Deauville Partnership
IFI Coordination Platform
Meeting of Finance Ministers
Washington DC, 20 April 2012

Short-term
Job Creation

Lessons Learned
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SHORT-TERM JOB CREATION –
LESSONS LEARNED
This report was prepared by the Coordination Platform for the International Financial Institutions that are associated with the Deauville Partnership. It was prepared through the Secretariat at the African Development Bank, based on contributions from the institutions. The Secretariat takes the full responsibility for the contents of the report.

The Secretariat wishes to thank Mr. William Shaw for invaluable assistance with drafting of the report.
Introduction

High unemployment rates in the Deauville Partnership countries, particularly among women and the young, have been driven by rapid population growth that has increased the supply of workers; skills mismatches, employment protection regulations, and a shrinking public sector that has reduced the demand for workers; and a slowdown in economic growth exacerbated by the financial crisis. In a period of transition marked by high expectations for change but also economic slowdown caused by political instability, policies to address unemployment need to respond to the current crisis and manage short-term expectations, while also creating the long-term conditions for sustainable, high-quality jobs.

Creation of jobs is one of the objectives of the Deauville Partnership. At a meeting of deputy finance ministers in Abu Dhabi in February 2012, partners highlighted addressing unemployment and creating jobs as a key priority in the short term for countries in transition. This was further highlighted at the meeting of the Trade, investment and integration pillar in Jordan on 11-12 April. Governments have already launched special programmes aimed at creating jobs, with further such efforts to come.

In that context, the IFI coordination platform decided to compile experiences from its own activities and other analysis concerning short-term public programmes for job creation. This paper offers a brief comparative perspective of different public policies and programmes implemented over time and across countries. It does not offer policy recommendations, but the overview of lessons learned can guide discussions at the country level on policy options and the future design of programmes.

It should be noted that, in general, providing conditions for a thriving private sector that allows companies to grow will have the greatest impact on job creation in the short- and medium-term. However, generating those conditions requires a much more comprehensive set of policies that are beyond the scope of this paper, which focuses on the more direct government interventions. Progress under the IFIs Private Sector Development Initiative is reported in a separate paper.

In addition to the main section on the lessons learned, the report includes an annex with background on the employment challenge in the Deauville partnership countries, as well as indications of further studies by IFIs that will help inform activities at the country level. A separate listing of IFI activities in the Deauville Partnership countries was prepared in parallel for submission to the meeting of Finance Ministers last April 2012.

A. Cross-Cutting Themes

There is a wealth of global experience with government efforts to address high rates of unemployment and other poor labour market outcomes. This section gathers input from IFIs, supplemented by other sources, on the lessons from employment programmes in both developing and industrial countries, with particular focus on their short-term impact. The purpose is to provide useful background for the formulation of labour market policies and, particularly, employment programmes, in the Deauville Partnership countries, not to review the experience with jobs programmes in these countries or to recommend specific policies.

An important conclusion from the OECD is that policies for promoting more and better jobs involve a comprehensive reform package (education, labour policy, entrepreneurship promotion, infrastructure, 

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1 The principal contributions to this section are the OECD paper “Short-Term Job Creation Measures: Lessons from OECD and Partner Countries” and the IMF paper “Unemployment Challenge-MCD Response”. Other sources are referenced individually.
etc.) at different governance levels, and do not yield immediate results. Moreover, policies and programmes to create short-term employment should be seeking the maximum positive externalities and synergies with the creation of conditions for long-term employment generation such as: i) Implications for private sector development, (e.g. fiscal sustainability); ii) The potential division of labour markets into more and less protected segments, and/or iii) The development of inefficient or unnecessary infrastructure projects. Over the long term, the only way to ensure an adequate demand for workers to fill high-quality jobs is to improve the investment climate.

Major employment programmes have involved training, job placement, subsidies to firms to encourage hiring, income support to workers, public works programmes, and regulatory reform. It also is important to consider the particular situations of women and the young, whose unemployment rates are exceedingly high in the Deauville Partnership countries. All of these programmes involve difficult, and to some extent idiosyncratic, issues which are discussed in detail below. However, there also are a few cross-cutting themes that should be considered when designing short-term employment programmes in the MENA region (although design must be guided by conditions on the ground, which are often country specific).

First, public employment programmes can be made more efficient by working with the private sector. Involving employers and labour unions in the design and execution of training, hiring trainers with relevant employment experience, and providing on-the-job training tends to improve graduates’ ability to find jobs. Often it is at the local level that employment services can work effectively with employers and industry sectors on concrete approaches which meet the immediate needs of employers and prepare future pipelines of employees. Contracting out services in job placement and infrastructure projects can reduce costs, but also raises issues concerning conflicting goals between contractors and the public sector, resulting in the need for close monitoring and supervision. Effective supervision is particularly critical in services that find jobs overseas, given the greater degree of information asymmetry and the potential for abuse.

Second, decentralizing management of jobs programmes can improve effectiveness, but strong oversight is essential. Involving local communities in the design of conditional cash transfer programmes and public works programmes are critical to meet local needs and to improve targeting. However, the central government needs to pay careful attention to ensure that reliance on local communities does not perpetuate discriminatory practices or corruption by dominant local groups.

Third, designing effective programmes requires more knowledge. Obtaining reliable statistics is critical to employment programmes in general. Evaluations should be integrated into the design of programmes to improve the reliability of conclusions and to help build a global knowledge base on which programmes work.

Fourth, policy design should pay careful attention to unintended effects. Subsidizing new hires will not raise total employment if firms cancel an equal number of temporary employment contracts. Increasing employment by subsidizing some SMEs may reduce jobs in other SMEs. Overly strict requirements for hearings, severance payments, and notice to fire workers may discourage hiring under permanent contracts, increase labour market duality, and particularly disadvantage young people and women.

