Labour market reforms in post-transition North Africa
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Key Messages

- North African countries’ labour market policies have produced a dual labour market, characterised by vast inequalities between formal and informal sector workers and between large and small firms.
- During the course of the recent crises that have struck the region, government policies for mitigating their impacts have led to a widening of group inequalities and in the weakening of already vulnerable groups.
- The growing divide between the ‘haves’ and the ‘have nots’, in a difficult environment characterised by rising living costs, heavy job destruction and increasingly binding constraints on job creation and new enterprise formation, was the main cause of the Arab Spring.
- The region is now at a crossroads where it needs to strike the right balance between supporting private sector development and the creation of new jobs, and protecting existing jobs and current workers.
- This Brief provides an overview of the main issues that policymakers should consider when formulating labour market policies in the aftermath of the Arab Spring.

Introduction

Countries in North Africa can be distinguished according to their natural resource endowments (net oil exporting countries, net oil importing countries), the level of diversification and sophistication of their economy (from poorly diversified to more diversified economies; and from unsophisticated to sophisticating economies) and, more recently, according to the way that transition is taking place in the aftermath of the Arab Spring (from relatively smooth to difficult; and being driven more by bottom-up or by top-down processes). However, regardless of substantive differences in their economic, social and political bases, all of the countries in the region are facing relatively uniform employment challenges and have implemented broadly similar labour market policies, even if differences can be observed in the level of resources mobilised for their implementation.

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It is now widely acknowledged that the region’s labour market policies\(^2\) have produced vast income inequalities, separating formal sector – in particular, public sector – workers from the rest of the labour force. Moreover, during the course of the recent crises (world food and global financial) that have struck the region, government policies for mitigating their impacts have tended to reinforce – rather than bridge – income inequalities, leading to the largest and weakest groups in the countries – that is, informal sector workers, the unemployed and the poor – emerging even weaker from the crises (Subrahmanyan, 2013). These issues are central to understanding the outbreak of the Arab Spring, which has resulted in major economic disruptions and a further loss of jobs. The region is now at a crossroads where it needs to strike the right balance between supporting private sector development and the creation of new jobs, and protecting existing jobs and current workers.

To facilitate the debate as well as to inform evidence-based decision making, this Brief provides an overview of the main issues that policymakers should consider when formulating labour market policies in the aftermath of the Arab Spring. The Brief begins by highlighting the key features of the labour market in North Africa and the factors that explain high unemployment and informality, particularly among young people and women. It shows how North African labour market policies have produced a dual labour market characterised by vast inequalities between formal and informal sector workers and between large and small firms. The Brief then explains how the impacts of recent crises that have struck the region, combined with government policies for mitigating the crises, caused a widening of group inequalities, fuelling social tensions and igniting the Arab Spring. It critically analyses the new policies that governments have adopted in the aftermath of the Arab Spring and demonstrates that, while North African countries are facing a challenging situation in terms of trying to balance social expectations against governments’ capacity, the current situation presents them with a unique opportunity to implement deep reforms. This Brief briefly concludes with recommendations of key measures that countries could implement to reform their labour markets, as well as highlighting long-term issues that should not be overlooked while trying to address job creation during the transition.

### A. Labour market trends in North Africa

The labour market situation in North Africa (Algeria, Egypt, Libya, Morocco and Tunisia) was already dire in 2010 and has deteriorated since that time. Its key features include: high unemployment; high disengagement from the labour market; a large but inadequately skilled supply of workers with unrealistic employment expectations; insufficient job creation with an inadequate supply of skilled jobs for educated workers; a weak regulatory framework contributing to high unemployment and widespread informality; and limited voice options for worker groups wishing to highlight these problems and agitate for systemic reforms.

#### Low labour force participation, high unemployment and widespread informality

Across the region, the labour market is characterized by low labour force participation rates (at below 50%), together with high levels of unemployment (see Figure 1). North Africa has the second highest unemployment rates in the world, close to 10% in most of the countries (ILO, 2013a: 85).\(^3\) The population is unevenly affected by this phenomenon, with some categories of workers more at risk than others.

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\(^2\) We use the term ‘labour market policies’ to denote the broad range of policies that contribute to labour market outcomes, including fiscal, monetary, regulatory, industrial, credit, educational, etc.

\(^3\) The unemployment rate in Libya is much higher, estimated at 26% overall and 33% for youth in 2010 (IMF, 2012: 16).
Young people aged 15-24 are three times more likely to be affected by unemployment than adults aged 25 and above (ILO, 2013a: 135). Unemployment increases with education level, and well-educated youth suffer higher rates of unemployment than their less educated counterparts (see Figure 2). Underemployment is an additional problem affecting young people, who are classified as ‘employed’ even when they work for negligible time periods. Hence, there is a high incidence of working poverty in the region, and young people’s transition to adulthood is often blocked because of income issues.

Women are also more vulnerable: they are over twice as prone to unemployment as males in the region, notwithstanding the fact that they are three times less likely to participate in the labour market (ILO, 2013a: 134; 138). Young women are especially disadvantaged: the unemployment rate among women aged 15-24 is eight times that of adult males and more than three times that of adult females (ILO, 2012: 52). In 2010, 55% of economically active young females in Egypt were out of jobs (see Figure 1).

There are also notable regional disparities. In some regions of Tunisia, only 1 in 10 people of working age has a job (Institut National de la Statistique, 2010). Most of the economic opportunities in Tunisia are concentrated in the country’s coastal regions. Similar trends can be found in other North African countries.

