



MEDITERRANEAN ECONOMIC CONFERENCE
EMPLOYMENT AND TERRITORIAL DEVELOPMENT IN TUNISIA
 September 17th, 2013 - Tunis

BACKGROUND NOTE
Session 1

**The Employment Challenge:
 How to Adapt National Strategies
 to Better Improve Youth Employability and Skills?**

“Employment is a right” was one among the slogans strongly raised during the Tunisian revolution, becoming later on a major challenge for the Tunisian authorities which, ever since, have been providing the necessary efforts, mobilizing the adequate resources and defining the most appropriate strategies to address unemployment and create jobs. However, challenges remain particularly in regard to improving youth employability and job creation. This session will focus on the efforts deployed in Tunisia and the region toward the setting up and implementation of new employment strategies.

Objectives/Expected Results	
<ul style="list-style-type: none"> • An exchange of experiences and policy options on how the employment and job creation challenges can be addressed in a context of serious macro-economic constraints during the political and economic transition period • A discussion on the contribution of international cooperation, i.e. the Union for the Mediterranean to achieve concrete short-term results in the field of employment and employability of youth 	<ul style="list-style-type: none"> • Ideas for action on how to mainstream employment and job creation in the impact assessment of national development strategy and economic policies (industrial policy, macro-economic policy, fiscal policy...) • Discuss methods and indicators to monitor and assess the impact on employment of all major public investment projects and international cooperation projects
Issues for Discussion	
<ul style="list-style-type: none"> • What are the main employment challenges in the Mediterranean region and what is being done to face them? • How to articulate the long-term development vision and long-term reforms required (in particular in the field of employability and skills development) with the short-term political demand to get “quick gains” for the majority of the population and promote social stability? • How to concretize the concept of “inclusive growth” and reconcile the need for continued macro-economic stability with the demand for increased job creation and social expenditure? • Which is the link between employment and job creation and other social policies and the establishment of social security networks? 	<ul style="list-style-type: none"> • What are the main levers for job creation at national and local level, and in particular how to create jobs in disadvantaged regions? • What are the sectors with highest potential for job creation in Tunisia and the Mediterranean? • What are the short-term priorities to improve the employability of young people in Arab Mediterranean countries? • How can UfM projects contribute to job creation and local development in the Mediterranean? • How to promote increased participation of women in the labour market as a mechanism for equality and emancipation? • Which is the role of civil society in addressing youth employment and skills development issues?

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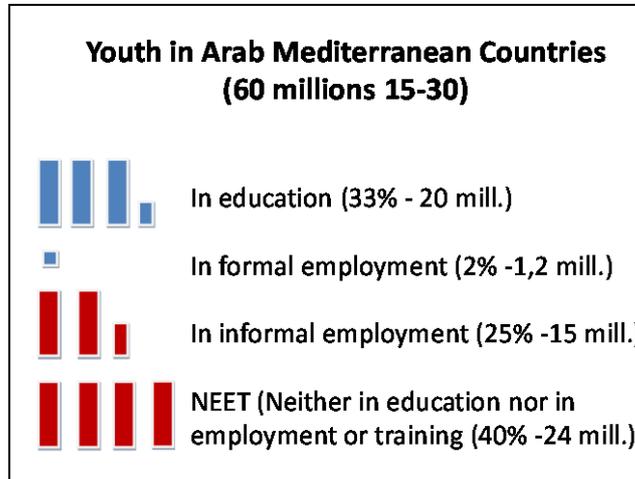


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Labour Market Exclusion

By now it is conventional wisdom that one of the main underlying causes of social unrest leading to the Arab Spring and ever since was the lackluster economic and job prospects for the vast majority of the population, and more specifically for youth. Youth (15-30 years old population) make up 30% of total population in Arab Mediterranean Countries, i.e., a total of roughly 60 million people. As can be seen in the graph, two thirds of them (65%) are