Fifth, effective targeting is essential. Public works programmes, as well as conditional cash transfer programmes, can reach those most in need at reasonable cost by creating mechanisms for self-selection. For public works programmes it means setting the wage rate at or below the prevailing wage for unskilled labour so only those not accessing regular jobs apply for public works programs. Cash transfers can be provided to households in poor communities by identifying the regions with high poverty levels, and conditioning eligibility to living in such regions. Job placement services face difficulties in effective
targeting, which is one reason why in environments of high unemployment more general provision of information may be preferred to more effective, but also more costly, face to face interviews.

Finally, job programmes need to be integrated into a comprehensive approach. Training programmes should not be carried out in isolation to job placement services. Programme design in both the employment and training sectors needs to be flexible enough to be adapted to meet objectives agreed in partnership at the point of policy implementation. Making available training and job placement services to workers in firms receiving subsidies can reduce dependency on subsidized jobs. Fundamentally, addressing the employment problem in Deauville Partnership countries will require comprehensive reforms to promote private sector development, reform educational systems so that curricula are better aligned with private sector needs, and improve the efficiency of public sector services. But jobs programmes are an essential part of that overall effort.

B. Lessons Learned on Individual Types of Job Programs

Promoting skills

Training can be made more relevant and effective by involving the private sector, improving integration with other employment programmes, providing on-the-job training, and integrating evaluations into programme design. While small-scale programmes achieve better results, they can be expensive.

Educational and training programmes, including work-based learning for youth as well as programmes for adults and the unemployed, are ineffective in many countries. Weak infrastructure and administrative capacity (qualifications frameworks, teacher training programmes, training equipment, career guidance, and labour market information) degrades the quality of instruction, curricula often fail to teach skills required in the marketplace, and the lack of reliable accreditation makes it difficult for job seekers to choose programmes efficiently.

Perhaps the highest priority for reform is to ensure that training programmes teach skills that are demanded by hiring firms. The most successful programmes involve employers and unions in curriculum development, policy formulation and management. The establishment of permanent coordination mechanisms with employers’ and workers’ groups (for example, the sector councils in Korea) is more likely to effectively integrate marketplace concerns than ad hoc consultations. Hiring teachers with workplace experience, for example by encouraging trainers to work part-time and promoting flexible pathways of recruitment, can also help ensure that training remains relevant in a rapidly changing environment. Training programmes should also provide potential employees with the generic, transferable skills to support future occupational mobility and life-long learning.

Governments should adopt a comprehensive approach to the provision of training. Training should be integrated with other programmes to support employment, for example wage subsidies provided firms, counselling, and placement services. Responsibility for training in some countries is divided among several agencies that operate in isolation, resulting in fragmented and inconsistent programmes. Centralization of public sector training may be impractical and could make training services more

removed from the demands in each sector. Again, this requires flexibility at the local level when it comes to programme design. Greater effectiveness can often be achieved by ensuring that agencies providing training adopt common policies.

For youth, a range of evidence suggests that high-quality vocational education and training (VET) pathways in upper secondary education can help engage individuals who have become disaffected with academic education, thereby ensuring smoother transitions from school to work, while also improving graduation rates. Assisted by short-term internships/apprenticeship in a practical learning environment, VET can improve the quality of learning and provide trainees with contacts that can facilitate finding a job after graduation. Another relatively cost-effective approach to training is to involve students in virtual enterprises, for example setting up practice firms or using web-based technology to simulate practical experience. VET programmes appear to be particularly indicated to respond to the labor-market needs of the MENA economies, whose systems of secondary education remain excessively focussed on general pathways, presently. This situation not only exacerbates skills mismatches, it also increases the dependence on tertiary education.

On-the-job training tends to be more effective than classroom instruction. Short-term internships and other means of teaching skills in a practical environment can improve the learning experience and provide trainees with contacts that can facilitate finding a job. Another relatively cost-effective approach to training is to involve students in virtual enterprises, for example setting up practice firms or using web-based technology to simulate practical experience.

Narrowly-targeted and small-scale training programmes tend to be more successful than large programmes that address a wide variety of skills. For example, the experience of retraining programmes to address mass layoffs is not very positive. Nevertheless, there is a trade-off between the effectiveness of training and the ability to reach a significant share of unemployed workers. Curriculum development, administration, and the delivery of training are all subject to economies of scale, while elevated rates of unemployment and substantial mismatches between workers’ skills and firms’ requirements indicate the need for large-scale programmes.

Evaluation should be integrated into the design of training programmes ex ante, rather than added as an afterthought. The reports of students and teachers will be more reliable if assessments are made as the training progresses and as a regular part of the process, rather than done by outside agencies at a later date. And the reliability of conclusions is greater if the evaluation approach is based on programme design, rather than structured on the basis of results. Ex-ante evaluations will both improve knowledge on specific programmes and help build an international knowledge base.

**Improving employment services**

*Employment services should capitalize on private sector knowledge and Internet technology. But contracting with private agencies needs to be carefully monitored.*

Employment services are most effective when they are closest to the marketplace. As with training programmes, consultations with large firms, employers’ organizations and labour unions is critical in gauging the demand for skills. In addition, private employment agencies can be hired to provide job

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placement services. However, the effective use of private agencies to provide public employment services requires careful management. Private agencies tend to serve the needs of employers rather than focusing on the needs of job seekers and are likely to assist the workers who are easiest to place (e.g. with technical skills) rather than those most in need of assistance. The terms of contracts could include employment targets, both general and for specific categories of workers (e.g. women, low-skilled, disabled), and careful monitoring and follow-up interviews with job applicants should be conducted to ensure the quality of services provided. Local non-governmental organizations can be used to meet the needs of particular groups or areas.