Vulnerable groups often enter a downward spiral: difficulty in finding jobs leads to their widespread discouragement and withdrawal from the labour market. Less than one-third of young people – and less than one-fifth of young women – in North Africa are economically active (see Figure 1). Disengagement from the labour market at an early stage in their career can damage young people’s longer-term employment prospects, and over time can result in the erosion of professional and social skills previously built up (ILO, 2013a: 11). Furthermore, long-term unemployment can result in chronic poverty, marginalisation and – as the Arab Spring demonstrates – social unrest.

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4 However, unemployment rates vary across North African countries.
5 However, the bulk of the unemployed are not highly educated. For example, 59% of Morocco’s unemployed have basic or less than basic education (ILO Dept of Statistics, 2011: 11).
6 Women’s lower participation rates and higher unemployment levels are a primary cause of poor labour market outcomes across the region.
Moreover, of those that are employed, a high proportion work in the unregulated ‘informal’ sector of the economy in poor quality jobs (World Bank, 2007). Informality accounts for over 41% of non-agricultural jobs in North Africa and is associated with non-standard, precarious employment without contracts or social protections (ILO, 2013a: 86). Only 30% of workers in Morocco, 46% in Tunisia and 50% in Egypt have an employment contract (Achy, 2010: 21; Tunisia Labour Force Survey 2007; De Gobbi and Nesporova, 2005). Informal workers generally do not enjoy the same working conditions as formal sector workers, who are the main beneficiaries of North African countries’ labour market regulations and social protection policies. Formal sector workers enjoy at least minimum wages and high levels of employment protection, while informal workers are often subject to low (or no) pay and precarious working conditions (Subrahmaniam, 2011: 9).

Women are more prone to informality than men; nearly two-thirds of women across North Africa are in vulnerable employment, compared with one-third of men (ILO, 2013a: 86). They also tend to be unpaid for their work: only 34% of working women in Morocco, 39% in Algeria and 51% in Egypt were in paid employment between 2006 and 2010 (ILO Department of Statistics, 2011: 9).

Young people are also more susceptible to informal sector employment than older groups. Lack of job opportunities in the formal sector has forced many new labour market entrants into the informal sector. For example, in Egypt, whereas less than 20% of new entrants’ first jobs were in the informal sector in the 1970s, this proportion had increased to 60% by the end of the 1990s (Wahba and Mokhtar, 2002). Moreover, most young people (95%) continue to remain in insecure employment eight years after they secured their first post. Hence, for the bulk of the population, informality is a permanent condition, rather than a transient stage en route to formal sector employment (World Bank, 2004).

Additionally, informality is higher in regions where job creation is limited. Across North Africa, informal employment tends to be higher in rural areas than in urban areas. In Egypt, for example, 70% of rural workers are informally employed, compared to 43% of urban workers (Angel-Urdinola and Tanabe, 2012: 10). Some worker groups are highly prone to informality: across North Africa, young women in rural areas have a higher tendency towards informal employment than all other segments of the population (World Bank, 2007).

Several factors explain the high rates of unemployment and informality across the region, particularly affecting youth and women. These include on the supply side: rapid growth of the youth population and increased female labour force participation, which have put pressure on labour markets; persistent gender discrimination, which has impeded women’s economic inclusion and led many women to withdraw from the labour market; and an outdated or inadequate education system, which creates skills mismatches and provides young people with a penchant for public sector jobs. On the demand side, factors include: an unconducive investment climate and rigid labour market policies blocking formal private sector growth and job creation; low access to financing, which has prevented the formation of dynamic new enterprises; insufficient economic diversification and sophistication, which has inhibited the creation of skilled jobs to absorb educated workers; and uneven public investment, which has fostered deep regional inequalities and affected some regions’ capacities to develop private sector industries and generate employment opportunities.

On the supply side: A youth bulge, increased female labour force participation, persistent gender discrimination, a failing education system and a penchant for public sector jobs

Changing demographics are one factor explaining high youth unemployment in the region. In the 1990s, North African countries underwent a demographic transition, where growth in mortality

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7 Lack of job security and social protection were central social demands during the Arab Spring.
and fertility rates slowed, producing an increase in the prime-age working population relative to all other groups. Rapid growth in the youth population has put a strain on countries’ abilities to generate jobs at a sufficient pace to absorb new entrants to the labour market. Figure 3 shows the average annual number of jobs created in North Africa, alongside the average annual number of new entrants to the labour market from 2000 to 2008. In Algeria, job creation exceeded new entrants, enabling the country to significantly reduce its high youth unemployment rates. In Tunisia, the number of new jobs generated was insufficient to cover the increase in the labour force – so both youth and overall unemployment rates increased. In Morocco, job creation occurred in excess of labour force growth; however, the new jobs did not substantially benefit youth, so youth unemployment continued to increase (Boudarbat and Ajbilou, 2007: 17).

**Figure 3: Job supply and labour force increase, 2000-2008**

![Figure 3: Job supply and labour force increase, 2000-2008](image)

Greater equality in access to education and employment opportunities explains the gradual but significant increase in female labour force participation across North Africa, which has added pressure to the region’s crowded labour markets, notwithstanding the fact that economic activity remains lower among women than among men. In Tunisia, for example, legislative reforms in the late 1950s enabled girls to attend school on an equal basis to boys and allowed women to work or establish a business without the permission of their husbands or fathers (Ben Salem, 2010: 488). The combined effect of these reforms was to encourage more women to join the world of work: female labour force participation in Tunisia grew from less than 5% in 1960, to 10% in 1970, to 20% in 1980 and to over 20% after 1990 (Institut National de la Statistique, various years). In every North African country, the public sector is an equal opportunities employer, with job openings available to candidates of either sex (World Bank, 2013). Gender equality in hiring is a longstanding public policy, and until recently all individuals – including women – with a post-secondary or vocational secondary qualification were guaranteed public sector jobs (Assaad and Hamidi, 2009).

