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Research Paper Series

Expanding Youth Opportunities in the Arab Region

Jad Chaaban

United Nations Development Programme

Regional Bureau for Arab States

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Summary

This paper examines the social and economic development outcomes linked to youth in the Arab region, and evaluates the performance of Arab governments in responding to the needs of the young generation. The 100 million young men and women in the region face very high unemployment and under-employment, as almost one third of active youth in the Arab world are unemployed, and informal and unpaid family work is pervasive. Young Arab women are especially excluded from labor markets, as more than two-thirds of women between the ages of 15 and 29 are outside the labor market, the highest rate in the world. Lack of jobs especially for the young has been a characteristic of the region's economic growth performance in the past fifty years. The region's economic growth was volatile, driven by exogenous factors and fluctuating oil prices. And while economic growth in the Arab region in the recent decades was significant by historical standards, it was not able to absorb the growing pressure from the youth bulge. Lack of job creation in the region is found to be linked with slow industrialization, low integration in the world markets, and the failure to incentivize private investment. The contribution of private investment to growth in the region is among the lowest in the world, despite government attempts at reforming the business environment and encouraging investment. This is especially the case as entrepreneurs consistently face anti-competitive and informal practices that favor incumbent or large firms at the expense of new entrants and small businesses. This bleak economic environment is being further darkened by armed conflicts and political instability which undermine development prospects and exacerbate the employment opportunities for many countries in the region. The frustration among Arab youth entering the job market is compounded by social exclusion, as the lack of job opportunities results in lack of access to housing and marriage, which hinders the transition to independent adulthood. Access to the labor market for young Arab women is still limited, despite substantial progress made in bridging the gap between men and women. Constitutions have adopted the right to equality between citizens, however there are still legislative clauses that differentiate between genders and in many instances the interpretation of laws reinforces traditional gender roles in Arab societies. The paper concludes by a set of policy recommendations preceded by an overview of successful policies and programs implemented in countries that faced similar challenges to the ones faced by Arab youth. The focus is on experiences linked to job creation; entrepreneurship; resolving mismatches between labor supply and demand; and integrating women in the economy through successful social reforms.

1. Introduction: Youth Discontent in the Arab World

The recent wave of protests, social unrest and revolutions (commonly known as the “Arab Spring”) affecting several countries in the Arab region1, has been largely due to the failure of the region’s economies in providing decent living conditions for their inhabitants, especially the youth. The region has the youngest population in the world, with more than 100 million between the ages of 15 and 29, and this ‘youth bulge’ is confronted with the highest youth unemployment rate in the world, standing at 28 per cent in 20102, compared to an average 13 per cent internationally (Chaaban, 2010 and ILO, 2012). Young people’s involvement in the “Arab Spring” protests and demonstrations can be seen as an expression of their frustration with the existing institutions and norms that have denied them economic and social opportunities and political voice.

Creating jobs for a young and better-educated labor force has become a top priority for all governments as countries face a global economic downturn. The number and quality of jobs is even more important today in Arab countries where young people are at the forefront of revolutions that toppled regimes and civil unrest expressing frustrations over historical exclusion from the political and economic spheres. In contrast to other fast growing countries in the world, the Arab region has suffered in the last decades from substantial barriers to sustainable growth, which greatly affected the youth population and their integration in productive, growth-driven economies. Gauged by the level of industrialization, the level and sectoral composition of private investment or the productivity and technological innovation of firms, no Arab country, especially the non-resource rich, is on the path of the structural transformation that has led the rise of fast-growing economies such as China, Turkey, Poland, Malaysia and Korea.

Arab economies suffer from a variety of impediments to sustainable output growth and subsequently to the growth in the private sector that would cater for a fast growing population. An unstable macroeconomic environment has deterred the investments in high-value-added activities and tilted the job markets towards unproductive low-value-added sectors, which have little impact on job creation. Moreover, the discretionary application of business regulations and the high barriers to entry faced by small private firms, have increased investor risks.

Impediments to youth development are also not only of an economic nature, as political instability, protracted armed conflicts, and political exclusion of large segments of society including women and youth, present structural challenges for the region’s economies towards more productive and high-value-added activities. This paper intends to examine the socio-economic development outcomes of Arab youth within this context, and to propose key policy changes that would improve their livelihoods.

1 The Arab region in this report refers to the Arab countries in the Middle East, North Africa, Gulf- Cooperation and Sub-Saharan sub-regions. When data is not available for the all Arab countries, analysis will refer to specific sub-regions. Please refer to end notes for detailed country classification and grouping.

2 Figure on unemployment excludes data from the Sub-Saharan Arab Countries.

2. The Plight of Youth in the Arab Countries

This section reviews the latest data on the welfare of youth in the Arab world. The analysis stresses on the differences between access to education and quality of educational curricula; unemployment and disguised employment (including informal, temporary and seasonal employment); on cost of housing; marriage trends and costs; and indicators on civic participation and civic engagement.

2.1. The Right to Quality Education

Despite achieving large quantitative gains in educational indicators, the education sector in most Arab countries still suffers from a severe quality deficit. Enrollment rates in the region are high with nearly universal access for primary level and nearly 70 per cent for secondary. During the period from 1970 to 2011, Arab governments spent an average of approximately 4.5 per cent of their GDP on education, whereas most East Asian and Latin American countries spent closer to 3 per cent (Dhillon and Youssef, 2009). Yet despite increase in access, the quality of education remains low, and most graduates lack the necessary skills for the modern labor market (World Bank, 2008). Academic achievement among the Arab youth is low when compared to international standards, as students from the region who participated in the International Mathematics and Science Studies (TIMSS) and the OECD Program for International Student Assessment (PISA) standard exams scored near the bottom of the group of participating countries (World Bank 2008, 2012).

Inefficiency in the educational sector has also been translated into the prevalence of public sector jobs linked to the educational curricula. More than 70 per cent of higher education students in the region follow the traditional path to civil service jobs by majoring in the humanities and social sciences, at the expense of scientific and technical training that is required for industries and advanced services in the private sector (World Bank, 2008). University enrollment remains quite low at around 20 per cent in the region, despite a widespread culture of test preparation and spending on private tutors (World Bank, 2008). The overemphasis of testing as the only pathway for higher education has had detrimental effects on the quality of school curricula and teaching practices, as several countries in the region have university entrance exams which are based on a single national test.

2.2. Failed Transitions to the Labor Market

Almost one third of active youth in the Arab world are unemployed. Youth unemployment in Arab countries stands at an average of 28 per cent (Table 2.2), compared to an average general unemployment rate of 15 per cent. Youth unemployment rates exceed 40 per cent in Arab countries plagued by conflict and/or poverty. First-time job seekers represent 50 per cent of the unemployed

(Dhillon and Youssef, 2009), a ratio which is the highest in the world. Youth unemployment in Arab countries is also higher among university and vocational training graduates, as unemployment durations and job searches can last up to 3 years in Morocco and Egypt (Chaaban, 2010).

TABLE 2.2: UNEMPLOYMENT RATES, YOUTH (15-24) VS. GENERAL, 2012

Country	Youth Unemployment %	General Unemployment %
Middle East	***31***	***15.6***
Palestine	37.1	21.5
Syria	22.1	8.4
Jordan	27.2	12.7
Lebanon	34.3	15
Iraq	30.2	17.5
Yemen	35.3	18.5
North Africa (av.)	***23.1***	***14.3***
Egypt	29.8	15.6
Morocco	17.2	9.6
Algeria	31.3	13.8
Libya	9.3	18.2
Tunisia	28.3	14.1
GCC (av.)	***18.5***	***3.8***
Kuwait	18.3	1.3
Bahrain	15.3	4
Oman	20.3	6.7
Qatar	15.2	2.4
KSA	29.6	5.6
UAE	12.5	3.1
Sub-Saharan (av.)	***41.8***	***30.1***
Sudan	39.3	17.3
Djibouti	39.3	35.2
Somalia	45.3	34.7
Mauritania	43.3	33.2
Average	**27.6**	**14.7**

Source: Arab Labor Organization (most recent years)

Youth under-employment is pervasive, as young Arab people are more likely to engage in informal work and unpaid family work. Vulnerable employment, defined as the sum of own-account work and unpaid family work, accounts for almost 30 per cent of the employed in the Arab region in 2011 (ILO, 2012). Despite the lack of specific regional data on vulnerable employment among the youth, these figures indicate widespread informal work arrangements, as workers, especially the young, would lack adequate social protection and benefits linked to permanent wage labor.

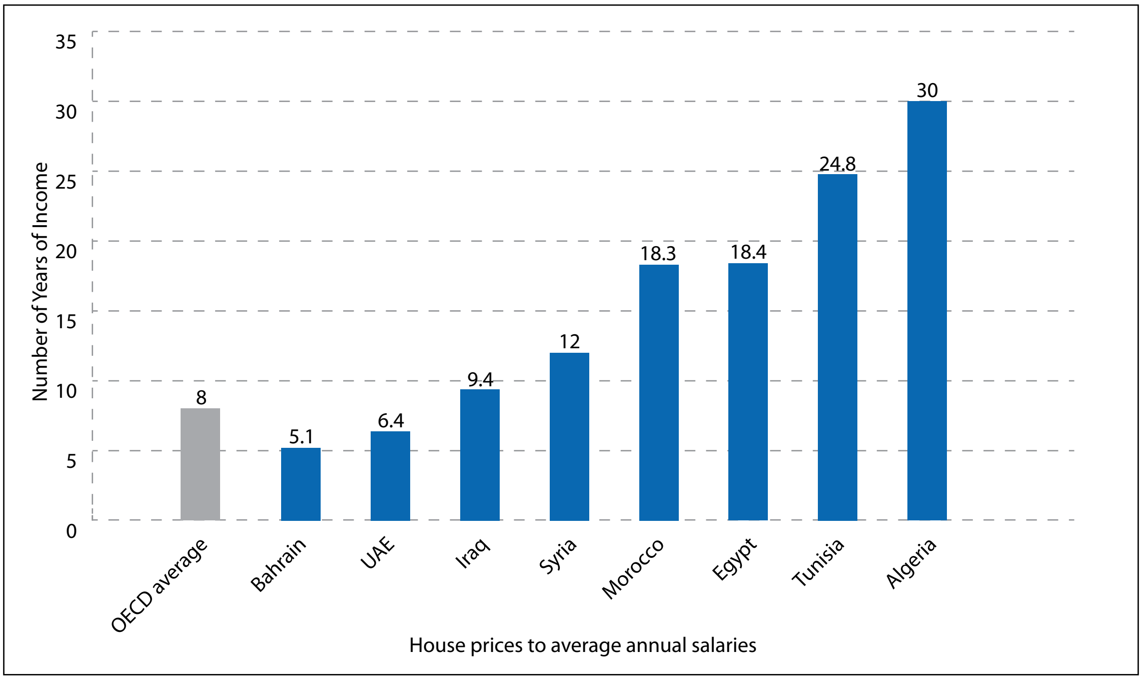
More than two-thirds of young Arab women between the ages of 15 and 29 are outside the labor market. This rate of exclusion from the labor force is the highest in the world (where the global average for young women is 50 per cent), and is more than triple the ratio for young Arab men (where only 20 per cent are outside the workforce). Even if they join the labor market, young Arab women would face an unemployment rate much higher than for young men (four times higher in Egypt) (Chaaban, 2010). This negative situation has tremendous repercussions on the Arab region. Jobless women are not economically empowered, as they are not able to provide for themselves and their families. Child health is supported by women's empowerment, while low workforce participation leads to substantial economic losses. In fact, Gross Domestic Product could increase by a range of 2-6 per cent in several Arab countries if young women's inactivity rates were brought down to equal those of young men (Chaaban, 2008). Economic participation is a cornerstone of women's empowerment, which is emphasized as one of the main targets of human development in the Arab world (UNDP RBAS 2006). Maternity leave, a major determinant of labor force participation, is either non-existent or inadequate. Where it exists, the burden is on the employer, not the state (ILO, 2010). Women's formal labor market participation fosters their participation in society, which strengthens civic engagement and democratic reforms. Despite making remarkable improvements toward gender equity in education and health, Arab policymakers need to tackle more systematically the issue of the exclusion of young women from labor markets.