Given resource constraints and the substantial costs involved in individual placement services, counselling often should focus on the provision of information that can reach a wide range of job seekers. The Internet can be used to provide information cheaply, to tailor information to individual requirements, and to encourage contacts between firms and potential employees without the need for individual counsellors.

**Labour mobility**

*Governments can reduce the risks of migration through providing training and placement services, and through international agreements.*

Rapid population growth in the Deauville Partnership countries, coupled with the aging of advanced countries, is generating enormous pressures for international migration. However, policies in advanced countries that encourage the entry of high-skilled workers and severely restrict the admission of low-skilled workers may have negative effects in sending countries as they risk losing their most productive workers. In addition, low-skilled workers are either denied the opportunity to gain experience overseas or do so only at the risk of exploitation through undocumented immigration.

Sending country governments can play a key role in reducing the risks facing potential low-skilled emigrants through the provision of pre-departure training and placement services, and the removal of impediments to private agencies (accompanied by strong regulation to prevent fraud, exploitation, and abuse). Bilateral migration agreements with receiving countries can help protect a country’s overseas workers by expanding legal job opportunities and facilitating oversight of working conditions by the host country. While circular migration is often thought of in a north-south context, there also are significant opportunities for MENA workers in other regional countries that could be encouraged by bilateral or regional agreements. Fundamentally, however, migration is not a solution to high unemployment. A strengthening of the investment climate and the reform of education to provide the skills required in today’s marketplace is the only way to provide the high-quality jobs needed by an expanding labour force.

**Providing subsidies to firms to increase employment**

*Subsidies programmes can be expensive and ineffective in raising aggregate employment levels. Credit programmes can address a critical market distortion, but can expose the public sector to substantial losses. Self-employment programmes tend to serve the better off.*

Providing subsidies to private sector firms is generally not recommended and are often difficult to remove once implemented. Subsidies tend to be expensive. For example, in the OECD countries, exemptions from social insurance contributions have a particularly high budgetary cost compared to other forms of active labour market programmes. Subsidies also are not very effective in promoting net gains in employment. Subsidies programmes may simply pay firms to hire or retain workers that they would have hired or retained without the subsidy. Firms may respond to broad-based subsidies for new hires by
failing to retain temporary workers, or to more targeted programmes for particular groups of job seekers by failing to hire workers not covered by the subsidy. And programmes that support particular groups of firms, or that are limited in their coverage among targeted groups, can reduce employment by firms and workers that do not benefit from subsidies. Moreover, the jobs created through subsidies rarely last once subsidies are lifted.  

Programmes that focus on credit can ease the distortions that arise from credit rationing. However, if not properly managed credit programmes can also expose the public sector to substantial losses. An important lesson is that credit programmes should be operated in partnership with financial institutions that have expertise in risk assessment. One approach is to focus on small financial institutions linked to local areas and to local entrepreneurs, where it is easier to check the value of projects and identify where the money is actually going. Credit programmes should consider firms and entrepreneurs with a feasible business idea and positive cash-flow generating prospects, but with no access to finance due to, for instance, the lack of collateral or credit history. Particular attention should be paid to credit constraints faced by informal sector firms, which often lack property rights and sufficient collateral.

Programmes that provide direct support for self-employment tend to reach only 2-3 percent of the unemployed, given that many workers lack the temperament to take on the risks of owning a business. Such programmes also tend to reach only the higher-skilled segment of the unemployed, as participants are primarily male, better educated, and in their 30’s.

Social protection schemes

Income support for poor or unemployed workers has long been a mainstay of safety nets in advanced countries, while cash transfer schemes targeted at poor households have been developed in the emerging economies since the 1990s. Conditional cash transfers programmes provide support to poor households and encourage the uptake of health and education services, particularly for children and pregnant women. Considerable efforts are required to target programmes on the poor. Given the relatively low levels of literacy and administrative registration among the poor, most programmes estimate incomes from household characteristics derived from survey data. Conditional cash transfer programmes have reduced child labour by requiring school attendance for participation, and by reducing economic pressures on parents to put children to work. Moreover, while the primary focus of conditional cash transfer programmes should be social protection and human capital development, experiences with these programmes in countries like Mexico and Brazil show that there are significant indirect benefits in terms of job creation. Evidence suggests that the proportion of employed adults, especially women, tends to rise in families receiving conditional cash transfers.

The unemployment insurance system has also an essential role to play in social protection. For example, evidence from Brazil suggests that providing income support to job losers in the form of unemployment benefits or severance pay reduces the pressure on them to accept job offers that involve large adjustment costs or do not match their qualifications, particularly for those facing tight liquidity constraints. Considerable impetus towards the development of effective unemployment insurance systems, including in emerging economies, was provided by the global crisis of 2008-09. The crisis revealed that having

social protection systems in place before the crisis strengthens the effectiveness of social policy responses to changing economic conditions and needs. However, the development of adequate unemployment insurances involves challenges. The first is to ensure that the system provides adequate support to the job seekers in a context of limited fiscal resources and weak administration and a high rate of informal work that leaves large parts of the workforce uncovered by the main instruments. A second challenge is to ensure that the system does not reduce incentives for work, particularly in the formal sector. Indeed, the concentration of the most vulnerable workers in the informal sector creates potentially difficult trade-offs between social and employment policy objectives. Taking into account the potential labour market effects in the design of the system can make a major contribution to their cost-effectiveness.