But although more women than ever before pursue higher education – with gender parity at tertiary level now exceeding 1 in Algeria and Tunisia (see Figure 4 on gender parity) – entrenched and outdated social attitudes towards women make it difficult for most women, including highly educated ones, to secure decent work in the private sector (Ben Salem, 2010). Male employment tends to be prioritised by private sector employers, particularly during periods of slow job growth, so women often lack access to well-paid formal sector jobs. Persistent gender discrimination explains why young women across North Africa are more prone to high unemployment than other groups and why most women either remain outside of the labour market or work in the informal sector. Because the public sector is the main provider of decent employment opportunities for educated young women, many opt to remain unemployed unless they can secure a public sector position (Stampini and Verdier-Chouchane, 2011). Hence, in Egypt, 37% of employed young women work in the public sector, compared with only 10% of employed young men (Sieverding, 2012: 4).

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8 ‘Youth bulges’ are a common feature in most developing countries today. North Africa’s youth bulge is expected to last until 2020 (Achy, 2010: 5; Gubert and Nordman, 2009).

9 However, most of the jobs created in Algeria were short-term public sector posts (Subrahmanym, 2011).

10 Growth in female economic activity has been attributed to a range of modernising reforms implemented by North African governments – including, for example, the extension of unilateral divorce rights to women (ILO, 2012: 21). However, greater access to education and employment opportunities is the most direct determinant.
Across the region, high levels of educated youth unemployment are largely attributable to the failure of North African education systems to signal to students that, in the post-structural adjustment era, they are unlikely to obtain jobs in the shrinking public sector and therefore need to acquire the skills required for private sector work. Since the mid-1980s, most North African governments have implemented economic reform packages requiring progressive privatisation, greater economic openness and an end to governments’ role as the main employer of graduates. As a result, the public sector has shrunk: for example, in Algeria, the public sector employed 65% of the labour force in 1987 but only 25% in 2004 (Alta, 2008: 40-44). Yet education systems across North Africa are still preparing young people for jobs in the public sector, rather than providing them with the skills and training appropriate for private sector work. There is an emphasis on theory, rather than application, and a high proportion of students major in law, economics and management (Stampini and Verdier-Chouchane, 2011: 1). In addition, young people do not receive early and effective career guidance informing them of the limited employment opportunities in the public sector and skills requirements of the private sector.11 Hence, young graduates continue to display a strong appetite for public sector jobs and, in some countries, remain wilfully unemployed as they wait for openings in the shrinking public sector (Stampini and Verdier-Chouchane, 2011: 14).

In addition, the skills produced by the education system are not necessarily those in demand by employers. Skills mismatches take place on several dimensions. First, the topics covered in school are generally not those demanded by private sector firms. Across the region, there is an oversupply of university students majoring in social science and humanities subjects and an undersupply of engineers, scientists and technicians (see Figure 5). Second, while access to education has increased in line with global trends (see Figure 4 on educational enrolment rates), education quality has not. North African students perform below the global average in international exams, such as the Trends in International Maths and Sciences Study (see Figure 6) and the OECD Programme for International Student Assessment (Subrahmanyam, 2011: 5-6). Students’ low performance reflects North African educational systems’ reliance on rote learning, rather than on problem solving or application of knowledge (World Bank, 2007: 5). In addition, skills mismatches are not corrected by employers through training: according to the World Bank Enterprise Survey 2007, only 17% of firms in Algeria, 22% in Egypt and 25% in Morocco offer their employees any formal training – a low proportion even among MENA countries (26.5%) and well below the global average (35%). Lack of an adequately skilled supply of workers has acted as a disincentive to private sector growth and investment – including foreign direct investment, which has been a key driver of private sector-led growth in other regions – and has impeded productivity gains and innovation in the region (Subrahmanyam, 2013).

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11 Career guidance is offered in many schools, as well as in public employment agencies. However, provision generally suffers from major flaws, including: career guidance is not offered as part of the educational curriculum; individuals offering career guidance lack formal training; the information provided is not automated so is not widely available; and information quality is weak due to sparse data on the labour market (Sultana and Watts, 2008).
Moreover, despite their high costs, social protection mechanisms in the region are weak, so do not cushion many formal sector workers from economic shocks. Less than 20% of dismissed workers in Algeria, 19% in Morocco and 5% in Tunisia can apply for unemployment benefits (Blanc and Louis, 2007; Tunisia Labour Force Survey 2007; European Commission, 2010b: 25-31). In Egypt, only workers laid off as a result of court-approved firm closures qualify for unemployment benefits (Blanc et al, 2006: 52). Retirement benefits are paid to only 5-10% of the elderly across all MENA countries (European Commission, 2010a: 40).
Since most small businesses cannot afford to take out loans at these levels, entrepreneurs have to rely on private capital. This is usually not an option for young people, in particular young women, who often lack assets that can be put up as collateral. Low access to finance, combined with the high costs of formally setting up businesses, have led to the proliferation of small, unregistered companies that do not provide many jobs and are unlikely to grow bigger (Subrahmaniam, 2011). Over 90% of businesses in North Africa are micro-enterprises employing less than five workers (AfDB, 2013).

