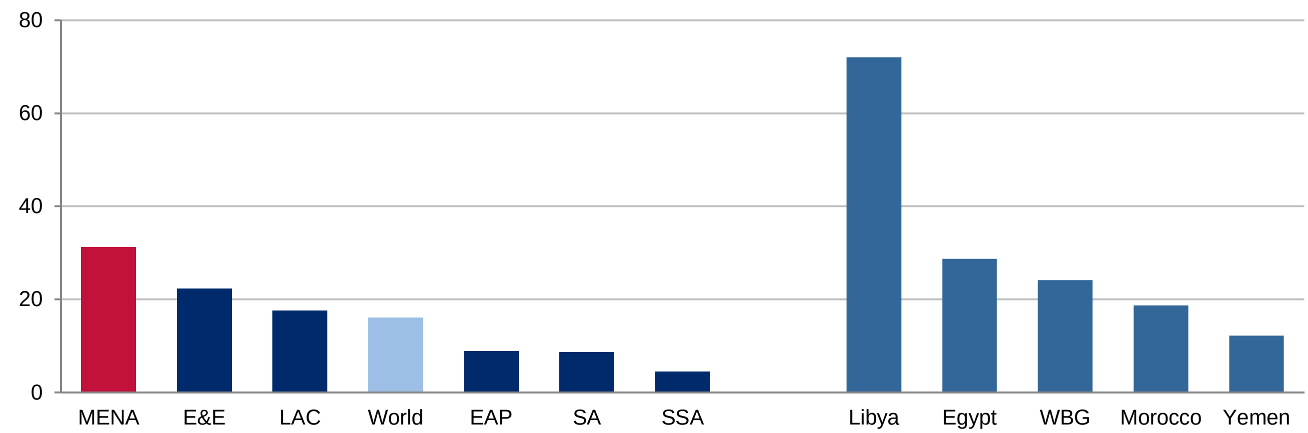
SOURCE: World Economic Forum, Global Competitiveness.

Large Public Sector

Most countries in the MENA region are characterized by large public sectors and low productivity growth, fragile private sectors dominated mostly by small enterprises, and high costs of doing business. Because of their higher wages, large public sectors are soaking up talent that would otherwise go to the private sector. The causes of large public sectors are: socialist legacy (Algeria and Egypt), limited private sector growth (Morocco, Egypt, and Morocco), and political and ethnic pressure (Iraq, Lebanon, and West Bank and Gaza).

MENA region employment in the public sector is 31 percent compared to a 16 percent world average. Public sector jobs in MENA are characterized by generous medical and retirement benefits, short work hours, large pensions, and transportation benefits which encourage educated individuals to queue for public sector jobs. According to a World Bank policy research working paper "Workers in Crisis in the MENA Region: An analysis of labor market outcomes and prospects for the future," public sector wages in MENA were about 30 percent higher than in the private sector in the 1990s. This trend continues today.

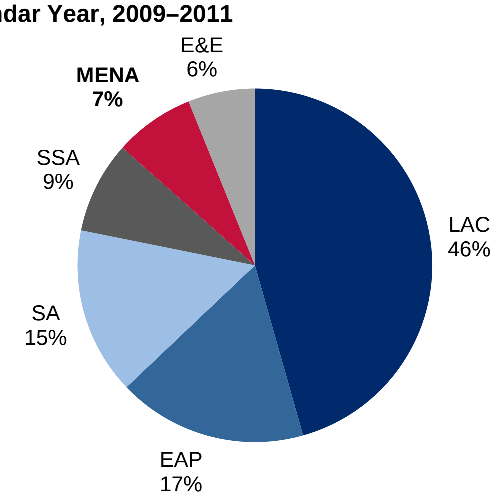
Employment in the Public Sector as Percent of Total Employment, 2008



SOURCE: World Bank, World Development Indicators.

The wait for public sector jobs by youth in the MENA has weakened entrepreneurship initiatives among these young educated workers and added to the long unemployment spells. The analyses carried out by the U.S. Census Bureau, Center for Economic Studies, "Who Creates Jobs? Small vs. Large vs. Young," elaborates on the importance of business startups and young businesses in gross and net job creation. The World Bank's *Doing Business* indicators scored the MENA region the second lowest (7 percent) after Europe and Eurasia (6 percent) in the number of new limited liability companies. Entrepreneurs are the driving force behind small and medium enterprises and in turn create new jobs. In addition to a large public sector, entrepreneurs in the MENA region face many challenges such as underdeveloped capital markets, difficulties in establishing and closing down a business, and lack of business incubation centers.