**Public works programmes**

*Public works programmes can be critical in responding to economic downturns, but are expensive, subject to misuse of funds, and can increase dependency. Relying on self selection, principally through setting appropriate wage levels, can improve targeting. Involving local communities and private contractors can improve efficiency and usefulness, but requires vigorous public sector monitoring.*

Temporary employment programmes focusing on the construction of infrastructure have been extensively used in developing economies. Such programmes have played a key role in responding to economic crises and reaching disadvantaged groups (women, youth and the disabled), and can have a major impact on employment. For example, the IMF estimates that 1 percent of GDP spent on the right kind of infrastructure projects could generate, in the short term, as many as 87,000 new jobs in Egypt.

Some public works programmes have faced severe problems: costs per worker hired can be high, and weak administration and corruption can result in misuse of funds, underpayment of wages, and wasted resources. These programmes tend to focus on temporary jobs (in Africa, some 90% of jobs created are temporary). In any event, long-term reliance on public employment can encourage dependency, and at a minimum often fails to improve the ability of participants to find productive work in the private sector. Moreover, decisions to increase even temporary employment can be difficult to reverse for political reasons, with potentially serious consequences for long-term fiscal sustainability.

Good design is essential to ensure that programmes are cost effective and to minimize the crowding out effects on private sector businesses. Involving local communities in programme design and execution helps ensure that the programme meets local needs and to take advantage of local knowledge to improve targeting and monitoring. However, reliance on local groups also may increase the potential for corruption and nepotism, impair the quality of administration, and perpetuate local gender, ethnic or other prejudices. Thus central government needs to play a role in monitoring, while funding schemes have to be carefully designed to disburse on the basis of proven results.

Targeting often depends on self-selection. A low wage (generally below the equilibrium wage level for unskilled labour) can ensure such self-selection by encouraging the participation of those most in need at low cost while still providing minimum incomes for the poor. The wage level is particularly important in the case of employment guarantee schemes, where the government acts as employer of last resort (for example, the Indian guarantee of 100 days of wage labour to adult members of rural households, which employed workers from over 50 million households in 2009-10). Where such schemes are effective, the wage effectively becomes the floor on wages in the area served. Setting the wage too high can have disastrous fiscal consequences and can reduce private sector employment.

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Involving private sector contractors can improve the infrastructure constructed under public employment programmes. However, for large projects there can be a conflict between the employment goals of the government and the incentives contractors face to use capital intensive techniques. The government may set employment goals as part of the contract. However, this may require intensive management by government (and can lead to twisted incentives like ensuring that relatively efficient machines are not used). One approach is to focus public employment on smaller projects, where labour intensive techniques are more appropriate. Another approach, particularly where government capacity is particularly constrained, is to rely on labour contracting, where the government invites competitive bidding for the right to supervise and administer the payment of workers in projects. Here the risk is that contractors may submit low bids on the expectation of cheating the workers, so that government monitoring remains essential.

The infrastructure constructed under public employment programmes can make a significant contribution to raising economic growth. However, investments in infrastructure need to bring economic and social benefits. Unnecessary or economically unsustainable infrastructure can prove a waste of resources and only provide a temporary solution to unemployment.

Reform of Employment Protection Legislation

*Employment protection regulations are necessary to safeguard workers’ rights, but can also increase businesses’ costs, reduce the demand for labour (particularly for the young and women), and increase labour market dualism. Reforms should involve reducing uncertainty attendant on dismissal procedures and smoothing the transition between temporary and permanent contracts.*

Regulations governing the hiring and firing of workers provide essential protections against discrimination and arbitrary decisions by employers help to establish a more equal playing field between workers and management, and promote efficiency by increasing firms’ and workers’ incentive to invest in firm-specific training. However, labour market regulations that unduly restrict firms’ flexibility and raise the cost of labour can reduce productivity by limiting the reallocation of workers to more efficient activities, increasing long-term unemployment spells and thus the erosion of skills, and encouraging the adoption of overly capital-intensive production techniques. For example, high levels of unemployment benefits and excessive reliance on payroll taxes can reduce the demand for workers.

Inappropriate regulation can also reduce the demand for workers in permanent contracts. Time consuming and uncertain processes for firing workers and high severance payment requirements reduce firms’ willingness to offer permanent labour contracts, given uncertainty over the quality of individual workers, over the evolution of competitive conditions in particular product lines, and over future macroeconomic conditions. The result can be a proliferation of temporary labour contracts, in which workers face reduced benefits and greater vulnerability to cyclical downturns, and the growth of an informal sector completely outside the regulatory purview.


13 High structural unemployment and labor market dualism can result from a wide range of regulatory activities, for example governing the minimum wage, pension arrangements, collective bargaining, payroll taxes, and unemployment insurance, in addition to constraints on firing. Here we focus on the issue which often is cited in playing an important role in elevating unemployment rates in the Deauville Partnership countries. However, it should be recognized that the relative importance of these policies varies, and that their interaction may also be important so that comprehensive reform programs may be more likely to have a significant impact on employment than programs targeted on specific policies.
The extent to which restrictions on firing actually increase the cost of labour and thus unemployment is a contentious issue. While large severance payments are a cost, workers may share the benefits of permanent contracts with firms by accepting lower wages. On the other hand, protections afforded workers with permanent contracts may increase their ability to demand higher wages in collective bargaining, at the cost of forgoing employment opportunities for less privileged workers. Cross-country studies fail to provide decisive results. For example, some empirical studies find that adjustment to cyclical downturns in European countries with strong employment protection was no less efficient than in the United States, which has weak employment protection. The simple cross-country correlation between unemployment rates and an index of employment protection is very low. Studies that attempt to control for other variables present conflicting results, although those finding a positive impact of employment protection on unemployment are more numerous than those finding the reverse. However, there is stronger evidence that strict employment protection reduces opportunities for new entrants to the labour force (youths) and women with intermittent spells of nonparticipation (due to pregnancy), and increases the duration of unemployment.