A lack of economic diversification and sophistication has prevented North African countries from generating a sufficient number of skilled jobs in the private sector to absorb the growing supply of educated youth entering the labour market each year (AfDB, 2012a). Moreover, not all North African economies have the same capacity to generate skilled jobs. It is clear that undiversified or poorly diversified economies, like Algeria or Libya, are facing tremendous challenges generating skilled jobs for their educated youth outside of the oil sector. However, even more diversified economies, such as Morocco or Tunisia, are facing similar challenges due to a lack of sophistication in their service and industry sectors. Over the past 20 years, these countries have experienced a decline in their manufacturing sectors relative to all other sectors, owing to a failure to develop industrial sectors, such as electronics, which have driven fast growth and aided a movement up the value-added ladder in other regions. In Egypt, for instance, high-technology exports made up less than 1% of all manufactured exports between 2008 and 2011 (World Bank, 2013b). In parallel, because most jobs created in the countries’ fast-growing services sector are characterised by low productivity and low wages, there has been a shift in the overall composition of employment towards lower skilled jobs. Given these dynamics, the government remains the main provider of skilled and well-paid jobs for educated youth in North Africa – which explains why graduates continue to ‘queue’ for these positions (Stampini and Verdier-Chouchane, 2011).

Uneven public investment over long time periods has led to vast and growing inequalities between the coastal and interior regions and between urban and rural areas in every North African country. In Tunisia, for example, government industrial policy between 1973 and 2006 resulted in the more rapid development of the coastal regions to the north and east of the country, relative to the interior regions in the south and west (Erdle, 2011). Coastal regions received the bulk (65%) of public investment between 2000 and 2005, whereas two interior regions received no government assistance whatsoever (Page, 2012: 33). Differential development has encouraged ‘brain drain’ migration of educated youth from the interior of the country to the coast, affecting longer-term private sector development patterns in the interior (Erdle, 2011). Tunisia is not unique in this respect: similar patterns of uneven regional development can be found in other North African countries (Page, 2012: 33).

Overall picture: dual labour market, income inequalities and limited voice options

Putting the two sides together, the overall picture of the labour market in North Africa is one of dualism and inequality: on the one side, there are large firms and formal sector workers, who earn at least the minimum wage and enjoy high levels of social protection; on the other side, there are small firms and the remainder of the labour force, who are unemployed or informally employed, generally under poor working conditions. North African labour market policies have created vast income inequalities between the two groups. Moreover, people in the latter category cannot easily transit to the former category, owing to systemic barriers – including gender discrimination, inadequate skills or experience, high barriers to setting up a business amid low access to financing, and an insufficient number of skilled jobs in either the private or the public sector.

Until the Arab Spring, social tensions arising from these issues were only episodically expressed in the form of ‘bread riots’ or other small-scale outbursts, because open expression was generally not permitted (Subrahmaniam, 2013). Most private sector workers – not just informal sector workers – had limited voice options for venting their frustrations or agitating for better conditions, given the nature of trade union legislation. In Algeria, trade unions could not form without prior authorisation from the government (Blanc and Louis, 2007: 43). In Morocco, the judiciary could dissolve unions that did not meet strict criteria. In Tunisia and Algeria, the right to strike was not guaranteed (Aita, 2008: 53-56). Less than 5% of private sector workers in Algeria benefited from any form of collective representation (Blanc and Louis, 2007).

Moreover, government groups heavily controlled trade union activity. In Algeria, a single trade union monopolised labour activity, and public sector employees made up half of its members (Blanc and Louis, 2007). In Tunisia, one union dominated labour activity, 18 O ne of the regions ignored in government investment plans was Sidi Bouzid, the ‘birthplace’ of the Arab Spring.

16 ‘Sophistication’ in economic terms refers to the production of high-tech, high-value, high productivity goods and services.

17 Products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery.

18 One of the regions ignored in government investment plans was Sidi Bouzid, the ‘birthplace’ of the Arab Spring.
and 60% of its members were government employees (Alta, 2008: 57). In Morocco, there were 17 recognised trade unions, but four government-connected syndicates enjoyed the greatest influence (European Commission, 2010b: 25-31). In Egypt, government and public enterprise employees comprised 75% of trade union members (Bardak et al., 2006). Not surprisingly, in all of the countries, public sector workers enjoyed the highest wages and best benefits.

Inequalities between formal sector – in particular, public sector – workers and the large remaining bulk of the labour force were a main factor in the Arab Spring, but were not the proximate cause. Instead, the riots and revolutions that rocked North Africa were ignited by a series of crises that struck the region beginning in 2003. The impacts of the crises and the effects of government policy responses resulted in a growth in inequality, which was the main cause of the Arab Spring.

B. Recent crises, labour market impacts and the making of the Arab Spring

The series of crises that have struck – and continue to affect – North African countries since 2003 have led to widening inequalities between large businesses and small enterprises, as well as between formal sector workers and all other groups. Small firms, informal sector workers, the unemployed and the poor were hardest hit by crisis impacts; yet government crisis responses bolstered privileged groups and sectors, rather than protecting weaker groups and sectors (Subrahmanyam, 2013). The growing divide between the ‘haves’ and the ‘have nots’, in a difficult environment characterised by rising living costs, heavy job destruction and increasingly binding constraints on job creation and new enterprise formation, was the main cause of the Arab Spring. Moreover, the countries where revolutions were ‘successful’ and where transition was more prolonged have suffered major economic disruptions, resulting in high job losses and reduced fiscal capacity.