2.3. Constraints in Housing

The frustration among Arab youth is compounded by social exclusion, as the lack of job opportunities results in lack of access to housing, which hinders the transition to independent adulthood. The average cost of housing in selected Arab Countries is between 5 and 30 times the average annual income (Figure 2.3), and there are no housing policies that favor young people, who have no effective means by which to borrow against their potential future earnings (Dhillon and Youssef, 2009). This is added to malfunctioning rental markets governed by laws that provide for indefinite duration rental contracts and fixed rents. New research from Egypt has shown that reforming such laws can have a profound impact on youth: Reforms in Egypt in 1996 allowed for definite duration contracts with rent adjustment flexibility. This increased the supply of housing in the rental market, and as a result the median age of marriage has decreased in the country (Assaad and Ramadan, 2008).

Affordable housing is a major challenge facing Arab countries. House prices are extremely high in the region compared to OECD countries, as the house price to income ratios for many Arab countries exceed the OECD average of 8 years of income (Figure 2.3). The housing market suffers from a significant mismatch between supply and demand. The MENA region has an over-supply of luxury expensive housing, and a severe shortage of about 3.5 million affordable housing units (Jones Lang LaSalle, 2011). Down payments for homeownership have also ranged between 20–100 per cent, implying that the younger generation and members of low-income households have been, for the most part, deprived of ownership. As a result, a large segment of these populations have tended to live with their parents until they are able to purchase a home, while a smaller fraction rent. Moreover, and until recently, bank and nonbank lending to these particular groups has been limited.

FIGURE 2.3: HOUSE PRICES TO INCOME RATIOS, 2011



Source: Jones Lang Lasalle (2011) and OECD.

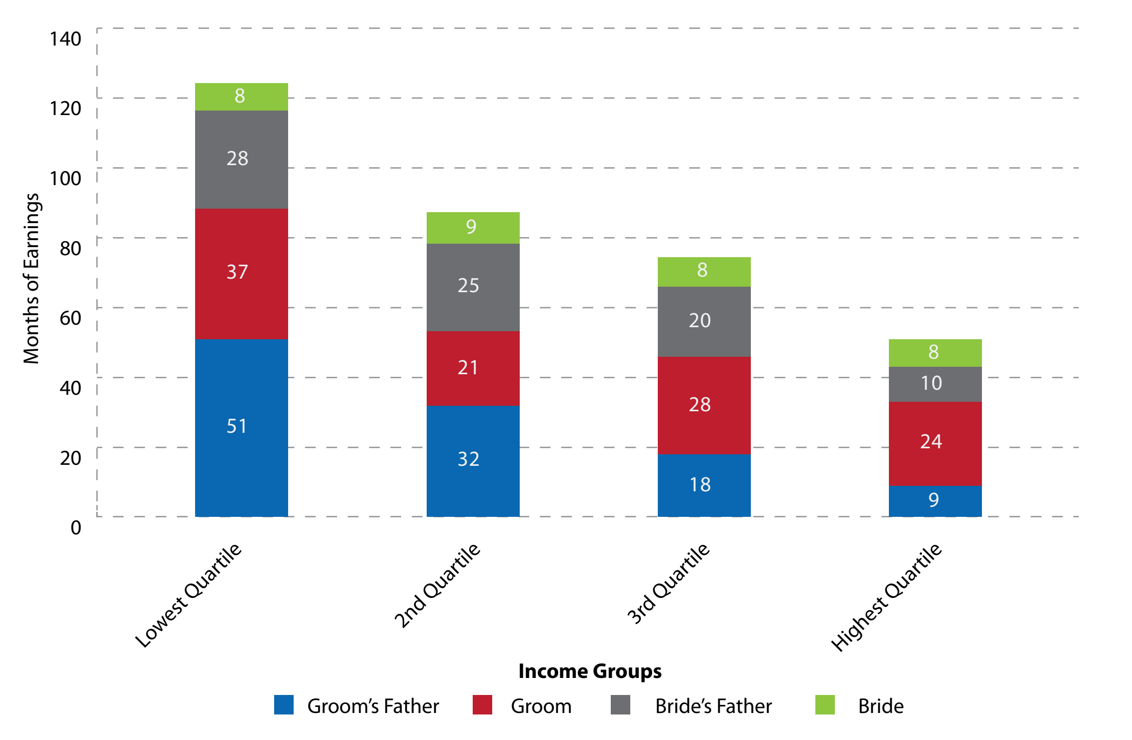
Demand for more and better homes will remain a key challenge in the next couple decades. Population growth in the region is around twice the world's average, and the 'youth bulge' of 70 million young men and women aged 15-29, more than a third of the Arab population, mean that demand for adequate and affordable housing will be a key challenge for governments in the region for the years to come. Reforms in the real estate markets in the region are needed, as these markets have been dominated by the high-income and luxury segments, adapted to the need of rich expatriates, tourists and a tiny local wealthy class. Increasing the supply of and access to affordable housing should be a core priority of governments in the region. This would include subsidized housing loans, and direct public interventions in the housing sector. The Turkish government case is an interesting success story: The Turkish government has used a form of public-private partnership (PPP) to deliver mass housing projects through TOKI (Housing Development Administration of Turkey). TOKI issued tenders for the disposal of government-owned land for mass housing projects. Private developers were then invited to submit plans indicating how many dwellings they propose to provide and what proportion of these they are willing to give back to TOKI for the government to rent or sell to those in need of private housing. More than 500,000 housing units in over 2,000 projects over Turkey were delivered under this scheme in the past 25 years (Jones Lang LaSalle, 2011).

2.4. Delayed Adulthood and Family Formation

The search for a job is closely linked with marriage and family building, as the rising costs of autonomy affect the quality of in-demand jobs. Data shows that the region is lacking behind in terms of marriage and family formation, which are key steps for youth trying to reach adulthood in a largely conservative environment. 50 per cent of men (aged between 25 and 29) are still unmarried, compared with 23 per cent in Asia and 31 per cent in Latin America (Dhillon and Youssef, 2009). The average age of first marriage among Lebanese women rose from 21 in 1970 to 32 in 2008 (Chaaban, 2010).

The delay in marriage is largely due to prohibitive marriage costs and economic problems facing young people. Marriage costs are high due to habits and traditions (like the dowry and similar required offerings). The cost of marriage in Egypt for instance is equivalent to 43 combined monthly salaries of a young man and his father (Figure 2.4). In poor families, the cost of marriage is equivalent to 7 years of the combined pay of a young man and his father. The fact that the costs of marriage relative to income are regressive in Egypt, as in most other Arab countries, shows that tradition still plays a key role in the marriage "market". It is therefore not surprising that many Arab men migrate to work temporarily abroad (especially in richer Gulf countries) in order to secure enough money to pay "entry costs" into marriage upon their return.

FIGURE 2.4: COST OF MARRIAGE IN EGYPT BY INCOME CATEGORY, 2005



Source: Diane Singerman (2007)

2.5. Lack of Meaningful Civic Engagement

Compared to youth in the rest of the world regions, Arab youth participate more in protests and demonstrations, and lower in civic groups and in electoral voting. Civil participation refers to involvements in a variety of activities from volunteering in community service to political and electoral participation. In 2010, Arab youth participated in protests and demonstration nearly twice more than the world average (28.9 per cent compared to 15.2 per cent), while participation in civic groups was lower among Arab youth than youth in Africa (19 per cent compared to 32 per cent in Africa) and electoral participation was also lower than the world average (48 per cent compared to 59 per cent globally) (Mercy Corps, 2012).

Civic engagement is believed to affect several aspects of youth's integration in their societies and economies. Civic participation among Arab youth varies considerably across countries, gender and type of engagement. Only 6 per cent of young males were members of civic groups in 2010 in Egypt for instance, compared to 38 per cent in Palestine. Only 15 per cent if young Arab women were engaged in civic activities in 2010, compared to 25 per cent of young males (Mercy Corps, 2012). Many theories explore the impact of youth civic engagement on their inclusion and participation in the economic and public life. It is believed that participation in civic activities affects the political voice of youth and increases their non-violent engagement in political life. At the employability front, the theories of change posit that if young people are civically engaged, they will gain important skills and experience that will facilitate their employment and integration in the labor market (Mercy Corps, 2012).

3. Impediments to Development Opportunities

Volatile growth patterns, compounded with largely missing sound growth and macroeconomic policies in the Arab region, have hindered the creation of a dynamic labor market that would meet youths' needs and expectations. Since the 1990s most Arab states' economic reform programs have not sufficiently promoted policies that would create a transparent and stable environment for the private sector. Although the region has witnessed a rebound in economic activity post oil-crises, output growth was not sufficient to absorb the large number of new entrants in the market.

This section provides an overview of the policies that generated constraints to the creation of decent jobs for youth in the Arab world. These constraints include macroeconomic, political, doing business, labor legislation and other related policies.

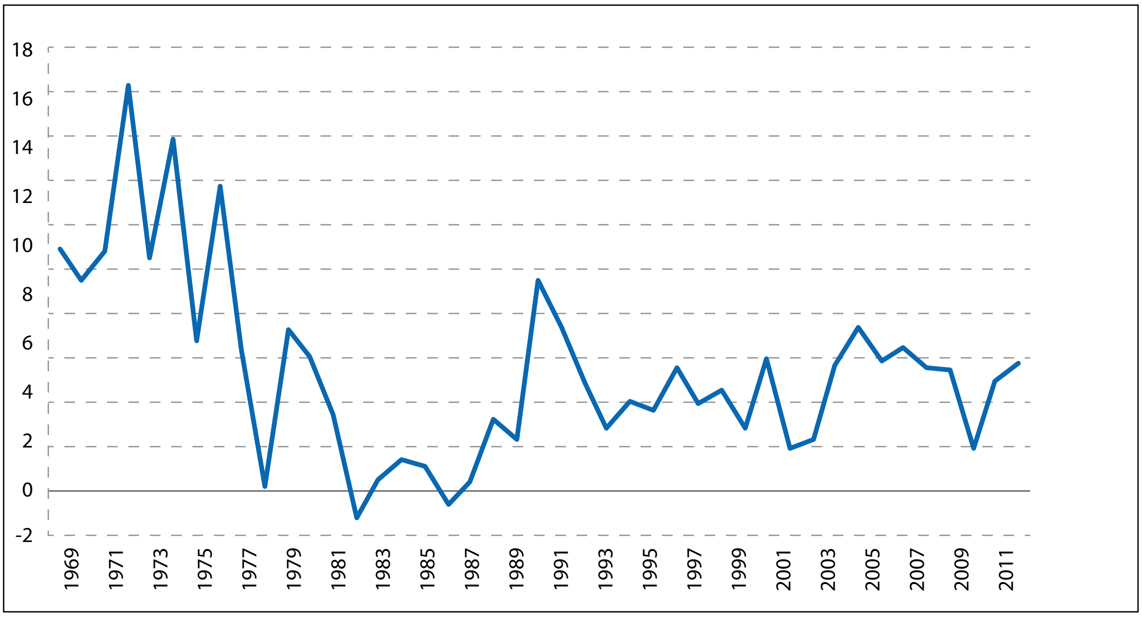
3.1. Macroeconomic Environment: Jobless Growth

The Region's economic growth in the past 50 years was volatile, driven by exogenous factors and fluctuating oil prices. Both oil and non-oil Arab states witnessed a fast growth in the 1960s and 1970s, with an average growth rate of 6 and 7 per cent respectively (Figure 3.1). The per capita income of oil exporters (GCC countries) has doubled during this period and that of non-oil exporters tripled by early 1980s (World Development Indicators, 2012). Following the decrease in oil prices in the 1980s, growth stalled, investments declined and the government-led growth models became increasingly unsustainable. Increased macroeconomic imbalances and debt burden pushed many Arab countries to introduce reform programs geared towards transition to market-led economies. As a result, and between the 1990s and mid-2000s, economic growth accelerated, averaging 3.6 per cent per annum between 1996 and 1999 and up to 5 per cent in the recent decade leading to the Arab Spring (Figure 3.1). Although growth in the years 2000 - 2010, was relatively higher than that of the "lost decade" of the 1980s, it lagged behind other regions, only surpassing Latin America and the Caribbean (Figure 3.2).