Obviously the impact of employment protection legislation varies considerably across countries. Countries which face very high levels of unemployment throughout the economic cycle, and where new entrants to the workforce (who are likely to be particularly disadvantaged by rigid labour laws) suffer particularly high rates of unemployment, need to examine the impact of their regulatory systems on labour demand.

In countries where employment protection legislation for regular contracts is very stringent, the OECD recommends reducing the differences between regular and temporary contracts so as to facilitate hiring in the short term. Other recommendations include reducing the uncertainty related to the application of employment protection legislation for regular contracts, lowering the legal and other procedural costs involved in firing workers, and allowing firms to better internalise the cost of the severance payment in their hiring and wage determination decisions. In addition, the OECD recommends a better integration of the legislation on temporary and regular contracts, e.g. introducing mechanisms for a smooth transition between trial and open-ended phases of a worker’s career, with variable degrees of employment protection along this trajectory.

Given that the political process to achieve some of these reforms may be complex, considerable time may be required to achieve them, and a process of inclusive social dialogue will be necessary to gain broad acceptance. Moreover, regulatory reform, for example the easing of employment protection, can impose costs on some workers, particularly the poor. Thus establishment of an efficient social safety net is an important complement to changes in labour market rules.

**Special issues involved in promoting employment of women**

*Female employment could be increased by providing more flexible job schedules, accommodating special needs (e.g. reduced ability to travel, intermittent employment, child care responsibilities), and offering women-only programmes. Facilitating the use of moveable assets as loan collateral and improving credit market information could increase women’s access to credit.*

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14 In the European countries, adjustment was effected more through work sharing and reductions in hours worked, while in the United States adjustment often took the form of firing workers (Abraham and Houseman 1993).
Reducing persistent gender inequalities is necessary not only for reasons of fairness and equity but also to increase labour productivity, widen the base of taxpayers and contributors to social protection systems, and promote innovation and competitiveness in business. Employment programmes can be structured to meet the particular needs of women. For example, offering a portion of publically-supported jobs on a part time basis, and providing flexible schedules for job training sessions, could raise participation by those women whose family responsibilities make it difficult to work full time. Providing Internet-based networks to access international markets and business networks may particularly help women who often face greater constraints than men in traveling to international trade events. In some contexts, offering women-only programmes (for example credit collectives, support for entrepreneurship) may help reach women who would face difficulties in being heard in groups dominated by men.

One issue is that women tend to face greater difficulties in obtaining credit than do men, in part due to characteristics that are important in determining access (differences in the sector, age, and size of female-owned versus male-owned businesses), in part due to discrimination. There are several policies that would improve economic efficiency and would have a disproportional impact on improving access to credit for women. Allowing the use of moveable assets as collateral for bank loans would promote small-scale businesses and the ability of the poor to access credit in general, and particularly assist women where they lack property titles traditionally used as collateral and face disadvantages in terms of inheritance rights. Promoting the use of moveable assets as collateral requires ensuring that the law recognizes the right to pledge such assets, and establishing a registry where liens can be recorded. Improving credit information systems, for example the establishment of credit bureaus that can rate small businesses and centralizing the collection of credit information on small businesses, may also be of particular benefit to women.

More broadly, the targeting of jobs programmes should reflect the fact that women are particularly disadvantaged in the labour force, both in terms of wage and unemployment levels. Thus efforts to overcome obstacles to women’s participation in programmes, reserving components of programmes for women beneficiaries, and in some cases higher subsidies for adults with child raising responsibilities, would partially compensate for the discrimination that women face.

Special issues in promoting employment of young people

*Youth employment could be increased by providing an array of integrated services, targeting youths who face a high risk of social exclusion, and easing regulatory requirements that inhibit firms’ hiring inexperienced workers. Ensuring that school graduates have marketable skills would have the greatest impact on boosting employment among educated young people.*

Young people in the Deauville Partnership countries face particular challenges in securing productive employment, while the failure to find a first job and keep it for long can have negative consequences for their career prospects over the long term. Job search programmes often have been found to be more cost-effective in securing employment for young people than subsidy programmes. A worldwide inventory of youth employment programmes finds that the most successful programmes involved the simultaneous provision of an array of services. In Latin American, youth programmes that combine training with other services, such as job readiness and job-search assistance, have improved the employment and earnings prospects of participants.

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Reaching those young people most at risk of social exclusion is particularly difficult. The most effective approach is to correct problems in the educational system that fail to serve young people adequately. The provision of training is not an adequate substitute for general education. For youths that have dropped out of school and will not go back, residential programmes that combine remedial education, work experience, and adult mentoring, for example the US Job Corps, have had positive results. Making participation in programmes a condition for receipt of unemployment benefits may be necessary to reach the most disadvantaged youths, although this could raise costs and reduce effectiveness.

Young entrants to the job market are often particularly affected by labour regulations that discourage hiring (see above). The length of the trial period (during which regulatory protections against unfair dismissal are not effective) is particularly important for young people, since a very short trial period reduces employers’ willingness to hire inexperienced youths, while too long a period will encourage firms to simply rotate new hires. Similarly, setting an appropriate minimum wage, that is, high enough to promote the bargaining position of workers and limit discrimination, but low enough to maintain demand for low-skilled workers, also has a particular impact on the young. Some countries allow firms to pay lower wages to young workers, which may encourage firms to invest in training the young.