Newly Registered Corporations During the Calendar Year, 2009–2011

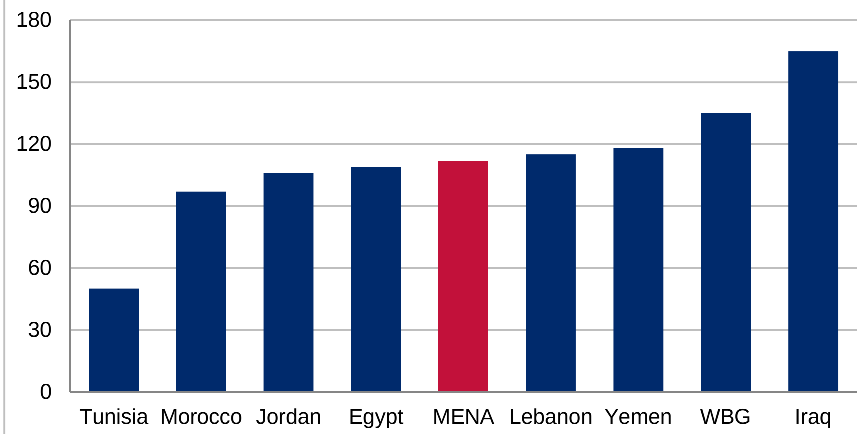


SOURCE: World Bank, Doing Business—Entrepreneurship.

Weak Private Sector

The MENA region has a challenging business environment and difficulties with the development of its weak private sector. The region's economy is highly unstable, closed to international markets, characterized by undeveloped products and factors markets, and lacking in critical infrastructure. Over the last two decades the private sector in the region has failed to transform its countries into diversified high-performing economies. This is mainly caused by the large public sector that distorted incentives and imposed costs in the private sector. It needs to open up to a stronger and competitive private sector to encourage investment and stimulate productivity growth. Moreover, the role of the public sector needs to be reshaped from a purveyor of jobs to a provider of sound physical and institutional infrastructure.

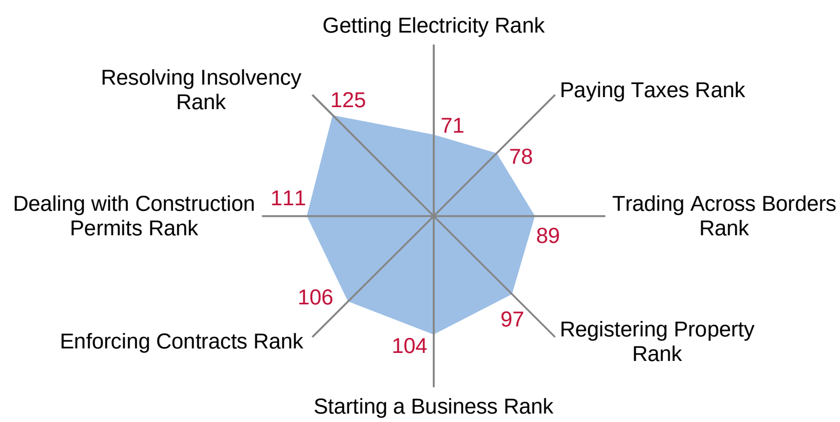
Ease of Doing Business Rankings, 2013 (out of 185 economies)



SOURCE: World Bank, Doing Business.

The World Bank's *2013 Doing Business* average ranking for the region put the MENA economies at 112th out of 185 on the Ease of Doing Business indicator. The three main challenges that face the region are enforcing contracts (125/185), dealing with construction permits (111/185), and resolving insolvency (106/185). Iraq scored the lowest (165/185) in the MENA on the Ease of Doing Business indicator, mostly because of the high cost of starting a business due to the rise of legal fees to draft articles of association and the cost to obtain a name reservation certificate. Tunisia has scored the highest in the MENA region (50/185), as a result of its regional standing in the following *Doing Business* indicators: trading across borders (30/185), resolving insolvency (39/185), and getting electricity (51/185).

Average Doing Business Rankings for MENA, 2013 (out of 185 economies)



SOURCE: World Bank, Doing Business.

Additional Information

For questions or more information, please contact the author, Georges Fadel, at gfadel@devtechsys.com.

The ESDB website (http://esdb.eads.usaidallnet.gov/) offers indices on social and economic development and governance. Sources included in this snapshot are the following: World Bank, World Development Indicators; World Bank, Enterprise Surveys; United Nations, World Population Prospects; World Economic Forum, Global Gender Gap; and World Economic Forum, Global Competitiveness.