While economic growth in the Arab region in the recent decades was significant by historical standards, it was not able to absorb the growing pressure from the youth bulge. An increasingly growing population has diluted the effect of output growth witnessed after the reform programs of the 1990s. Although employment was quite responsive to the level of growth, the number of jobs created was not enough to absorb the increasing number of new entrants to the labor market (ILO, 2012). 56 per cent of the population in non-oil exporting Arab countries were not working in 1998, a per centage that hardly changed a decade later in 2009 – a surprising figure given the relative growth witnessed during this same period (ILO, 2012).

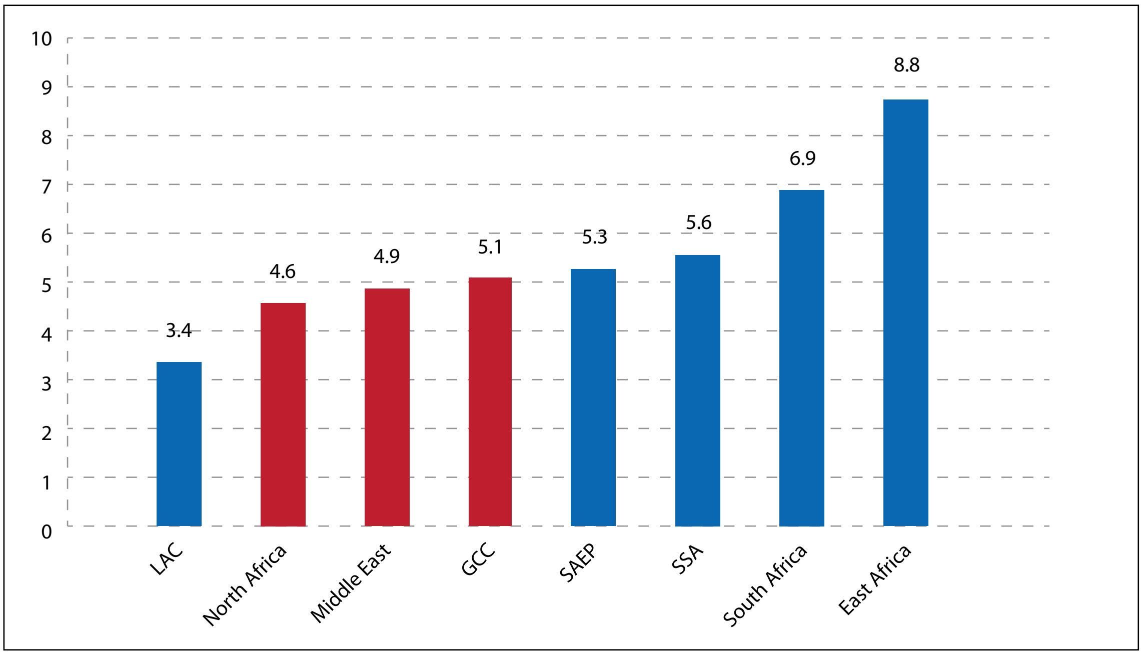
Developing countries grow faster as structural change occurs and economies shift towards industrialization. Diversification away from agriculture and low-value added activities towards

FIGURE 3.1: GDP ANNUAL GROWTH (%) IN THE MENA AND GCC ARAB COUNTRIES (1969 - 2011)



Source: World Development Indicators, 2012

FIGURE 3.2: AVERAGE ANNUAL REAL GDP GROWTH (%) IN THE WORLD REGIONS (2000-2010)



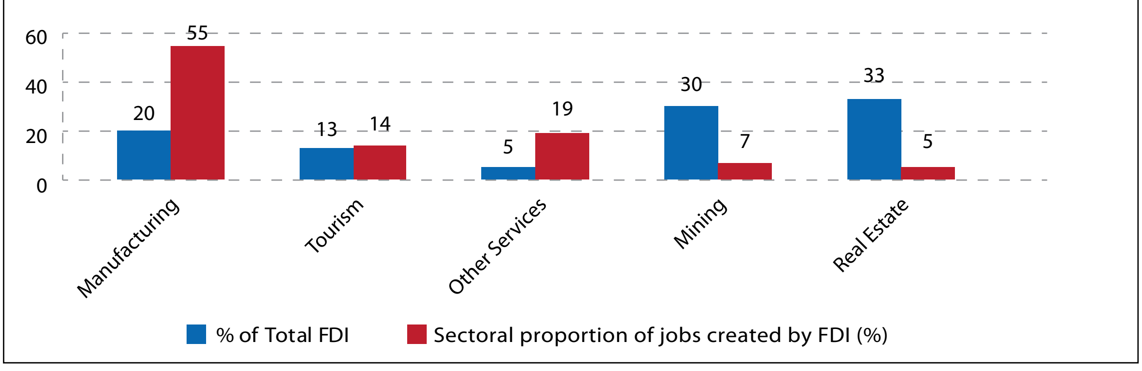
Source: ILO, 2012

skill-intensive and high value-added activities increase overall productivity and expands income. High value-added sectors, such as manufacturing and modern services (such as trade, financial services, IT and tourism) were the main engines of growth and job creation during the 2000s in rapidly growing comparator economies like Indonesia and Malaysia (World Bank, 2013). Even within the manufacturing sector, shifts occurred from relatively labor-intensive, low productive, manufacturing industries towards high-productivity industries in particular ICT (UN DESA, 2006). When countries move up the ladder of development, modern services gain more importance, as they contribute to productivity gains and become essential for achieving industrialization. Moreover, as services become increasingly tradable and economies open to world markets, modern services offer new opportunities for growth. The Information Technology sector (software and computer services export) was the main driver of development in India. After a decade of sustained growth (1996-2004), India was able to become at par with top software exporting nations and the Indian IT sector became an established and dynamic international competitor. Growth in exports of IT services also generated growth in domestic sales and created linkages to other industries (UN DESA, 2006).

The transition to industrialization and the desired structural changes in the Arab economies are slow and lagging behind other World regions. Low productivity jobs (such as those in agriculture and construction), and the low shares of investment and output of the manufacturing and high-value added services, reflect the incomplete structural transformation of the Arab region. In terms of output composition, agriculture contracted in the Arab economies as elsewhere in the world but only slightly and did not give way to vibrant and innovative manufacturing and services sectors (World Bank, 2013). The share of agriculture of the output of the Arab economies fell from around 7 per cent in the first half of the 1990s to 6.4 per cent in the second half of the 2000s, while the share of manufacturing increased from 7.8 per cent to 9.8 per cent and mining and utilities lost a proportion of their output share from 43 to 36 per cent (ILO, 2012). This is contrasted with the dynamic pattern of structural change witnessed in Asian countries in particular in China. Between 1970 and 2003, the share of agriculture dropped from 49 to 12 per cent, giving way to a dynamic growth in manufacturing and mining which increased from 28 to 60 per cent of the total output (UN DESA, 2006).

The level and structure of investment is equally important for the transition to industrialization. New growth theories no longer consider capital investment as the only drive for structural change, however it is still a major carrier of technological change and productivity increases. The most dynamic economies in industrialization in recent decades recorded high increases in investment. Between 1970 and 2003, investment levels doubled in South Asia and tripled in South-East Asia while they were virtually stagnant in the Middle East and North Africa (UN DESA, 2006). The investment rate as a per centage of GDP in the Middle East and North Africa remained stagnant at around 13 per cent of GDP between 1985 and 2008 (ILO, 2012). Not only investment is important in the manufacturing sector, but also in supportive services like financial and business sectors which facilitate industrial development. Private investments in the Region in the period leading up to the Arab Spring has favored mining and real estate – constituting two third of total Foreign Direct Investment (FDI) between 2003 and 2010 (Figure 3.3). These sectors are capital intensive and contribute very little to sustainable long-term job creation (ILO, 2012).

FIGURE 3.3: FDI INFLOWS BY SECTOR AND RELATED JOB CREATION, ARAB REGION (2003-2011)

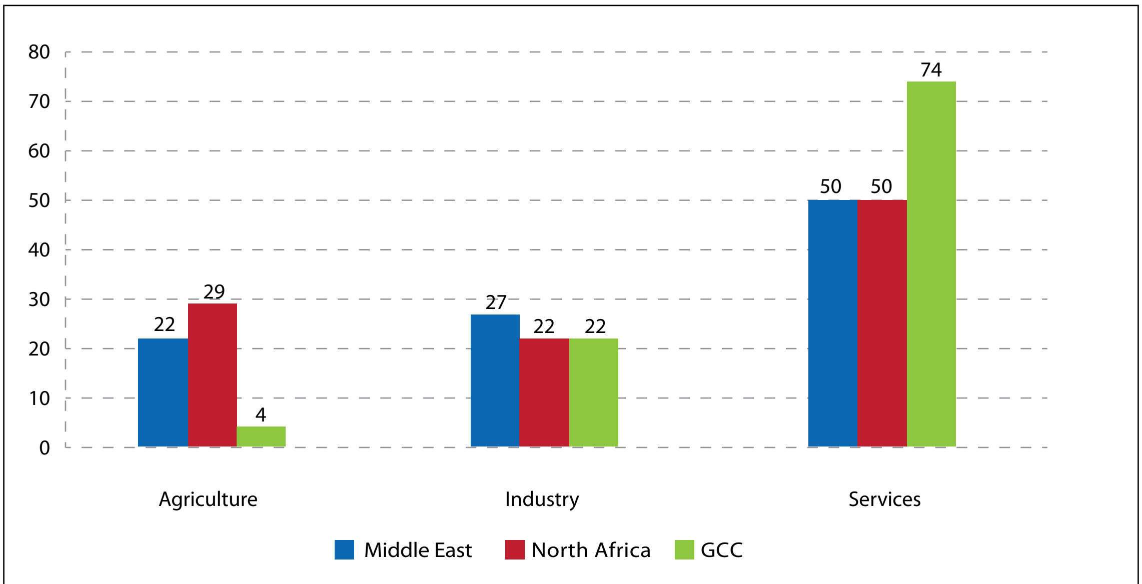


Source: ILO, 2012

The slow pace of industrialization of the Arab region has inhibited labor reallocation to high-productivity sectors, and resulted in a decrease in the overall productivity gains. Consistent with the slow structural transformation of the economy in several Arab countries, unskilled rural employment remains the prevalent trend even among young workers. Agriculture remains a large employer in the region where it employs 22 and 29 per cent of the workforce respectively (Figure 3.4). Labor movement from less productive to more productive activities contributes to substantial economic growth even when there is no productivity growth within sectors. Case in point, labor reallocation to high-productivity sectors has produced significant increases in productivity in East Asia and the Pacific Region – where reallocation of labor towards high-productivity activities contributed to more than half the productivity gains that area witnessed in the period 1998 – 2008 (ILO, 2012). In contrast, employment in Agriculture and the public sector reduced the potential productivity gains from reallocation of Labor from agriculture to Industry. The Arab region is the only region in the world that witnessed a negative impact on productivity resulting from labor reallocation across sectors between 1998 and 2008 (ILO, 2012). Even though there were small increases in within-sector productivity, they did not offset the negative effect of the reallocation of labor, resulting in negative overall productivity changes.