The Deauville Partnership Countries face a particular problem in high levels of unemployment among educated young people. However, international experience is that programmes that target educated youth have high costs per beneficiary and fail to serve those most in need. It is better to address the unemployment problems of educated youth by providing training and counselling on labour market opportunities. One approach is to introduce internship schemes for recent graduates and students in the final stages of their coursework to smooth the transition from school to work and provide recent graduates with the skills needed in the market. More fundamentally, reform of the educational system to ensure that it produces graduates with marketable skills would have the greatest impact on reducing the unemployment rate of educated youths.

C. End-note: IFIs and Job Creation

The International Financial Institutions who are members of the Deauville Partnership are devoting substantial financial and analytical resources to addressing employment issues in the five countries, as well as the Middle East and North African region in general. The tools at hand are the regular instruments ranging from investment projects and budget support to technical assistance and analysis that can help governments make informed decisions. Most interventions by the IFIs support job creation directly or indirectly. A listing of activities of the IFIs in the Deauville Partnership countries is provided separately to the Ministerial meeting on 20 April 2012. Boxes 1 and 2 below provide some highlights of some of the activities and studies with particular relevance for job creation.

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<th>Box 1. Examples of IFI Job Creation Activities</th>
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<td>• The World Bank’s <em>New Work Opportunities for Women pilot project</em> (or Jordan NOW) is helping young female community college graduates find work, while the Employer-Driven Skills Development Project is addressing employment, technical and vocational education, and training reform. The Bank is also undertaking <em>Programmatic TA</em> to support development of a National Employment Strategy, a new</td>
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Youth and Inclusion Poverty and Social Impact analysis to examine the impact of labour laws on employment for young men and women, an assessment of the impact of the new Social Security Law on employment opportunities for women, and a TA in Higher Education project to support the creation of a community college system that produces graduates with skills in high demand.

- On Egypt, AfDB has on-going activities that are key to generating employment opportunities in various parts of the country. Two particular examples to highlight are the *lines of credit provided through the Principal Bank for Development of Agriculture and Construction* as well as the contribution to the Social Fund for Development’s Micro and Small Enterprises Support Project.

- **General Budget Support to Tunisia** – In 2011, the WB and AfDB provided $1 billion, the ADF 185 million euros and the EU 90 million euros, in total approximately $1.6 billion, with a large focus on employment and regional development. The operation enabled the government to initiate urgent measures to mitigate the impact of and reduce unemployment, as well as provide the government with essential resources to carry out countercyclical economic policies.

- **IFC support to private sector firms** – Since January 2011 to date, IFC has invested $2.7 billion on its own account and mobilized $900 million from other investors to support the private sector in MENA. A substantial proportion of these investments have gone towards supporting domestic and regional expansion plans of companies with job preservation/creation impact, as well as to support MSMEs in the region.

- **The European Investment Bank (EIB)’s Facility for Euro-Mediterranean Investment and Partnership (FEMIP) Trust Fund** invested since 2002 on behalf of the European Union over 14.4 billion euros in the Mediterranean partnership countries. These funds have supported investments in the real economy and employment, totalling $40 billion. FEMIP has provided support to over 2300 small and medium-sized enterprises which have created an estimated 30,000 new jobs.

- The IMF is supporting the Deauville countries through *policy advice and technical assistance*, and is in discussions on lending with several of them. Within its mandate, focusing mainly on macroeconomic and financial dimensions of policy, the IMF is supporting countries in providing a framework that lays the foundations for an acceleration of economic growth and sustainable employment creation.

**Box 2. Examples of Studies relevant for Job Creation**

- The IFC, in cooperation with bilateral donors, has initiated a study on *Private Sector Contributions to Job Creation*, to consider the practical lessons that can be learnt about job creation through private sector development. A country study of Jordan is now underway as part of this broader work.

- The IMF has carried out several labour market studies that touch on employment issues in the region. The *Labour Market Flexibility and Unemployment* study analyses the relation between labour market regulation and flexibility indicators and unemployment outcomes. The *Crises, Labour Market Policy, and Unemployment* study assesses the impact of financial crises on unemployment and the role of labour market institutions and reform programs in determining labour market outcomes. A study of the effect of structural policies on the employment intensity of growth provides new estimates of the employment-output elasticity for a large set of advanced and emerging market economies (including MENA countries), and assesses their cross-country determinants.

- The AfDB completed a study in early 2011 entitled *Labour Markets in Tunisia: the Issue of Youth Unemployment*. Economic briefs have been published on Poverty and Inequality in Tunisia, Morocco and Mauritania, and on Tackling Youth Unemployment in the Maghreb. A major up-coming publication is a paper on *Jobs and Justice* (John Page), which looks at the economic origins of the upheavals in North Africa and provides recommendations for managing the short run while addressing
structural issues for increased job opportunities in the medium-term.

• The FEMIP’s regional study (undertaken jointly with the ILO), *Employment Impact of EIB Infrastructure Investments in Mediterranean Partner Countries*, aims to provide an in-depth analysis of the employment outcomes of EIB-financed investment projects in the Mediterranean Partnership Countries. The ultimate goal will be to provide a set of recommendations as to how EIB and bilateral agencies active in the region could maximize – within existing constraints – their results both in terms of the quantity and the quality of jobs created.