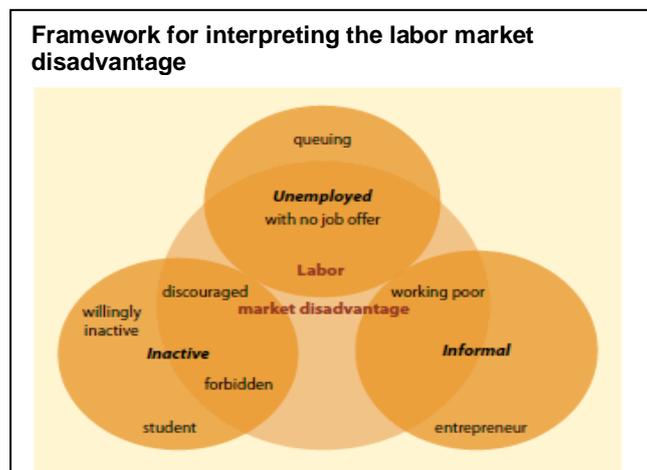


excluded from decent work. They are either in informal, sub-standard employment, unemployed or neither in employment nor in education or training (NEET). For the sake of comparison, in the OECD countries the average share of NEET is 15% of youth; in Spain, the country with the most acute youth employment problem in the area, it amounts to 23%. Among youth Arab women, this exclusion from the labour market affects up to 80% of the total population.

Causes

Recent reports (see References below) have analyzed in depth the causes for this employment gap, attributing it to a combination of demographic dynamics (very rapid demographic transition leading to a “youth bulge” and rapid increase of working age population), growth patterns determined by the development model (including energy- and capital-intensive growth as a consequence of distorted incentives, and high taxes on labour), an inadequacy of the education and vocational education and training system (which has favored quantity over quality), political economy considerations (a system skewed to rent-seeking rather than productive private sector), a segmented labour market (leading to the absence of a true functioning labour market) and social expectations on wages and the quality of jobs, as well as on the work of women.

“equilibrium” caused by a distorted distribution of job opportunities across the population limiting the incentives for change and locking-in a fundamental inequality between a small proportion of the working age population benefitting from formal jobs and the rest of the workers, the so-called insiders-outsiders dilemma (World Bank 2012). The figure, produced by the World Bank in an attempt to understand the factors preventing working age people to have access to a formal job in the Middle East and North African countries, represents the varying degrees of disadvantage or labour market exclusion that underlie these outcomes for youth, women, and rural, low-skilled workers. For example, some women are inactive because they are not allowed to work (exclusion), while others might decide not to seek work voluntarily (choice).



Source: World Bank 2012

The end result of all this mix is a “low-productivity

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Development Model and Inclusive Growth

All analysis of the Arab Spring and the related employment challenges point to the need to review the development model and economic policies implemented in the last 25 years in Arab Mediterranean Countries. The World Bank, in particular has pointed to:

- **energy subsidies:** they are common and substantive in the region, increase the relative cost of labor in relation to the cost of energy and thereby limit labor demand, giving incentives to capital intensive investment. Fuel subsidies are doubly disadvantageous: they not only repress demand for labor in the short run, but also suppress incentives to innovate, thereby impeding productivity growth, which is the crucial determinant of long-run labor demand;
- **rigid labour regulations:** social charges on labour average 23% of wages in the region, a similar level that in richer OECD countries, and discourage formal job creation;
- **the role of the public sector:** where employment conditions (job safety, access to social security, higher wages, among others) compete with and may even crowd out employment conditions in the private sector.

Euro-Mediterranean civil society points to liberalization and macroeconomic adjustment policies as the main explanations for the low job creation and resulting poor working conditions over the last two decades: “the combination of economic liberalization (and hence the imperative of competitiveness) and the anchoring of exchange rates to the euro (preventing devaluations) makes the convergence of wages dependent exclusively on productivity increases, a very difficult path for countries suffering from very inefficient education systems, and the low wages, low taxes, low barriers, low added-value, export-oriented economic model implemented in the last twenty years in many Mediterranean countries does not seem to guarantee either long-term income convergence or the level of

job creation required by demographic trends in the AMCs”. The high rates of growth experienced in the 2000-2010 period (averaging 5% p.a.) did not translate into increased job creation or a better distribution of income across the population.