The impacts of the world food crisis, which began in 2003, and the global financial crisis, which took hold in 2008, were most severe on the weakest groups and sectors in North Africa. While the world food crisis did not produce a loss of jobs or other direct labour market effects, rising food and fuel prices during the crisis created greater difficulties for those on low (or no) wages and pushed an estimated 7.4 million people in the Middle East and North Africa below the poverty line (De Hoyos and Medvedev, 2009: 14). This explains the eruption of ‘bread riots’ in Algeria, Egypt, Morocco and Tunisia in late 2007 and early 2008 (Subrahmanyam, 2013). The global financial crisis has had a larger and more direct impact on North African labour markets: there were heavy job losses in the net oil importing countries’ manufacturing, agricultural and tourism sectors, which affected women and young people more than other groups (ILO, 2011; Subrahmanyam, 2011). In addition, more restricted access to credit and capital as a result of crisis spillovers impacted small businesses more than large firms.

Government responses to the crises led to a growth in the income gap between wealthier and poorer groups in three ways. First, policies to increase public sector wages (which Egypt, Algeria and Morocco implemented during the world food crisis) and/or minimum wages (which Algeria, Morocco and Tunisia implemented during the global financial crisis) widened the remuneration gap between formal sector workers and everyone else.20 Second, every country in the region introduced subsidies to support consumption and aid the poor; however, in every case, subsidies were ill-targeted, and the vast bulk (80% or more) of benefits accrued to non-poor groups (Subrahmanyam, 2013). Third, governments tended to prioritise wealthier groups over poorer groups in their resource allocations. For instance, during the global financial crisis, large export firms were inundated with funds and guaranteed loans, while small enterprises were offered only credit and, even then, continued to experience difficulties in obtaining loans.21 During the world food crisis, 89% of Egypt’s additional budget to address the crisis was used to raise public sector wages and pensions, while only 11% was devoted to the food ration card scheme for the poor (Egypt Ministry of Finance, 2009: 3).

The main support that informal sector workers, the unemployed and the poor received during the two crises was through government investment in active labour market programmes (ALMPs).22 However, these programmes were largely unsuccessful in creating decent, sustainable private sector jobs for several reasons. First, the programmes were offered mainly by government providers, so were subject to financing, capacity and technical constraints. For example, until 2009, Morocco’s Labour Code prohibited non-public provision; so ANAPEC23 was the monopoly supplier of ALMPs in the country (Subrahmanyam, 2011 18). Second, and as a result of predominantly public provision, programmes often suffered from debilitating design flaws: the

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19 This section derives from Subrahmanyam (2013).
20 Informal workers are not subject to minimum wage legislation.
22 Annex A provides an overview of publicly-provided ALMPs in North Africa both before and after the Arab Spring.
23 National Agency for the Promotion of Employment and Competencies.
NEWLY SELF-EMPLOYED COMPLETING ENTREPRENEURSHIP PROGRAMMES CONTINUED TO EXPERIENCE DIFFICULTIES ACCESSING CREDIT; JOBS CREATED THROUGH WAGE SUBSIDY SCHEMES RARELY LASTED BEYOND THE SUBSIDY PERIOD; VOCATIONAL TRAINING PROGRAMMES DID NOT TEACH MARKETABLE SKILLS BECAUSE BUSINESSES WERE NOT INVOLVED IN THEIR DESIGN OR IMPLEMENTATION; AND JOB PLACEMENT SERVICES HAD LOW SUCCESS RATES PLACING THEIR EDUCATED YOUTH CLIENTELE (THE BULK OF REGISTERED JOBSEEKERS) IN UNSKILLED JOBS, WHICH ACCOUNTED FOR THE BULK OF LISTED VACANCIES (SUBRAHMANYAM, 2011). HENCE, THE GOVERNMENTS THAT COULD AFFORD TO DO SO (MAINLY THE NET OIL EXPORTING COUNTRIES) REDUCED UNEMPLOYMENT RATES BY CREATING TEMPORARY PUBLIC SECTOR POSTS – AN EXPENSIVE SHORT-TERM SOLUTION THAT FAILS TO ADDRESS THE BLOCKAGES TO PRIVATE SECTOR GROWTH. MOREOVER, UNEMPLOYMENT AND POVERTY COULD NOT BE RESOLVED BY NORTH AFRICAN COUNTRIES’ PRIVATE SECTOR BECAUSE OF CONTINUING CONSTRAINTS TO LONG-TERM JOB CREATION AND WEAKNESSES IN THE SKILLS SETS OF THE LABOUR POOL.


ADDING TO THE PROBLEMS OF A REGION STILL REELING FROM THE ARAB SPRING, A NEW CRISIS – THE EURO ZONE DEBT CRISIS – HAS EMERGED THAT THREATENS THE REGION’S ECONOMIC RECOVERY. NORTH AFRICAN COUNTRIES ARE HEAVILY DEPENDENT ON EUROPE FOR TRADE AND CAPITAL FLOWS, SO ECONOMIC SLOWDOWN IN EUROPE CARRIES CONSEQUENCES FOR NORTH AFRICA (SUBRAHMANYAM, 2013). FOR EXAMPLE, A FALL IN EUROPEAN DEMAND FOR NORTH AFRICAN EXPORTS WOULD LIKELY RESULT IN JOB LOSSES, ESPECIALLY IN THE NET OIL IMPORTING COUNTRIES’ TOURISM, MANUFACTURING AND AGRICULTURAL SECTORS. THESE IMPACTS WOULD AFFECT SOME GROUPS – SUCH AS WOMEN AND YOUNG PEOPLE – MORE THAN OTHERS, SO WOULD WIDEN SOCIAL INEQUALITIES AND ADD TO EXISTING TENSIONS.