• The World Bank is preparing a *MENA Jobs Flagship Report* that documents the challenges to employment and quality job creation while at the same time promoting an open dialogue on reform of labor market institutions and skill development systems. Consultations will be held in Tunisia, Morocco, and Egypt, including civil society organizations.
ANNEX – OVERVIEW OF EMPLOYMENT CHALLENGES IN DEAUVILLE COUNTRIES

Egypt, Jordan, Libya, Morocco and Tunisia face daunting challenges in generating employment. Labour force participation ranges from 39.5% of the population in Jordan to 52.8% in Libya (table 1), compared to the 65% average for developing countries. The share of the labour force that is unemployed ranges from 9% in Egypt to 13% in Tunisia and 26% in Libya. The recent crises may have boosted the unemployment rate to 19% in Tunisia and no doubt to stratospheric levels in Libya. However, the unemployment rate provides only a partial indicator of labour market conditions: in some countries many workers have become discouraged and dropped out of the labour force. One overall indicator of labour market conditions is that the share of the population that is working age in the five countries is close to the developing country average, but the share of the population that is employed is from 14 to 27 percentage points lower (due mainly to low female labour participation rates—see below).

Table 1. Labour force participation is low and unemployment high (percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Labour Force Participation</th>
<th>Employment to population</th>
<th>Unemployment</th>
<th>Youth Unemployment</th>
<th>Female Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>50.3</td>
<td>42.5</td>
<td>8.9</td>
<td>24.8</td>
<td>22.9</td>
</tr>
<tr>
<td>Jordan</td>
<td>39.5</td>
<td>34.6</td>
<td>13.0</td>
<td>28.1</td>
<td>24.1</td>
</tr>
<tr>
<td>Libya</td>
<td>52.8</td>
<td>48.2</td>
<td>26.0</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Morocco</td>
<td>49.6</td>
<td>44.6</td>
<td>9.1</td>
<td>17.6</td>
<td>10.5</td>
</tr>
<tr>
<td>Tunisia</td>
<td>46.9</td>
<td>40.8</td>
<td>13.0</td>
<td>42.0</td>
<td>17.3</td>
</tr>
</tbody>
</table>

Notes: Labour force and employment shown as share of population, and unemployment as share of the relevant labour force. Data are for 2010 or later year, except for Egypt (2007), Libya (2009 for labour force and employment, 2008 for unemployment), Morocco (2009 for employment), and Tunisia (2009 for female unemployment).

Source: ILO

Women face particular difficulties in securing decent employment. In all five countries, only about a quarter of adult women were in the labour force in 2010 (at least in part reflecting discouraged workers), compared to 70-80% participation rates among adult men. The female unemployment rate exceeds 22% in Egypt and Jordan, compared to the global average of 6.5%, and the female unemployment rate is more than four times the male rate in Egypt, more than double in Jordan, and about 70% higher in Tunisia, although only slightly higher in Morocco.

The young and the well-educated also face high unemployment rates. Youth unemployment ranges from 25% to 29% in Egypt, Jordan and Tunisia (but is lower in Morocco), well above the global average of 12.6%. Although college-educated youth account for a small share of the youth population, they account for a significant share of the unemployed (for example, 31 percent in Egypt and Tunisia, 27 percent in Jordan) because they tend to have greater resources and more incentive to wait for a job in the formal sector than less-educated workers.

Unemployment rates are high because population growth has boosted young populations and thus the supply of labour (figure 1), employment protection has constrained firms’ demand for labour, and the large size and relatively high pay and benefits offered in public sector employment has encouraged highly-educated youths to wait for public sector jobs. According to the World Bank’s Doing Business Index, barriers to firing workers in Tunisia, Jordan, Egypt, and Morocco exceed the average for every other developing region, greatly reducing firms’ willingness to hire. In Egypt, severance payments for established employees amount to 132 weeks’ worth of their final salaries (compared to 39 weeks in East

20 Global Employment Trends 2012. ILO.
21 Global Employment Trends for Youth: 2011 Update. ILO.
Asia and the Pacific, and 26 weeks in the developed world), while a survey of manufacturing firms finds that 24% would increase their hiring in the absence of restrictions, while only 3% would fire workers.\textsuperscript{22}

**Fig. 1- Age distribution of the population (\% of Total Population)**

Excessive employment protection divides the labour market between formal employment and informal employment that often offers poor job security and limited opportunities for training and advancement. The informal sector accounts for over 40\% of employment in Egypt and Tunisia, and almost 80\% in Morocco.\textsuperscript{23} In Egypt, the probability of transitioning to informal to formal employment is only 20\% for males and 10\% for females.\textsuperscript{24}

Skills mismatches and poor quality boost unemployment and impair growth. While school enrolment and literacy rates have risen substantially since 1980, the quality of education has suffered: 4\textsuperscript{th} and 8\textsuperscript{th} grade math and science students in Egypt, Morocco and Tunisia scored below the global average on math standardized tests in 2007.\textsuperscript{25} University training is skewed away from technical subjects. Across North Africa, only 18 percent of university graduates were in science and engineering in 2012.\textsuperscript{26} Thus, despite high unemployment rates among college-educated workers, firms in Egypt identified inadequate skills

\begin{itemize}
  \item Highlights from TIMMS 2007. Patrick Gonzales. US Department of Education.
  \item African Economic Outlook.
\end{itemize}
and education among the top five constraints to the business climate.\textsuperscript{27} Support for educational reform is limited because a humanities or law degree are important credentials for securing a government job.

The supply of workers either unemployed or about to enter the labour force represent an opportunity for MENA countries to boost economic growth and standards of living. Making the most of these new workers requires providing adequate training and improving the business climate. Missing this opportunity would have harmful social and economic consequences and could destabilize fragile democracies. The challenges and opportunities presented by rapid population growth will not go away soon. For example, the IOM estimates that Egypt will need to create 833 thousand jobs each year to absorb new entrants and the long-term unemployed, almost 40\% more than the recent increases in employment.\textsuperscript{28} Ultimately, easing regulatory constraints that limit hiring by private sector firms, improving the quality and relevance of education, and strengthening governance to increase productive efficiency would enable these countries to reap the potential benefits afforded by young populations.