Even in Arab countries that are more advanced in the structural transition than others in the region, the structure of manufacturing is tilted towards low value added products. In Jordan for instance, labor did not move to the high value added sectors in absolute terms. Labor reallocation in Jordan moved towards retail, trade or construction rather than to the higher end of the value-added chain such as manufacturing, financial or high value added services (World Bank, 2013a). Yet 20 per cent of FDI investment in manufacturing has contributed to 55 per cent of all FDI jobs created in the Middle East region between 2003 and 2010.

FIGURE 3.4: COMPOSITION OF EMPLOYMENT (%) BY SECTOR, 2010



Source: ILO

The majority of Arab countries are not well integrated in the world markets. The main bottlenecks for the region's exports are the lack of established export industries, low private sector competitiveness, export concentration in oil or traditional low value added products and a mismatch of skilled labor. In contrast to East Asia and Eastern Europe, trade in the Arab region has focused on exports of agriculture and fuel related products rather than industrial goods and high value added services. The share of the Arab world in global manufacturing exports was less than 0.2 per cent in 2005 (World Bank, 2010b). Even resource-poor economies rely on few export products that are mostly unsophisticated, only 21 per cent of the Region's exports uses medium or high technology compared to 37 per cent of exports in countries of similar income levels in other regions (World Bank, 2010b).

Sluggish economic performance and delayed industrialization is partly attributable to lack of government policies that foster established export industries and export diversification. Most of the Arab governments in the region have historically sought to shape economic outcomes through large public sectors, extensive private regulation which weakened the private sector, and protection from competition from the outside world. While countries in Latin America, Europe and Central Asia over the 1980s and 1990s have refocused their strategies into more coherent market-oriented policy packages to encourage private-sector export-led growth, Arab economies made relatively less progress to move toward more market-friendly policies (OECD, 2006). The rapid growth in trade in services with the underlying growth in ICT, the emergence of global supply chains and the intensification of regional and world integration all call for the Arab countries to look into new comparative advantages in the world market and focus on efficiency gains in the value chain (World Bank, 2010b).

The structure of trade and industry in the region is changing, however much slower than the needs of the pressing economic growth and employment generation. The World Bank has conducted an analysis on export diversification and the bottlenecks that hinder entrepreneurs from exploring new markets in five Arab countries[3] (World Bank, 2007). Entrepreneurs in these economies have pointed out that initial support—through export promotion schemes, competitiveness programs, innovation grants, and so forth—was not available. The study also found that the development of high-tech new export products is linked to the combination of information about new business opportunities, foreign markets, production processes and the willingness of entrepreneur to take high risks and adopt new technologies and management techniques. Small initiatives have recently emerged in some of the Arab countries like FAMEX in Tunisia and ExpoLink in Egypt. The private export association ExpoLink formed small business clusters and oriented producers of traditional products into previously unexplored market segments. In Tunisia, the Export Market Access Fund provided matching grants and technical assistance to firms with no previous export experience, to exporters of new products, and to exporters who seek to penetrate new markets. Arab countries therefore should harness the opportunities offered by the changed global market and focus on the creation of internationally embedded industries and services.

The failure of Arab States to incentivize private investment and accelerate the structural changes desired for sustained economic growth and long-term employment creation may have also resulted from poor macroeconomic conditions. In the 1990s a number of Arab countries

3 Egypt, Tunisia, Lebanon and Morocco

underwent stabilization efforts of varying intensity. These still suffer until now from an unstable macroeconomic environment that can be substantially improved. Some countries like Lebanon are burdened with high debt. Others are vulnerable to the fluctuating oil production such as the Republic of Yemen (World Bank, 2013a). In addition, regional and domestic conflicts create macroeconomic uncertainty in several countries, like in Iraq, Palestine and recently in Syria. More specifically, two main macroeconomic factors have resulted in high output volatility and a slow transition towards industrialization:

- A volatile exchange rate: The volatility of the real effective exchange rate increases uncertainty and inhibits long-term investment. Thus the volatile exchange rate in several Arab states has depressed the prospects for development in more value-added sectors such as manufacturing and non-resource based activities, which have higher potential for creating employment (World Bank, 2013a).

- Pro-cyclical and discretionary fiscal policies: Together with weak long-term investments, the pro-cyclical fiscal policies in the region have increased macroeconomic instability (World Bank, 2013a).

Large energy subsidies prevalent in many Arab countries deter the incentive to innovate and create an anti-labor bias. For instance, Egypt's industries consume more than 80 per cent of the countries energy and 20 per cent of the diesel oil, and in total received 50 per cent of the energy subsidies provided by the government (ILO, 2012). This increases the relative cost of labor in relation to energy input prices. In addition to this, energy subsidies encourage inefficient operations and deter productivity growth, which on the long run impacts the development of jobs in high-productivity activities.

The lack of active migration policies plays a central role in determining the structure and level of labor demand in Arab countries. While migration has always been central in determining the dynamics of the labor markets in the Arab region, governments have failed to place migration policies within broader long-term economic reform agendas (ILO, 2012). For instance, unemployment rates among Jordanians remained at a relatively high level of 13 per cent between 2000 and 2007 despite the boom in economic activities that resulted in an average annual growth rate of 7 per cent (ILO, 2012). The reason for this is that new employment opportunities created by the increased output were ceased by the migration of low-wage immigrants luring employers into short-term profit maximizing incentives.

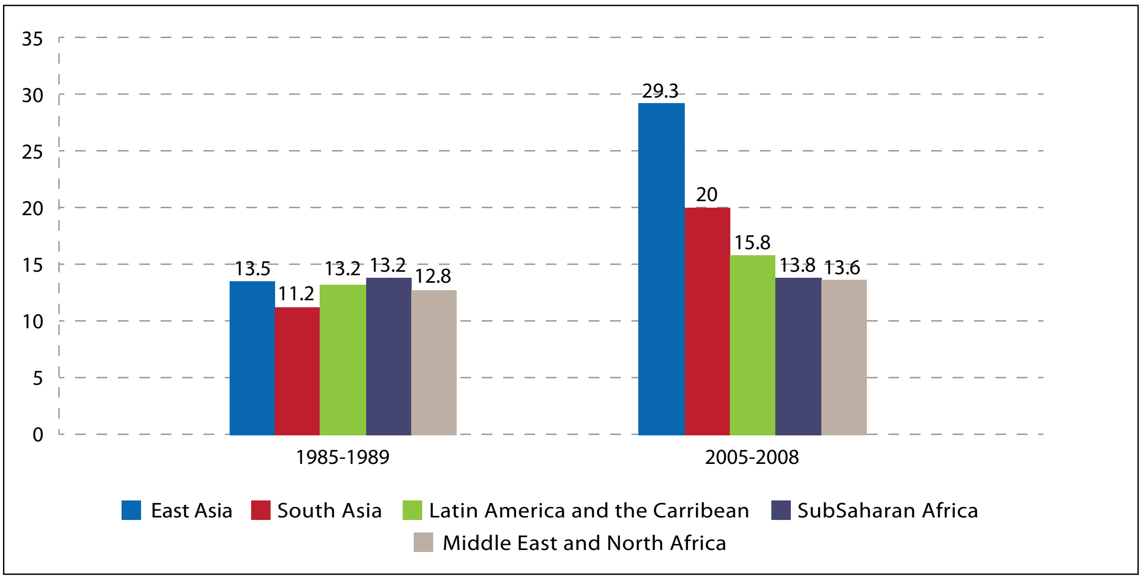
Uncontrolled immigration of low- skilled workers has locked most Arab economies into a low productivity cycle with the youth paying the high cost of increased unemployment. The availability of low-wage immigrant labor fueled low-productivity economic activities, which rely on labor intensive techniques favoring quick returns to investors over long-term sustainable economic activities. This has pushed many young Arabs to pursue only the minimum level of education to satisfy the recruitment criteria. In addition, the excess supply of low wage immigrant labor coexisted with an increased supply of highly skilled national labor, putting pressure on wages and pushing down the employment conditions for nationals (ILO, 2012). As a result many ambitious and educated youth emigrated, seeking better opportunities abroad. The public sector, in turn, was pressured to absorb some of the unemployed by paying higher wages (ILO, 2012).

The effects of the recent financial and economic crisis has varied in intensity and impact on Arab economies, however its marginal impact was not substantial due to the already dire conditions of employment in the region. To date there is little evidence that the global financial crisis was behind the worsening unemployment rates of youth and vulnerable groups since 2008, as Arab youth were already excluded prior to the economic downturn. What the crisis highlights is the need for long-term policy interventions to address the roots of youth exclusion from the labor market.

3.2. Competitiveness and Public Regulations Affecting Job Creation

The contribution of private investment to growth in the MENA region is among the lowest in the World, despite government attempts at reforming the business environment and encouraging investment. Today the private sector plays a larger role in the region; however it is far from being a strong engine for growth as is the case in other emerging markets (Figure 3.5). In addition to the economic reform undertaken by Arab countries in the last decades, governments attempted at simplifying business regulations and improving the business environment for the private sector. Reforms in the business environment may partially account for the slight increase in private investment between the 1980s and 2000s, especially in resource-poor countries-such as Jordan, Morocco, Tunisia and Egypt (World Bank, 2009).

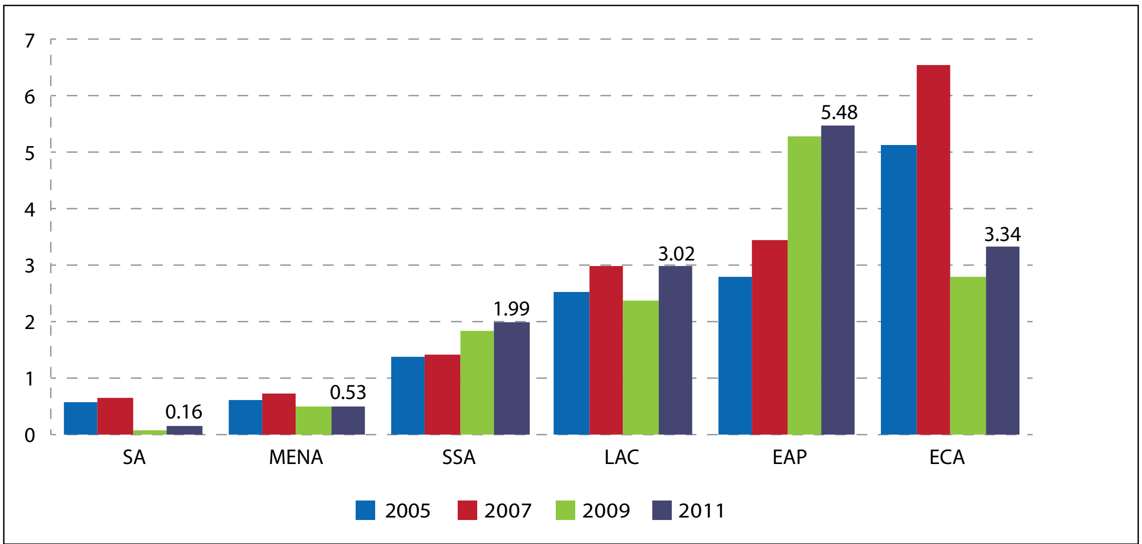
FIGURE 3.5: PRIVATE INVESTMENT RATES AS % OF GDP (1985-1989 / 2005-2008)



Source: ILO, 2012

The region's low firm entry and exit are only one manifestation of the lack of creative destruction. Countries in the region such as Egypt, Morocco, Jordan and Tunisia have some of the lowest firm entry density among emerging economies (Klapper and Love 2010). While Tunisia and Morocco are the two best performers in the region (excluding GCC), in terms of firm entry per 1,000 working age population, they are still surpassed by 80 emerging countries including Bulgaria, Croatia, Chile and the Dominican Republic (World Bank, 2009). Figure 3.6 shows the level of newly registered firms between 2005 and 2011. The number of registered firms per 1,000 working age population (age 15-64) in the Middle East only surpasses South Asia, and is among the lowest in the world in the last decade. A study on Moroccan manufacturing shows that the average annual exit rate for firms is 5.1 per cent between 1986 and 2001 (Bartelsman, Haltiwanger and Scarpetta, 2004). These are quite low rates of firm exits in comparison with other developing countries such as Columbia and Chile, which recorded exit firm rates of 12 and 11 per cent respectively (World Bank, 2009).