ATTEMPTING TO ADDRESS UNEMPLOYMENT THROUGH THE PUBLIC SECTOR HAS SEVERAL NEGATIVE CONSEQUENCES. FIRST, IT IS AN EXPENSIVE MEASURE THAT PLACES IMMENSE PRESSURE ON STATE FINANCES – SO IS ULTIMATELY UNSUSTAINABLE. SECOND, IT CREATES FALSE LABOUR MARKET SIGNALS, REINFORCING GRADUATES’ PROPENSITY TO QUEUE FOR GOVERNMENT POSITIONS. THIRD, IT DOES NOTHING TO ADDRESS THE TRUE CAUSES OF UNEMPLOYMENT, SO MASKS RATHER THAN REDUCING UNEMPLOYMENT. FOURTH, IT CREATES A SELF-PERPETUATING CYCLE, WHEREBY UNEMPLOYMENT CONTINUES TO GROW AND THE PUBLIC SECTOR MUST CONTINUALLY EXPAND TO KEEP IT UNDER CONTROL. THE ONLY WAY TO BREAK THIS CYCLE IS TO UNDERTAKE THE NECESSARY STRUCTURAL REFORMS TO UNLEASH PRIVATE SECTOR-LED GROWTH, SO THAT SUSTAINABLE JOBS ARE CREATED AND UNEMPLOYMENT IS PERMANENTLY REDUCED.

IN THE AFTERMATH OF THE ARAB SPRING, THE REGION’S RECOVERY IS COMPlicated BY HIGH SOCIAL EXPECTATIONS FOR CHANGE, COUPLED WITH COUNTRIES’ REDUCED FISCAL CAPACITY TO EXECUTE SUCH CHANGE AMID A DIFFICULT ECONOMIC ENVIRONMENT. ON THE OTHER HAND, NORTH AFRICAN COUNTRIES – IN PARTICULAR, THOSE UNDERGOING TRANSITION – ARE NOW PRESENTED WITH A UNIQUE OPPORTUNITY TO IMPLEMENT DEEP LABOUR MARKET REFORMS, WHICH COULD LEAD TO MAJOR ECONOMIC AND SOCIAL TRANSFORMATION.

C. LABOUR MARKET REFORMS: THE ROAD AHEAD

NORTH AFRICAN COUNTRIES ARE AT AN IMPORTANT HISTORICAL JUNCTURE, WHERE A RARE CONFLUENCE OF EVENTS COULD PLACE THEM ON THE PATH TO MORE RAPID, SUSTAINED AND INCLUSIVE GROWTH, SO LONG AS THEY IMPLEMENT THE CORRECT POLICIES AT THE RIGHT TIME. THE REGION’S

24 Every North African country is dependent on Europe for over 50% of its trade, tourism and/or FDI (Subrahmanyam, 2013). None of the countries, apart from Egypt, has cultivated substantial trade and financial links with regional partners or emerging market economies.
youth bulge is expected to last until 2020; so if countries are able to implement effective measures to correct skills mismatches and generate enough high-quality jobs to utilise the skills of their educated youth population before that time, then they can enjoy significant ‘demographic dividends’ in the form of rising per capita output and enhanced savings and investment.\(^{25}\)

The current post-transition environment offers North African governments a chance to initiate the bold structural reforms that would make this possible. After all, the post-Arab Spring era demands that a greater number of groups be included in policy decisions, and greater inclusiveness tends to weaken the power hold of long-standing vested interests, enabling change to occur. Moreover, greater inclusiveness combined with a focus on policies that drive forward private sector growth and innovation can bridge the gap between formal and informal sector workers, large and small firms, and the rich and the poor. This would in turn increase countries’ resilience to future shocks, rendering growth more sustainable.

Below we offer recommendations of key measures that countries should consider implementing to reform their labour markets. We also highlight long-term issues that should not be overlooked while trying to address job creation during the transition. Policymakers should consider several factors when rethinking labour market policies pertaining to North African countries. First, they should keep in mind the four dimensions along which labour market policies are effected – that is, active labour market programmes, labour regulations, social protection legislation and collective representation – and should ensure that their overall strategy takes into account all four dimensions.

The success of active labour market programmes (ALMPs) can be boosted by keeping in mind lessons learned from international experience:

- ALMPs should involve multiple partners for greatest effectiveness and coverage. Including a wide range of partners and stakeholders in ALMPs increases the levels of financial, technical and personal support available to beneficiaries and can ensure the success of programmes, so long as efforts are coordinated and integrated.

- To ensure that ALMPs deliver the right skills, private sector firms should be involved in the design and implementation of programmes. This seems an obvious point, but did not occur in Tunisia following the Arab Spring. Tunisia’s AMAL (or ‘hope’) programme was designed to be a job activation mechanism for young graduates. However, it was initially implemented as a direct cash transfer programme without any on-the-job training component.

- Reliable information about the labour market and the skills needs of employers is required for designing effective employment programmes. Governments need to place a greater emphasis on knowledge generation and the production of reliable statistics. Labour market information also needs to be communicated early and widely – for example, through career guidance for young people.

- Effective targeting of programmes is essential to ensure that the groups most in need of assistance receive state support. In many cases, the benefits of government programmes are “creamed” by less needy or privileged groups; so attention to targeting is necessary. Disadvantaged groups may require special programmes designed to overcome the blockages to their employment – for example, entrepreneurship programmes targeting young women who face job discrimination issues.

- Finally, a comprehensive approach should be adopted – so that, for example, skills training programmes are complemented by job placement and support services, and entrepreneurship schemes provide access to finance and markets as well as training.