But these countries can hardly wait for such comprehensive reforms to address unemployment. In the short term, government can play a more direct role through labour market interventions to encourage employment and provide training. Indeed, some of these countries have initiated ambitious job programmes since the outbreak of unrest, but not always in a way that is cost-effective or sustainable. The Egyptian government hired an additional one million civil servants, increasing the wage bill in 2011 by 13\%. Tunisia has launched the AMAL programme to provide job coaching and various forms of training to first-time job seekers with a college degree. Though results in terms of persons with permanent jobs are not yet clear, as of August 2011, more than 170,000 youths had enrolled.\textsuperscript{29} However, implementation has been poor and the programme is evolving into a form of unemployment assistance for the highly educated. Libya, Morocco and Jordan have responded to political demands for support by increasing compensation for civil servants and expanding subsidies payments.

Large increases in expenditures devoted to hiring millions of unproductive workers are unsustainable, as they do not generate the growth, and thus the tax revenues, required to fund an expanded government role. This argues for more careful attention to the efficiency of interventions (as discussed above) and underlines the trade-off between expenditures on employment programmes and macroeconomic stability. Given the constrained fiscal positions of the Deauville Partnership countries, international assistance should be available for well-designed, cost-effective employment programmes.

Macroeconomic conditions, and hence the ability to devote increased resources to job programmes, differ among the five countries (table 2). Overall, it appears that Jordan and Egypt face considerable challenges in achieving fiscal consolidation, Morocco has more flexibility but does need to pay attention to public debt levels, and the prospects for Tunisia, and even more so Libya, are uncertain.

- While inflation has moderated and growth moved up to 2.5 percent in 2011, \textbf{Jordan} faces rising fiscal and current account deficits, and public debt of 65 percent of GDP. The government’s draft 2012 budget would boost revenues and control current expenditures, but further fiscal consolidation will be required in the next few years.

- In \textbf{Egypt}, uncertainty surrounding political developments has reduced foreign investment, curtailed tourism, and boosted capital outflows; international reserves have fallen to around 2.7 months of imports (March 2012). The fiscal deficit climbed to 10.1\% in the 2010/11 fiscal year.

\textsuperscript{27} Arab Republic of Egypt Competitiveness Report. 2010 Update. AfDB.
\textsuperscript{28} Regional Integration in North Africa: Challenges and Opportunities. 2011 AfDB.
\textsuperscript{29} The AMAL Program: “Hope” for Unemployed Youth in the MENA Region. Diego F. Angel-Urdinola and Rene Leon-Solano. World Bank MNA Knowledge and Learning Fast Brief No. 88. August.
while inflation rose to 11.8% and public debt reached 76% of GDP (although external debt remains low). Fiscal consolidation will be necessary over the next few years to ensure that public sector finances are sustainable.

- **Morocco** enjoyed inflation of 0.9% and GDP growth of 4.9% in 2011, as rising current expenditures drove an increase in the fiscal deficit from 4.4% of GDP in 2010 to 6.1%. Public debt has risen slightly in recent years, to 56% of GDP in 2011, although external debt remains low. Going forward, some decline in the deficit will be required to reduce the government debt burden.

- Economic activity in 2011 in **Tunisia** was severely affected by domestic events and the conflict in Libya. Real GDP is estimated to have contracted by 2.2%. Increased public employment, wages, and subsidies boosted the fiscal deficit to 3.6% of GDP (6.6% is expected this year) and the current account deficit to 7.43%. While public debt remains relatively moderate and inflation is not excessive (3.5% in 2011), mobilizing adequate external financing will be critical for a swift and timely implementation of the envisaged fiscal expansion.

- In **Libya**, the fall in oil exports as well as economic disruption reduced GDP by 60% in 2011; restoration of oil exports and reconstruction expenditures should raise GDP by 70% in 2012. The fiscal balance moved from a surplus to a large deficit in 2011, while the recovery of the oil sector should restore fiscal surpluses in the period ahead. The government has substantial resources to finance growth; the challenge is to reorient the economy away from hydrocarbon dependence and to promote job creation and inclusive growth. And uncertainty concerning political stability and the transitional nature of the government make forecasts difficult.

### Table 2. Macroeconomic Indicators

<table>
<thead>
<tr>
<th></th>
<th>GDP Growth (%)</th>
<th>Inflation (% of GDP)</th>
<th>Fiscal Deficit (% of GDP)</th>
<th>Public Debt (% of GDP)</th>
<th>Reserves</th>
<th>Current Account (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>1.8</td>
<td>11.8</td>
<td>10.1</td>
<td>76</td>
<td>5.1</td>
<td>-2.3</td>
</tr>
<tr>
<td>Jordan</td>
<td>2.5</td>
<td>4.4</td>
<td>6</td>
<td>65</td>
<td>6.1</td>
<td>-9.5</td>
</tr>
<tr>
<td>Libya</td>
<td>-60</td>
<td>14.1</td>
<td>...</td>
<td>0</td>
<td>33.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Morocco</td>
<td>4.9</td>
<td>0.9</td>
<td>6.8</td>
<td>56</td>
<td>5.2</td>
<td>-7.9</td>
</tr>
<tr>
<td>Tunisia</td>
<td>-2.2</td>
<td>3.5</td>
<td>3.6</td>
<td>43</td>
<td>3.5</td>
<td>-7.3</td>
</tr>
</tbody>
</table>

**Notes:** Data are for 2011 except for Egypt (2010/11)

**Source:** IMF