FIGURE 3.6: NEW FIRM DENSITY: NUMBER OF NEWLY REGISTERED LIMITED LIABILITY COMPANIES PER 1,000 WORKING-AGE PEOPLE (2005-2011)



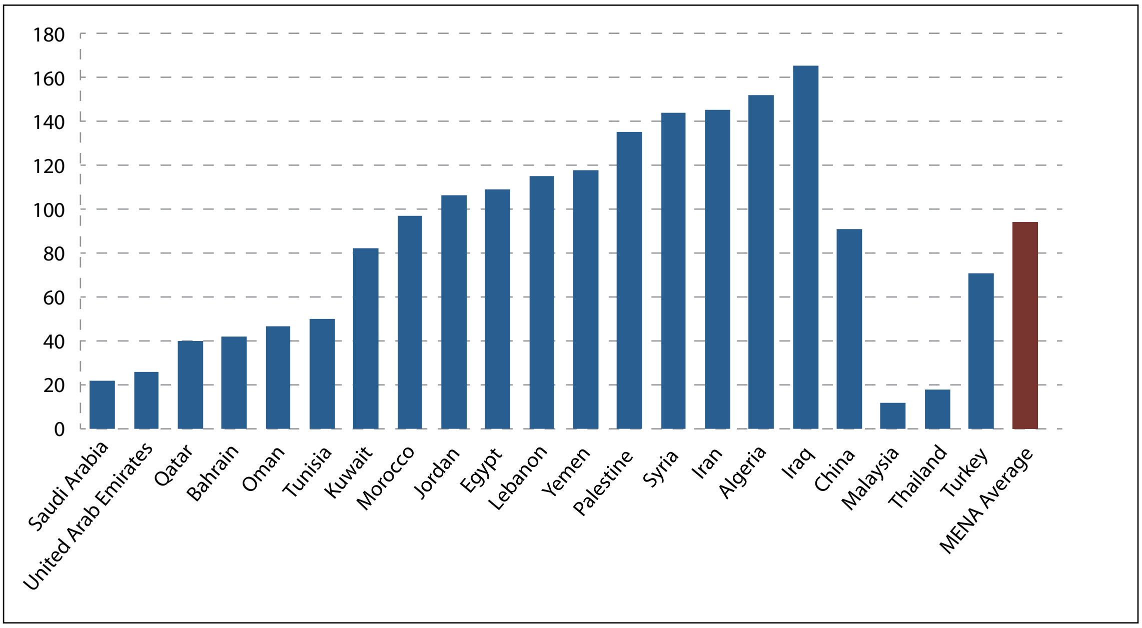
Source: World Bank Enterprise Survey for countries with available data

The private sector in the region is skewed towards small new businesses, and large incumbent ones. A study performed on firms in Morocco and Tunisia between 1996 and 2010 (Rijkers and Arouri, 2012) reveals that in both countries, small and micro firms (1 to 99 employees) are unlikely to grow in a 10 years span and are the most likely to exit. More evidence on this arises from a comparison of the pace of growth of firms between Jordan and Brazil; according to the Enterprise Survey of the World Bank, firms start larger in Jordan but grow faster in Brazil, such as firms are twice as large in Brazil after a period of 10 years than they are in Jordan (World Bank, 2009). In Tunisia 86 per cent of the firms are one-person firms yet micro and small firms account for a very small share of employment (13 per cent and 20 per cent respectively). Literature on firm growth and employment shows that it is the age of the firms rather than their size that impacts the most employment creation (World Bank, 2009).

Private firms in the region exhibit a low level of total factor productivity, similar to the macroeconomic performance. The lack of competition and firm dynamism can be gauged by the level of productivity in the private sectors in the region compared to fast growing markets such as Brazil, East Asia and Turkey. The Middle East region is the lowest performing in terms of labor and productivity factors (World Bank, 2009). The average regional total productivity factor, as a per centage of the average total productivity factor in Brazil, is low- it only surpasses low performing countries such as Cambodia and Sri Lanka. Labor –abundant countries in the region (Algeria, Syria and the Republic of Yemen) perform lower than most comparator countries and total factor productivity in Oman and Saudi Arabia (resource-rich, labor importing countries) outperform that of most countries in the sample (China, India and Turkey), possibly reflecting heavily subsidized energy inputs (World Bank, 2009).

Overall, the business environment in the region is comparable to other high-performing countries and reforms have accelerated over the past few years. As highlighted in the World Bank's ease of doing business reports, Middle Eastern countries have recently accelerated reforms to improve their business environment (World Bank, 2009). Moreover when compared to fast growing countries, such as Turkey, China and Malaysia, the average doing business index of MENA countries is only slightly higher, highlighting a relatively good environment for entrepreneurs. However these indicators reveal that the big gaps that exist in the dynamism and productivity of the private sector between MENA countries and comparator fast growing economies pertains to factors other than the existence of "acceptable" business regulations.

FIGURE 3.7: EASE OF DOING BUSINESS INDEX, 2012



Source: World Bank, Doing Business Database, 2012

According to the World Bank, impediments to the private sector growth mainly experienced by small firms in the region stem from the lack of implementation of business regulations rather than their weakness. The private sector in the region suffers from unfair treatment and discretionary implementation of business rules and regulation. In many countries in the region corruption, anticompetitive practices, and opacity and unpredictability of laws and regulations all rank high in the minds of business managers (World Bank, various years). Although business regulations are being reformed, it is the discretionary implementation and the privileges offered to large powerful companies that affect the enterprise investment, operation and ultimately employment environment. The perception of investors and the practices of government institutions are best captured through the surveys conducted by the World Bank on the impediments to growth faced by enterprises (Table 3.1) (World Bank, 2009).

TABLE 3.1: PRIVATE SECTOR PRIORITY CONSTRAINTS FROM ENTERPRISE SURVEYS, 2003 AND 2005–08

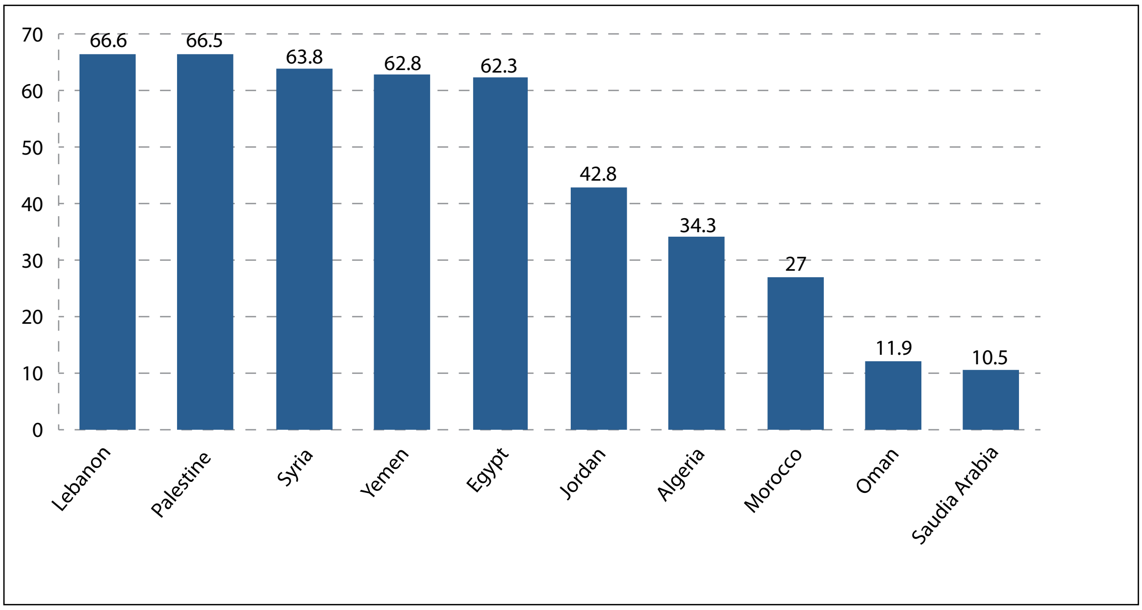
Algeria	**Egypt**
Corruption	Macroeconomic Instability
Anti- Competitive Practices	Corruption
Access to Land	Anti- Competitive and Informal Practices
Access to Finance	Regulatory or political Uncertainty
Electricity	Tax Rates
Oman	**Saudi Arabia**
Labor Regulation	Labor Regulation
Skills, Education of workers	Business Licensing or permits
Cost of finance	Skills, Education of workers
Access to Land	Access to Land
Access to Finance	Access to Finance
Morocco	**Yemen**
Tax Rates	Macroeconomic Instability
Access to Land	Tax Rates
Electricity	Corruption
Anti- Competitive and Informal Practices	Tax administration
Access to Finance	Anti- Competitive and Informal Practices
Palestine	**Lebanon**
Political Instability	Corruption
Macroeconomic Instability	Cost of Finance
Corruption	Tax Rates
Electricity	Electricity
Transportation	Legal System
Syria	**Jordan**
Tax Rates	Macroeconomic Instability
Tax administration	Tax Rates
Electricity	Business Licensing or permits
Corruption	Corruption
Business Licensing or permits	Tax administration

Source: World Bank enterprise surveys, 2003 and 2005–08.

Firms in the region often complain about the inconsistency and unpredictability of the investment climate. The inconsistency in the treatment of businesses is best gauged by the Investment Climate Surveys between 2005 and 2008 where between 41 per cent of respondent in Yemen and 66.6 per cent of respondent in Lebanon view the interpretations of regulations as inconsistent and unpredictable over time (World Bank, 2009). This ambiguity expands the scope for discretion and preferential treatment in public institutions. Compounded with high corruption and informal practices, uncertainty in the business environment raises the cost of entry, protects incumbents from competition and skews incentives towards rent seeking activities at the expense of innovation and higher productivity (World Bank, 2009).

Corruption is one of the top five constraints in seven Middle Eastern countries. Enterprise surveys conducted in various years show that corruption is among the leading constraints to enterprise operation and growth. However the perception of corruption widely varies between countries, with 66 per cent of Lebanon's entrepreneur rate corruption as a major or severe constraint to their business compared to only 11.9 per cent and 10.5 per cent in Oman and Saudi Arabia respectively (Figure 3.8). Corruption in Lebanon and other countries where it prevails can impose a substantial constraint on businesses and nurture rent seeking behaviors at the expense of increased productivity and competitiveness (World Bank, 2009).

FIGURE 3.8: PERCENTAGE OF FIRMS THAT PERCEIVE CORRUPTION AS A MAJOR OR SEVERE CONSTRAINT TO DOING BUSINESS



Note: Percentage of firm managers who rate corruption as a major or severe constraint to their business
Source: World Bank enterprise surveys, various years

Entrepreneurs in the region consistently face anti-competitive and informal practices that favor incumbent or large firms at the expense of new entrants and small businesses. Entrepreneurs in the region view that the ability of competitors to evade the rules is a leading business constraint. Anticompetitive practices figure among the top 10 constraints identified by businesses in seven of 10 countries surveyed. In four of 10 surveyed countries, more than half of the firms identified "anticompetitive and informal practices" as major or severe constraints (Table 3.1). Often, incumbents and powerful firms are shielded from competition by discretionary implementation of the rules and high entry barriers.