During the transition phase, the three remaining dimensions (revising labour regulations; making sure that social safety nets are in place; and improving collective representation and bargaining) should occur in parallel in order for the government and the population to strike the right balance between protecting workers and protecting jobs. As previously indicated, labour regulations may need to be revised to allow for greater flexibility, so that they support formal employment growth. However, this change in legislation simultaneously creates the need to protect workers who are in between jobs. The region currently lacks adequate social safety nets, so this would need to be addressed to prevent further growth in inequalities. In the post-Arab Spring era, reforms to labour regulation will be difficult to pass, finance and sustain without some form of collective representation and bargaining. In most countries in the region, a national dialogue is needed to renegotiate the social contract, so that formal sector employment is expanded in a manner that benefits both firms and workers. This dialogue should include previously excluded civil society representatives. Tunisia

\(^{25}\) Rapid growth in the East Asian ‘tiger’ economies from 1965 to 1990 has been attributed to the countries having fully capitalised on their youth bulge (Bloom and Canning, 2008).
initiated this process in 2012, and its New Social Contract was signed on 14 Jan 2013 with the participation of the government and two major social partners. However, much remains to be done to include more partners in the process, which is necessary for tackling some of the fundamental issues that have thus far contributed to widening inequalities and prevented job creation in the country.

Second, the capacity of countries to implement reforms differs, depending on their structural composition. There are five fundamental differences between North African economies, which influences their capacity to easily implement labour market reforms:

1. The net oil exporting economies have greater capacity to finance labour market reforms than the net oil importing countries. However, given their reliance on a single sector that lacks high potential for job creation, they tend to rely on public sector employment to reduce unemployment levels. The countries need to undertake deep reforms to avoid ‘Dutch disease’.

2. The level of human capital differs widely across the region, affecting job creation and employment opportunities. For instance, Morocco has a much less educated and skilled population than Tunisia, both in terms of years of schooling and education quality.

3. A country’s level of economic diversification and sophistication affects the capacity of its private sector to absorb new labour market entrants, particularly those with higher levels of education. The net oil importing countries are more economically diversified than the net oil exporting countries in the region.

4. The solidity of institutions varies across countries in the region. In Libya there is a quasi-absence of institutions, while in Tunisia and Morocco the administrative apparatus is fairly robust. Countries with stronger institutions have a greater capacity to implement policy reforms. However, across the region, institutions are insufficiently decentralised, which limits the effectiveness of labour market reforms.

5. Finally, the nature of transition varies across the countries, influencing their capacity to implement policy reforms. The transition has been relatively smooth in Morocco, but very difficult in Libya. Continuing social tensions within Libya affect the new government’s capacity to engage in constructive social dialogue.

Third, labour market policies need to be viewed as part of a wider comprehensive reform and investment package. During the transition period, decision makers need to bear in mind that they are constantly dealing with two time horizons: the short-term horizon, which is characterised by multiple social demands for particular measures and outcomes; and the long-term horizon. They must take care that policies implemented in the short-term do not detrimentally affect long-term development objectives. The long-term objective must be to reduce inequalities and strengthen the private sector’s capacity to create ‘decent’ and sustainable jobs.

As a matter of conclusion, it may be important to reiterate some fundamental guiding principles, which should be observed by decision makers in the short-term during the transition, but also to support job creation in the mid- to longer-term:

1. Macroeconomic stability is paramount and needs to be preserved. This stability is currently being weakened in some countries in the region because of a tendency to implement expensive short-term measures. Without macroeconomic stability, there will be no job creation.

2. An enabling business environment, including wider access to credit, needs to be in place. Often the administrations in the region do not realise how deep these reforms have to be, and that basic laws and regulations are not yet in place to attract investors and promote innovation in the region, which is required to facilitate the economic transformation.

3. The right type of human capital should be developed. The nature of skills mismatches varies across the region, but we can make two general observations: (a) vocational training is undervalued in the region, and there is a critical need for workers with job-relevant skills; and (2) the education and economic systems need to work together to produce the skills required for the 21st century, including entrepreneurial skills and attitudes.

4. Finally, the rule of law needs to be observed to attract ‘good’ investors, who will bring innovation and sophistication to the countries, which is needed to drive forward the economies and produce more rapid, high productivity growth. It is also the only way for the region to create the kinds of jobs that are needed today and in the future.

Social partners were the Tunisian General Labour Union and the Tunisian Union of Industry, Trade and Handicrafts.
The African Development Bank is committed to assisting North African countries in formulating and implementing effective labour market reforms in the post-transition phase. This means supporting the private sector as an engine for sustainable growth and job creation and strengthening sectors and regions that have been weakened over time. Annex B outlines the main features of the Bank’s response to the issue of unemployment in Tunisia.

**References**


ANNEX A

Overview of publicly-provided active labour market programmes in North Africa

Algeria

Pre-Arab Spring

Algeria has a long record of implementing ALMPs with substantial public funding, thanks to oil revenues. Five institutions deliver a range of ALMPs:

- National Employment Agency (DAIP – temporary work contracts and internships for youth);
- National Agency for Employment Support of Youth (creation and expansion of micro-enterprises by young people aged 19–35);
- National Unemployment Insurance Fund (unemployment benefits and support for creation of micro-enterprises for unemployed individuals aged 30–50);
- Social Development Agency (public works programmes for the poor);
- National Agency for the Management of Micro-credits (micro-credits to the poor).

Post-Arab Spring

Because Algeria ‘survived’ the Arab Spring, its ALMPs have not changed dramatically since 2011.

Egypt

Pre-Arab Spring

A number of ALMPs are in place, including employment services for jobseekers (through 300 employment offices), public works (particularly through the Social Fund for Development and more recently with the support of international donors) and vocational training programmes.

Post-Arab Spring

The new National Programme for Training for Employment (NPTE) has been in the pilot implementation phase since October 2012. NPTE aims to improve the skills of Egyptian industrial workers through three main components: setting up a labour market information system (LMIS); training and qualifications; and matching jobseekers to decent jobs. The total cost of the project is estimated at EGP 500 million, met through limited government funding as well as contributions from the private sector and international donors. In the pilot phase, 17,000 jobs were created in 10 different sectors (50% in the ready-made garment sector). All new employees receive social and medical insurance coverage.

Libya

Pre-Arab Spring

The reintegration of demobilised fighters (145,000) is Libya’s most important priority. A Warriors Affairs Commission (WAC) was set up with a budget of around LYD 1 billion, thanks to oil revenues. Reintegration is to be achieved through three main programmes.

- IFAD (‘sending’) targets ex-fighters who would like to pursue higher studies abroad. WAC plans to send 18,000 individuals abroad over a five-year period and expects to receive organisational and planning support from international organisations and host countries;
- KADER (‘able’) targets ex-fighters without any skills or qualifications. WAC plans to send 28,000 individuals abroad for vocational training;
- TAMOUH (‘ambitious’) supports ex-fighters in setting up their own businesses. The programme plans to support 5,000 projects.

Morocco

Pre-Arab Spring

ANAPEC is responsible for implementing ALMPs in Morocco. Registration is compulsory for anyone wishing to access ALMPs. The three main programmes are:

- IDMAJ (first-time recruitment contract) – provides employers with wage subsidies and tax exemptions if they hire young graduates on temporary contracts. The programme has been relatively successful from a quantitative point of view (300,000 beneficiaries placed between 2006 and 2012), but has not contributed to a substantial increase in permanent jobs;
• Taehil (vocational training/retraining contract) – Around 50,000 jobseekers benefitted during the period from 2006 to 2012;
• Moukawalati (entrepreneurship) – supports small business creation by offering comprehensive support to entrepreneurs in the form of loans, pre- and post-creation assistance, and interest-free advances of investment.

Post-Arab Spring

Because Morocco ‘survived’ the Arab Spring, its ALMPs have not changed dramatically since 2011.

Tunisia

Pre-Arab Spring

Since 1981, a range of ALMPs – including training internships, self-employment programmes and wage subsidy schemes to assist with the job insertion of graduates – have been implemented by ANETI (Agence nationale pour l’emploi et le travail indépendant) and (since 2000) the National Fund for Employment in Tunisia. In 2009 the government reviewed its ALMP provision and reduced the number of programmes from around 50 to 7.

Post-Arab Spring

Following the revolution in 2011, the transitional government formulated an Employment Emergency Plan (or ‘Roadmap’) to support employment along four main axes: job creation; the promotion of entrepreneurship and micro-enterprises; the protection of existing and threatened jobs; and employability and activation of the unemployed through training (Amal). Meaning ‘hope’, the Amal programme provides unemployed graduates with training, coaching, reconversion, internships and a monthly allowance for a maximum of one year.

In October 2012, four additional programmes were created by decree:

• Chèque d’amélioration de l’employabilité, aimed at supporting jobseekers’ employability;
• Chèque d’appui à l’emploi, aimed at supporting employment;
• Programme d’appui aux promoteurs de petites entreprises, aimed at assisting jobseekers to become self-employed;
• Programme de partenariat avec les régions pour la promotion de l’emploi, aimed at correcting regional inequalities by funding development programmes to create jobs and/or enterprises at local level.
Since the revolution, the Bank has focused on supporting the private sector as the driving force behind job creation and employment in Tunisia. The Bank’s intervention strategy for Tunisia consists of two pillars, implemented using a range of instruments. The Bank has intervened, firstly, by funding technical assistance and budget support operations to streamline the reform agenda and stabilize the macroeconomic situation; and, secondly, by financing public and private sector investments to create jobs in the short term (with SMEs developing the Bank-financed infrastructure) and in the long term (through private sector projects or as a spillover of infrastructure improvements).

The first pillar of the Bank’s intervention strategy focuses on supporting Tunisia’s economic transformation. Implementation of this objective can take place directly, by funding the authorities’ reform agenda to improve the business climate, or indirectly, by financing innovative projects that can establish the foundations for the development of dynamic new sectors and the creation of higher value-added jobs. To support business climate improvements, the Bank has extended direct and indirect support to reforms of the investment code, the operationalization of the revised public-private partnership law, and establishment of a participatory process for revising administrative procedures related to economic activities. The Bank has also supported legal reforms pertaining to investment vehicles, venture capital and mutual funds, and national procurement systems. To support the development of higher value-added industries, the Bank has funded various lines of credits, including one recent credit line specifically targeting SMEs, and has financed private and semi-public sector projects, such as Gas Project ETAP and Airport Enfidah.

The second pillar focuses on reducing regional disparities by supporting measures that improve the employability of people living in less-developed regions and that make the regions more attractive to the private sector. This may be achieved in three main ways: by improving local governance and public service delivery through state devolution; through capacity building of local authorities involved in delivering public services, such as education, procurement and basic infrastructure; and through project funding for infrastructure development and maintenance, to increase people’s access to basic services, create a more conducive environment for private sector growth and investment, and improve the competitiveness of the Tunisian economy. To support employability, entrepreneurship and employment in the regions, the Bank funded reforms of Tunisia’s main active labour market programmes (National Fund for Employment and Amal), of the microfinance sector and of higher education through two budget support operations in 2011 and 2012, at a total value of approximately $1 billion. The funds have also been used for highway, road, electricity and sanitation infrastructure projects, as well as for implementing rural development programmes to develop agribusinesses.