3.3. Labor Market Policies

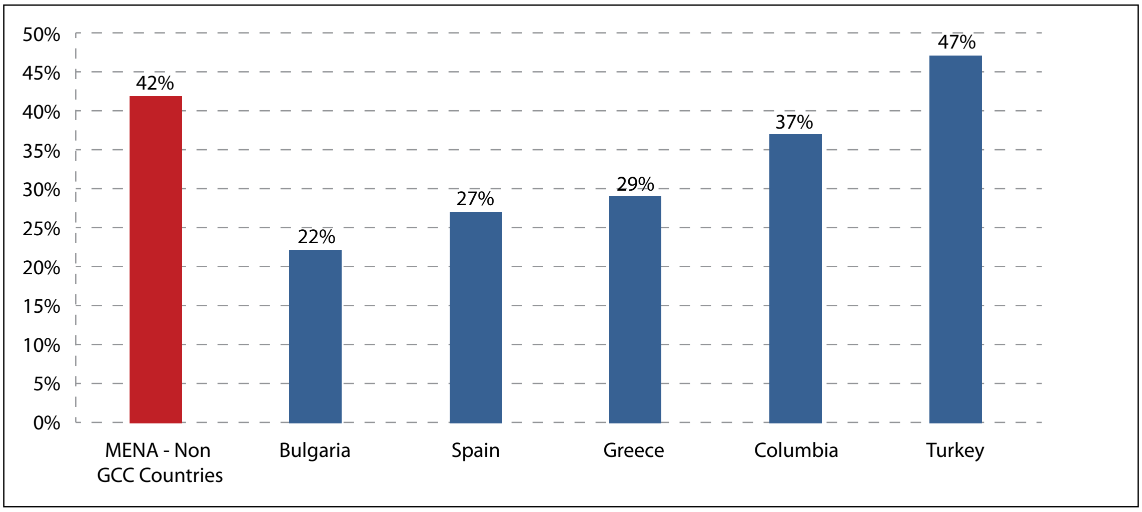
Most governments in the region do not have a national employment strategy which identifies labor market challenges and tries to address them in a consistent manner. There are ministries of labor and planning units, yet most governments have a minimal role in developing and engaging in a national employment policy. There are, to date, very few Active Labor Market Policies (ALMP) across the region. This situation is a by-product of at least two main factors: 1) Labor market challenges have always been diffused by a ‘passive’ policy of encouraging emigration, as governments have failed to address over many decades the ‘push’ factors that cause mainly the skilled workforce to seek jobs abroad. 2) Policy-makers in the region have done very little to address the issue of high reservation wages (mostly linked to high educational investments and a high cost of living), which discourages workers from engaging in low-skilled jobs. Instead, an influx of foreign workers has been encouraged to take on the available low-skilled jobs, mostly in the construction and agricultural sectors.

Despite its low productivity, the public sector remains the preferred employer for youth and highly educated work force in the region. The public sector in the Arab region remains relatively high, employing between 14 per cent and 40 per cent of workers (World Bank, 2013a). An oversized public sector, largely financed by taxes, attracts a significant share of the GDP with the wage bill alone. The government wage bill in the region is the highest in the world (9.8 per cent compared to a global average of 5.4 per cent) (ILO, 2012). Moreover the average wage for the public sector in the region is 30 per cent higher than that of the private sector, compared to 20 per cent lower worldwide. As a result, the public sector has crowded out employment in the market. Evidence from Egypt and Tunisia confirms that many young people queue for public sector jobs (Assaad 1992; Grun et al. 2008; Youssef 2004). With higher wages, access to social security, low risk of dismissal and generally low pressure to be productive, the public sector has become the implicit rule setter for a wage floor and for a low productivity private market.

High wage floors negatively affect employment and increase informality. Minimum wages in the region tend towards the higher ends of comparator countries, with an average of 42 per cent of the average value added per worker, lying above most comparator countries in Eastern Europe and Latin America (Figure 3.9). When wage floors – resulting from high public sector wages, or collective agreements negotiated by insiders or official minimum wage - are set high, employers try to circumvent those wages by increasing the informal arrangements. In addition high wage floors impact negatively employment, since formal employment will be unlikely for workers whose productivity is below the wage floor (World Bank, 2009).

Countries in the region, especially non-GCC, have a relatively high share of labor taxes, which affect firms and individuals decision on whether to hire, accept job offers or operate informally. Labor taxes and contribution to social insurance are only slightly lower than OECD and European countries, while the level of social insurance and public services are inferior to the average of the OECD. (World Bank, 2013a). High taxes and contributions can also exacerbate wage floors. Empirical evidence reveals that taxes can significantly affect employment, especially if the social return is minimal (World Bank, 2013a).

FIGURE 3.9: MINIMUM WAGE AS A SHARE OF VALUE ADDED PER WORKER IN SELECTED COUNTRIES IN MENA AND IN SELECTED COMPARATOR COUNTRIES, 2010



Source: World Bank 2012

Although labor regulations have many positive social implications, social rigidities in labor market regulations may hinder firms' flexibility in hiring and firing especially during times of economic downturns. A study by Nugent and Yanyu (2012) aims at exploring the likely effects of relaxing labor market regulations on one hand and deregulating labor markets on the other. The study uses firm-specific survey responses to a hypothetical question about the extent to which firms would hire or dismiss workers if all existing labor regulations were eliminated. The model relies also on data from the World Bank Enterprise survey between 2002 and 2008, and accounts for the labor market rigidity index, industries and regions. The results of the study suggest that the effects of labor deregulation on firm employment vary substantially across firms, across sectors and across countries. The per centage increases in jobs that would result from labor deregulation are estimated to be higher in firms that are young, small, located in a capital city, significant exporters, technologically advanced, privately owned and in countries where labor rigidities are high. The recorded likelihood of dismissals occurs in the opposite situations, i.e. larger and older firms, foreign or government owned and less technologically capable. Moreover, these effects tend to be larger in environments with more rigid labor laws and regulations (Nugent and Yanyu, 2012).

Countries in the region have made substantial progress in bridging the gap between men and women in several arenas of development, however this progress was not commensurate with higher participation of women in economic activities. Although gender gaps remain in some human development indicators, the region's progress is among the fastest in World. Female literacy between 1985 and 2000 is much better than South Asia, Latin America and Sub-Saharan Africa, and progress in women health and education is among the fastest in the world for the same period (World Bank, 2013b). However, paradoxically, progress on the human indicators front was not translated into increases in women economic participation (World Bank, 2013b). Female participation rates in the region as a whole increased by only 0.17 average per centage point annually. In comparison with the rest of the World regions, participation rates for women aged 15 and above is very low – it stands at only 25.2 per cent in the Middle East compared to 50 per cent in East Asia and Pacific, Europe and Central Asia, Latin

America and Caribbean, and Sub-Saharan Africa (World Bank, 2013b). Although women participation in the workforce might pertain to difficulty in balancing domestic responsibility with work outside home, the gap between unemployment figures for men and women (this gap doubled from 5.5 per cent in 1985, to more than 10 per cent in 2010), reflects the existence of structural constraints that limits the opportunities for women who do want to work. A myriad of constraints can help understand the low participation of women in the workforce, from legal, regulatory to cultural and religious norms. This discussion focuses on the legal and regulatory impediments that acts against the creation of job opportunities for women and their desired inclusion in the economic sphere.

Constitutions have adopted the right to equality between citizens, however there are still legislative clauses that differentiate between genders and in many instances the interpretations of laws reinforces traditional gender roles in the societies. The World Bank report, Opening Doors 2013, highlights a set of legal barriers to women's full participation in the economic and political life which affect women choice, mobility and opportunities. These include:

- **Legal minimum age of marriage:** Most countries to the exception of Saudi Arabia and the Republic of Yemen mandate a minimum marriage age for girls exist. Early marriage can affect the woman's decision making power and restrict free choice with regards to education and the decision to work (Word Bank, 2013b).

- **Control over assets:** In most of the regions, civil laws limit women's access to property acquired during marriage. Compounded with the low participation of women in the workforce, most women, if not in possession of significant personal assets, feel vulnerable if they are divorced or widowed (Word Bank, 2013b).

- **Guardianship laws:** These laws require a woman to obtain permission from her guardian (husband or male relative) to obtain a passport, travel outside the country, apply for a job, and get married. For instance, in Jordan, a married woman requires her husband's permission to apply for a passport. These laws restrict women's mobility and occupational choices (Word Bank, 2013).

- **Right to equal pay:** Right to equality in pay and legislation against discrimination is widely present in MENA, however in practice, the enforcement of antidiscrimination laws is uneven. Moreover, inequalities in nonwage benefits, such as child and family allowances, which usually are paid to the husband undermines equality in pay (Kelly and Breslin, 2010).

- **Maternity benefits:** All countries in the region mandate some form of maternity leave, and few have provisions for childcare. Paradoxically, these benefits given to working mothers can also act as disincentives to hiring women (Word Bank, 2013b). Maternity and child care support benefits are another parameter in women's decision to work or not, especially after marriage. In many MENA countries, the duration of maternity leave is shorter than international norm, its 30 days in Tunisia and in 45 days in Bahrain, with contrast to two months elsewhere in the Region (World Bank, 2010).

- **Retirement age:** Pension laws that mandate a retirement age earlier for women than for men reduce the amount of pension that a woman receives, and can discourage women by limiting their expected career progression (Word Bank, 2013b).

3.4. Conflict and Political Stability

Armed conflicts and political instability undermine development prospects and exacerbate the employment opportunities for many countries in the region. Political instability is not conducive to investment, and consumption is reduced to the strict necessities. Investors, whether local or foreign, face greater risks and tourism is restricted for security purposes. Compounded with the global economic downturn, the economic costs of instability are even greater today in the region. Analysis of the recent political instability and social unrest, whether domestic or regional, shows a correlated slowdown in the economic growth, private sector development and job creation.

Lebanon's economy has paid a substantial cost to political instability since 2005, including a surge in unemployment rates. Political instability and protracted periods of armed conflict have become a structural impediment to economic activities in Lebanon. Whether from regional unrest, domestic armed conflict or political deadlock, Lebanon's economy was significantly hurt by political instability. A recent study by the Lebanese Center for Policy Studies shows that political instability costs the Lebanese economy between 3.76 per cent and 6.28 per cent of its GDP between 2005 and 2007 (Salti, 2012), following the assassination of Prime Minister Hariri and the July war of 2006. Lebanon's economic situation took even a grimmer outlook since the recent outbreak of the conflict in neighboring Syria and the domestic political deadlock. Lebanon's growth rates have reached one of their lowest levels and stood at only 2 per cent in 2012 (IMF, 2013), and inflow of foreign direct investment estimates for 2012 are almost 70 per cent lower than in 2010 (Bank Audi, 2013). The service oriented Lebanese economy highly depends on consumer confidence and tourism, which were shaken by the security situation; in the first quarter of 2013, the number of tourist reached its lowest levels since 2008 and dropped by 12.5 per cent from the same period last year (Bank Audi, 2013). Local and foreign businesses are in a wait and see mode avoiding investments while consumers have minimized consumption, which contracted the growth even further. Alongside this trend in slowed economic activity, unemployment in Lebanon increased substantially from 8.6 per cent in 2010 to 10.3 per cent in 2012 (ILO Database).

Since the 2011 revolution that toppled the regime of former President Hosni Mubarak, sporadic unrest and political and institutional uncertainty are still hurting economic growth in Egypt. Although the Egyptian economy was resilient to the shocks of the global economic depression in the recent years and witnessed a relatively impressive growth of 7 per cent in GDP in 2009, it was the social unrest and the rising political instability that caused a drop in GDP growth to around 1.6 per cent for the fiscal year 2011/2012 and investments declined to 13 per cent of GDP in July-December 2012 (World Bank, 2013c). The Ministry of Finance of Egypt estimates that the contraction in consumption, the main economic driver in the country, and the slowed economic activity resulted in an increase in unemployment from 8.9 per cent to 12 per cent between 2010 and 2012 (OECD, 2013).

In Palestine, conflict and Israeli blockades have been restricting labor mobility and the growth of the private sector. The Israeli closures policy was aggravated by the construction of separation barriers and forbidden roads. The closures duration has increased dramatically since the Second Intifada in September 2000, when Palestine became landlocked with no access to ports and airports (Akkaya, et al. 2008). A major problem with the closure policy is the barriers to labor mobility for Palestinian workers in Israel, which are facing tightened Israeli work permit policies as well as security checkpoints that increase the risks of traveling thus decreasing the number of work days, labor income, remittances flows, as well as affecting trade, investments and production (Akkaya, et al. 2008). Empirical research by Akkaya, et al. estimates that the opportunity cost of one day of closure in the West Bank and Gaza stands at US$7 million. Akkaya, et al. also quantify the employment and closure related losses at US$750 million in 2005 which is equivalent to 58 per cent of the total US$1.3 billion foreign aid provided to the Palestinian Authority that year. Unemployment is thus greatly affected, with a is rising trend in unemployment rates from 16.9 per cent in 1999 pre-Intifada to 31.7 per cent in 2008.

The current crisis in Syria is having a massive impact on the humanitarian, social and economic situation in the country. Since the beginning of the Syrian uprising early in 2011, the conflict has resulted in more than 93,000 killed, several hundred thousands persons injured, and more than 4 million internally displaced and regional refugees (UNHCR, 2013). The Syrian economy also lost almost 82 per cent of its GDP in 2010, with children and youth, especially in rural areas, disproportionally affected by the crisis (SCPR, 2013).

Adding to the already stressed Yemeni economy, the protracted conflicts and violence have disrupted production and aggravated unemployment. The political crises and conflict in 2011 caused economic activity to contract by almost 10.8 per cent. Employment hit rock bottom with the suspension of investment projects and the disruption of various economic activities such as agriculture, manufacturing, tourism and construction. In addition to the direct impacts of insecurity, businesses closed and public services were reduced due to the increased cost of production arising from fuel and diesel scarcity. The sabotaged Mareb-Ras Essa pipeline decreased crude oil production by 25 per cent and increased input costs (MoPIC, 2011).

3.5. Political and Legal Barriers to Youth Civic Engagement

The Arab Spring has been a turning point for many countries in the region, consequently governments are increasingly engaging in political and democratic reforms geared towards greater inclusion of youth. For instance, after the fall of their previous regimes, Egypt and Tunisia have eased restriction on political competition and lifted bans on political parties and groups. However even after the revolutions that toppled the oppressing regimes, the political scene in Tunisia and Egypt is still dominated by old figures and ideas inherited from the former repressive regimes (UNESCO AUB, 2011). In addition, youth are still excluded from participation within the parliaments of the majority of Arab countries, reaching a low of 7 per cent in the parliaments of

Bahrain and Lebanon. On the participation of women front, governments have made impressive strides in extending women's rights to vote and to run for political office. As of 2005, women in Kuwait have the same political rights as men. In Tunisia, the government mandated in 2011 an equal number of men and women candidates running for parliamentary election and women now fill 25 per cent of the seats in the new Constituent Assembly. Electoral quotas for women in parliamentary, political parties and municipal election are now mandated in Iraq, Jordan and Palestine. The slowest reformer is Saudi Arabia, where women's right to vote and run for office will only begin in the next round of municipal elections scheduled for 2015 (World Bank, 2013b).

Freedom of association and laws on forming associations are essential components for strengthening civil society and increasing the civic participation of youth. Civil society played – and is still playing – an important role in the democratic transition of many Arab countries, particularly in Egypt. Currently Egypt's civil society is one of the most active in the developing world whilst the country is governed by a discretionary and restrictive law on associations and community foundations dating back to 2002. Even after the country's revolution and the first democratically-elected president, restrictions and barriers to entry imposed on NGOs and civil society are not ebbing. A new draft law has been presented in March 2013 by the Ministry of Insurance and Social Affairs, highlighting an even more restrictive framework for forming associations against the aspiration of youths and civil society activists. Among other issues, the draft law proposed to increase the minimum capital needed to establish NGOs from LE 10,000 (about US$1,500) to LE 250,000 (more than US$37,000), thus depriving the right for young people and resource poor individuals from organizing themselves into associations (ICNL, 2013).

Up to the decade leading to the Arab Spring civic participation in the Arab world shied away from politics and was in the majority concerned with social issues. For instance the vast majority of Egyptian NGOs before the revolutions were apolitical and primarily concerned with issues such as the environment and education (ICNL, 2013). Available data on youth civic and political participation is the Arab World is scarce, however NGO formation can be broadly categorized into these main type of activities (UNESCO, AUB, 2011):

- Traditional NGOs, volunteer activity and charitable societies;
- Traditional political action through formal political parties, authorized trade unions, and state youth organizations;
- More modern political activism, mainly through new forms of media and online social activism;
- Social entrepreneurship: one of the fastest growing civic engagement activities, with innovative programs aiming to achieve social benefits such as Injaz ('achievement') program in Jordan and Alashanek Ya Balady Association for Sustainable Development (AYB-SD) in Egypt.

It is critical to understand the level and structure of Arab youth engagement in designing appropriate policies geared to boosts the impact of civic participation. The Mercy Corps (2012) analysis of youth civic participation (based on Arab barometer surveys) reveals several aspects of youth participation worth noting:

- **Within civic engagement categories, youth are the most active in electoral voting and the least in civic groups.** Among Arab countries the lowest levels of overall civic participation is recorded in Egypt and Jordan with 6 per cent and 8 per cent male participation rates respectively. In contrasts levels of civic participation reach 38 per cent among Palestinian males. Overall level of civic participation does not seem to be determined by the economic development of countries (Mercy Corps, 2012).

- **In general Arab women are less civically engaged then men with the exception of electoral participation where the gap is relatively small.** The widest gap in terms of gender participation is in Palestine and the most equality is achieved in Algeria. Civic participation is higher among single women, this may be attributed to poverty and cultural norms, since poverty may be driving young women into early marriage and cultural norms restrict married women from participation (Mercy Corps, 2012).

- **Data on civic participation by level of education reveals that youth with higher education are generally more active in protests and demonstrations.** However the majority of respondent to the surveys falls under the secondary education categories making the correlation between the level of education and civic participation less evident (Mercy Corps, 2012).

- **The survey highlights the relation between wealth and employment and civic participation in Egypt.** Civic participation in Egypt is highest among youth living in urban areas and coming from well off families. However in countries where overall youth participation is higher, participation in civic activities become wider among rural and economically disadvantaged youth (Mercy Corps, 2012).

Civic engagement is believed to affect several aspects of youth's integration in their societies and economies. The Mercy Corps study attempts at exploring the theories of change arising from increased civic participation of youth in the Arab Region and tests specific impacts on political voice and economic participation. The main findings of the analysis are:

- **Political voice:** the study confirmed the theory that civic participation among Youth in the Arab region positively affects electoral and political activism. Data from seven Arab countries included in the study shows membership in civic association is associated with higher participation in political campaign and rallies, more likelihood of attending demonstration and higher probability of participation in electoral voting.

- **Employability:** the study however was not conclusive in proving causation between employments arising from increased level of civic participation. The theoretical basis of the impact on employment comes from a vast body of literature on the potential of civic engagement in improving the employability and economic opportunities of youth (Douglas and Alessi, 2006). The main underlining mechanisms that link employability and civic engagement are the development of social capital, human capital and job-related self-efficacy. Although in a majority of countries featured in the survey, members of civic groups were more likely to be employed then non-members, the causal relation remains unknown.

4. What Works for Youth Development? Some Success Stories

This section provides an overview of successful policies and programs implemented in countries that faced similar challenges to the ones faced by Arab youth. The focus is on experiences linked to job creation; entrepreneurship; resolving mismatches between labor supply and demand; and integrating women in the economy through successful social reforms.

4.1. Labor Intensive and Inclusive Growth: The Case of Malaysia

Malaysia has generally had relatively low unemployment, and the country's inclusive growth since the 1970s has been featured as a development success story. Malaysia's unemployment rate has been lower than in many other economies, including advanced, industrialized countries since the 1980s. Like Singapore and Thailand, it has imported labor in significant numbers at least since the early 1990s (Stiglitz, 2007).

At the heart of Malaysia's success is an ambitious state-driven affirmative action program, the New Economic Policy (NEP), initiated in 1971. The NEP was introduced to address the growing inequalities in income and wealth distribution among different ethnic groups in the population as well as rural-urban differences in economic opportunities. Poverty early in the 1970s was mainly prevalent in the Malay community who lived mainly in the less-developed rural areas. Within this context the NEP was introduced as an ambitious twenty-year social engineering plan which aimed to reach set targets incrementally under a series of five year plans, starting with the Second Malaysia Plan (1971-75) and culminating in the Fifth Malaysia Plan (1985-90) (Yusof and Bhattasali, 2008).

The primary objective of the NEP was to achieve national unity by:

- Eradicating poverty by raising income levels and increasing employment opportunities for all Malaysians irrespective of race;
- Restructuring Malaysian society to achieve inter-ethnic economic parity between the predominantly Malay Bumiputera and the predominantly Chinese non-Bumiputera, thereby eliminating the identification of race with economic function.

Amongst other targets, the NEP aimed to:

- Reduce poverty levels from 50 per cent in 1970 to 16.7 per cent by 1990;

- Increase Bumiputera corporate equity ownership from 2.4 per cent in 1970 to 30 per cent in 1990, that of other Malaysians (mainly Chinese) from 35 per cent to 40 per cent and to reduce foreigners' share of corporate wealth from 63 per cent to 30 per cent.

Public sector investment played a crucial role under this policy. Under the NEP nominal government expenditure on development doubled from the First Malaysia Plan (1966-1970) to the Second Malaysia Plan (1971-1975). Development allocations for trade and industry were among the highest, accompanied by allocations for education to accelerate modernization and the movement of Bumiputera into the secondary and tertiary sectors in line with the NEP's restructuring objective. Public investment spending created a labor-intensive export-oriented industrialization, which has directly created many employment opportunities in the 1970s and 1980s, especially for women in electronics and garments.

Political stability, investor sentiment as well as financial and exchange rate stability have encouraged both domestic investments and FDI. Public infrastructure provision, labor availability, other inexpensive inputs and tax incentives have all increased returns, thus encouraging investments. All this testifies for the success of expansionary fiscal policy with appropriate government interventions. Moreover, the establishment and maintenance of a high-quality civil service underpinned the successful implementation of government policy. Malaysian civil service operates on the merit principle and has the ability to attract and retain well-qualified personnel. This is a direct result of Malaysia's substantial investment in education and human resource development under the NEP. Merit-based selection and promotion procedures together with adequate compensation helped to foster the development of a committed, professional and non-partisan civil service. This factor greatly enhanced the government's capacity to implement economic policies aimed at sustained growth (Yusof and Bhattasali, 2008).

4.2. Promoting Entrepreneurship Among Youth in Peru

The Programa de Calificación de Jóvenes Creadores de Microempresas (Youth Micro- entrepreneurs' Qualification Program) was initiated and implemented by the Peruvian NGO Colectivo Integral de Desarrollo to address for the lack of entrepreneurial skills among young people. The program started in 1999 in 6 cities. The program was implemented over two rounds with the second round building on lessons learned from the first. The objectives of the program were to alleviate unemployment and poverty by improving the income of youth through assisting them to become entrepreneurs capable of creating and sustaining profitable small enterprises which will further create employment (World Bank Youth Employment Inventory Database).

First Round: started in July 1999 and was open to all disadvantaged youth aged between 15 and 25 having or not their own businesses. A massive media campaign was launched to call the target group for registration. After registration the participants all went through training on business creation which also involves individual counseling. The purpose of this training is to cover the gaps of education and assist participants with entrepreneurial ambitions to develop a business plan for their project. Participants were asked to submit their proposals/business plans to a jury who in turn will select the most feasible and profitable projects for the second phased. Beneficiaries with selected projects were then supported with training, individual tracking and follow-up and internship. A credit from an external agency was provided. Though having positive impact on the selected participants, round one showed that the competition intimidated a great number of the initial participants and hence a few gave in proposals in the first place.

Second Round: started in August 2000 with modified elements to respond to the high dropout rate from the program. The modification were mainly to the pre-selection phase in order to make sure that people registering both have serious intentions of continuing and have the "entrepreneurial spirit". Therefore, in this round only youth who already had their own business for less than a year can register. In addition, to register, youth had to pass a personal examination and an initial evaluation the business plan. The selection and post selection phases remained similar to those in round one.

The main elements of this program can be summarized below:
- Massive advertisement campaign to diffuse information on the program and call for registration.

Round 1: 1999
- Pre-Selection Phase:
  - Training for registered youth on pre-business creation services: business plans creation, etc.
  - Individual counseling for participants
  - Participants work on preparing project proposals/business plans

- Selection Phase: a jury selects the projects which they judge to be of higher feasibility and generating more profit

- Post-Selection Phase:
  - Training courses
  - Individualized follow up
  - Internships
  - Loans from an external financial institution according to project.

Round 2: 2000
- Pre-Selection Phase:
  - Participants are limited to owners of a business (less than one year old in functioning)
  - Training pre-selection is optional
  - The Selection and Post Selection phase are same as in Round 1.

The target groups of the program included disadvantaged youth between 15-25 years old who have some entrepreneurial skills or own a small or informal enterprise that has been operating for less than a year.

The program was evaluated through a controlled experiment and the findings were extremely positive, as detailed in the table below. Youth beneficiaries saw their income increase by at least 8 per cent in the four months following the program. They had more access to credit, higher employment rates and more entrepreneurship skills when compared to youth who did not take part in the initiative.

TABLE 4.2: IMPACT/EVALUATION FINDINGS:

Indicator	Beneficiaries	Control Group
Have their own business (among which combine it with a dependant position)	79.4% (7.6%)	32.6% (8.7%)
Unemployed at time of survey	3.3%	9.8%
Inactive after the program ended	0%	6.5%
Working as dependant employees	17.4%	51.5%
Average number of employees at business / unpaid workers	3	2
Increase in average Income (four months after program)	8%	
Answering YES to having a business registration number	56.2%	73.3%
Able to give exact number of registration to interviewer	87.7%	59.1%
Use of management tools to run one's business	96%	N/A
Access to Credit	41.3%	12%
Probability of business to operate for more than a year	40%	

Source: Jaramillio & Parodi (2003) as cited by WB Youth employment Inventory

4.3. Bridging the Gap Between Labor Supply and Demand for Youth in Columbia

Jóvenes en Acción (Youth in action) was a program initiated in 2001 as one of three social initiatives launched by the Colombian government as a social support network to help the part of the population most hit by the recession of 1998 (strongest in 60 years). These initiatives were financed through a loan from the World Bank and the Inter-American Development Bank. The two other programs were a conditional cash transfer program and a program providing low income adults with temporary government employment (mainly in public works).

Jóvenes en Acción is a program for young, unemployed and disadvantaged urban adults (18-25) which provides them with classroom and on the job training to improve their labor skills and allow them a better chance at finding employment. It was offered in the seven largest cities of Colombia. The program was administered by a group of government agencies, non-profit organizations and private companies. The youth underwent 3 months (350 hours) of training at a training institute and were then placed in an internship for 3 months within a company. The training programs were conceived and designed to match market demands, and private companies played a fundamental role in putting in place the training curricula. The training courses given included training for public transportation drivers, office assistants, call operators, assistants for nurses and physicians, assistants for cosmeticians, textile operators, assistants for computer maintenance and assistance for preschool teachers.

The classroom training was provided by public and private training institutions (profit and non-profit) which have been selected through a bidding process where legal registration, capacity and quality of teaching were important conditions. In 2005, there were a total of 118 training institution providing 411 different types of courses. The average number of students per class was 27. Students received training vouchers that allowed them to choose a training institute that offered courses matching their needs. They were also provided with an allowance for transportation and food (US$2.2/per day for males and females; US$3/day for females with children below 7 years old). The internship took place in legally registered companies for 3 months. The internships were unpaid and were mainly in manufacturing, services and retail and trade. A total of 1009 companies participated in the program.

By 2005 Youth in Action had reached 80,000 beneficiaries, estimated at around half of the overall target population. The total program budget was US$ 70 million with an average cost per capita of US$ 875 (Attanasio, Kugler and Meghir, 2011).

Summary of the main elements of Youth in Action:

- Advertisement in selected municipalities to promote the programs;
- Screening of potential participants to ensure that they fit the selection criteria (see target group);
- 3 months of classroom training on technical topics related to a profession (350 hours in total);
- Classroom training provided by training institutions that have participated in a bid and according to selection criteria;
- Average class having around 27 students;
- Private training institutions participated fundamentally into the choice , design and marketing of the courses;
- Training institutions paid according to market prices and on condition that students complete the training;
- 3 month of on the job training (internship) provided by legally registered companies;
- Internship is not paid for the students and is in manufacturing, trade and services;
- Stipends given to participants to cover food and transportation while attending the 6 month trainings with higher stipends for women with children.

A program evaluation of Youth in Action (Attanasio, Kugler and Meghir, 2003) revealed the following achievements: 13.7 per cent of beneficiaries went back to school after graduating from the program. Earnings for beneficiaries increased by 18 per cent for women and 8 per cent for men, and there was an increase in the probability of getting a formal job with a written contract by 0.05 for women and 0.07 for men. 55.4 per cent of participants found a job after the program, and the employment rate of participants 6 months after graduation was equal to the average rate of all youth aged 18-25, and significantly higher than the control group. Finally, participants who trained in middle sized institutions were more likely than others to find a job 6 months after graduation (Attanasio, Kugler and Meghir, 2003).

4.4. Integration of Women in the Workforce: The Experience of Scandinavian Countries

Scandinavian countries are at the forefront of what has become known as 'woman-friendly policies", broadly defined as affordable childcare, parental leave and provisions for work absence when children are ill. These policies implemented since the sixties have had the capacity to foster social inclusion and gender equality, and improve economic competitiveness at the same time. The "woman friendly" concept was launched by the Norwegian political scientist, Helga Hernes in 1987: "A woman-friendly state would not force harder choices on women than on men, or permit unjust treatment on the basis of sex. In a woman friendly state women will continue to have children, yet there will also be other roads to self-realization open to them. In such a state women will not have to choose futures that demand greater sacrifices from them than are expected of men. It would be, in short, a state where injustice on the basis of gender would be largely eliminated without an increase in other forms of inequality, such as among groups of women" (Hernes, 1987).

Scandinavian countries have a family policy regime which falls under the dual-earner regimes. These are characterized by low to medium levels of cash and tax benefits for families with children, but high levels of public support for paid parenting leaves and childcare services. By permitting women to temporarily leave the workforce after childbirth, paid parenting leaves (up to about one year in length) have been found to increase maternal employment (OECD, 2007).

In Norway and Sweden for instance maternity, paternity and parental leave are all considered part of the same system. In Norway, parents are entitled to parental leave during the child's first year, provided that the total maternity, paternity and parental leave taken by both parents does not exceed one year. Three weeks before confinement and six weeks after the birth are reserved for the mother. Out of the 46 weeks of parental leave paid at a rate of 100 per cent of wages (or 56 weeks with 80 per cent of wages), ten weeks are reserved for the father. If he does not take these weeks, cash benefits are not payable for this period. The remaining leave, not including paternity leave (two weeks' unpaid leave) can be taken by either parent or shared between them (Gauthier, 2011).

In Sweden, parental benefits are paid for 480 calendar days as a total for both parents at a rate of 80 per cent of earnings for a total of 390 days, and at a flat rate for the remaining period of 90 days. If the parents have joint custody, each parent is entitled to benefits for half of the leave period. A parent may give up his or her right to parental leave to the other parent, except for a period of 60 calendar days. If he or she does not take these 60 days, they are lost (Gauthier, 2011).

In Finland after maternity leave (105 days), the mother, or the father, is entitled to a total of 158 working days' paid parental leave (70 per cent up to a ceiling from social security), which may be divided into a maximum of two parts, each part lasting a minimum of 12 working days. After the parental allowance is no longer paid, parents can take a childcare leave to look after a child under the age of 3 years, although both parents cannot be on leave at the same time. The minimum length of childcare leave is one month (Gauthier, 2012).

In Sweden child care service is offered mainly by the government, and the coverage rates are high. The public child care system started to expand during the 1960s, and coverage has continued to grow steadily (OECD, 2007). In 2000, 76 per cent of children ages 1 to 5, and 67 per cent of children ages 6 to 9 received public child care. Child care services are highly subsidized, but the fees have increased since the 1990s. In addition to those family policies, the law guarantees job security, with the assurance of the same or a comparable position once parents return from leave. In Sweden, there is a job-protection period of 18 months for parents of a newborn, and parents are also legally eligible to work shorter hours until their child's eighth birthday, with a corresponding reduction in wages (Gauthier, 2012).

5. Policy Recommendations

The evidence reviewed in this paper shows that Arab societies have failed in integrating their youth in society. Above all, the experience of Arab governments to date marks a deep failure of various neo-liberal economic reforms in creating job opportunities especially for young educated Arab women and men. While it is impossible to summarize one set of policy recommendations for all Arab countries in one write-up, it is important to highlight a set of cross-cutting reforms that could enhance the socio-economic development outcomes for young people in the region. The non-exhaustive list includes:

- Rehabilitation of the role of Government and public services, especially those with an impact on young people's lives. Public services such as formal education, housing, reduction of inflation, and modern infrastructures should be planned and executed with a view to integrate marginalized communities and to improve the efficiency of economic systems.

- Development of a package of effective policies and programmes to support youth in transitional periods: education, employment, marriage, housing, civil participation. Countries in the region need policies that shorten transitions and establish clear paths for youth. This includes both legal and economic reforms: Enacting civil status laws; providing social security for all workers, developing programs and incentives to reduce the cost of housing for young people; providing housing loans and financial aid for workers who move from rural to urban areas, etc.

- Stimulate the process of worker qualification and improve skills by upgrading the quality of education and admission in universities and training initiatives; by targeting marginalized categories and groups such as young women.

- Invest in transport infrastructure; provide subsidized transport services; encourage job creation in areas with high unemployment rates through tax cuts and other incentives. Moreover, generating jobs in sectors that need skilled workers will require major reforms in the business environment, funding facilities, and the reduction of access constraints.

- Women should be given more attention and more opportunities to increase their contribution in the labor force: increase their access to learning and offer them better options to balance between work and family care, through various legal and economic reforms (e.g. an advanced system of maternity leave and a flexible employment system will enable women to take up part-time jobs).

- Reform of legal framework governing the civil engagement of young people, as freedom of association and laws on forming associations are essential components for strengthening civil society and increasing the civic participation of youth.

Notes

Country Grouping and Country Classifications

Middle East
Palestine
Syria
Jordan
Lebanon
Iraq
Yemen

North Africa
Egypt
Morocco
Algeria
Libya
Tunisia

GCC
Kuwait
Bahrain
Oman
Qatar
KSA
UAE

Sub-Saharan
Sudan
Djibouti
Somalia
Mauritania

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