All analysts agree that, in order to face those challenges, a new development model is needed, focusing on:

- **“The interlocking issues of democratic governance, social justice and decent employment”**, as well as Arab regional integration (*Arab Developmental Challenges Report 2011*).
- An increase in productivity and accompanying proactive structural policies, i.e. an endogenous **growth model based on innovation and on a more cohesive growth pattern, and redefining the economic role of the State** (FEMISE 2012).
- FEMISE also highlights the need to **“maintain the involvement of the international community to avoid that the needs of the short-term contradict sustainable growth”** (in a context where public deficit is typically reaching up to 10% of GDP).

In the aftermath of the Arab Spring, the concept of **“inclusive growth”** has emerged as the new paradigm inspiring Euro-Mediterranean cooperation and reconciling growth and sound macroeconomic management with social cohesion, territorial cohesion and intensive job creation. Therefore, it is useful to remind the standard definition of inclusive growth in Ianchovichina & Lundstrom (2009):

“Rapid pace of growth is unquestionably necessary for substantial poverty reduction, but for this growth to be sustainable in the long term, it should be broad-based across sectors, and inclusive of the large part of the country’s labor force. (...) Inclusive growth refers both to the pace and pattern of growth (...) considered as interlinked. (...) The inclusive growth approach takes a long term perspective as the focus is on productive employment rather than on direct income as a means of increasing incomes for excluded groups. (...)”.

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Enhancing Youth Employability in the Mediterranean

The two key constraints to employment in the Arab Mediterranean countries are insufficient labour demand (in particular for qualified labour), i.e. job creation (which is directly related to the development model), and skills mismatches due to the inadequacy between the education system and the needs of the labour market, i.e. employability. This latter term, absent in the public debate until some few years ago, can be defined as 'the combination of factors which enable individuals to progress towards getting into employment, staying in employment and progressing during their career'. It encompasses all initial education and knowledge, skills, experience and intercultural competences required to succeed in the labour market. Therefore, it depends on many different factors: human capital education and training, but also socio-economic and personal factors, macro-economic perspectives and labour demand and the institutional determinants of the job search and matching process. Each of these factors is relevant to address employability.

According to the *Business Environment and Enterprise Performance Survey* (BEEPS) of the World Bank and the European Bank for Reconstruction and Development, employability of youth labour force is identified as a problem by 42% of private companies enquired in AMCs, which indicated that the main obstacle to hiring youth is that the formal schooling system does not provide them with the skills needed for the labour market. Skills mismatches are particularly identified as a constraint to business development in Syria (60% of all firms interviewed), Lebanon (56%), and Egypt (50%). However, it is important to distinguish between youth suffering from lack of qualifications (illiterate and drop-outs) and those suffering of inadequate qualifications (acquired in the formal sector) or skills. The two cases are very relevant in Arab Mediterranean Countries.

In its 2012 report *Union for the Mediterranean Regional Employability Review*, the European Training

Foundation summarizes the consensual recommendations of experts to address this inadequacy of current education systems as a lever of employability. The main issues are:

- **To eradicate youth illiteracy** (21% in Morocco, 15% in Egypt, 8% in Algeria, 6% in Syria) and the promotion of functional literacy;
- **To increase enrolment and quality in post-compulsory education (including girls)** to enhance employability of young people and their future engagement in lifelong learning activities. More than half of the students drop out of school before the upper secondary level in Syria, Morocco, Egypt and Algeria;
- **Higher attractiveness and quality of Vocational Education and Training (VET)**. Its share of upper secondary education stands at 12% in the Maghreb, at 6% in OPT, and 15-20% in Jordan and Syria. There is a wide scope for enhancing the links of VET programmes and ALMPs with direct work experience and business needs;
- **Appropriate career guidance and counseling systems** are necessary at all education levels and types, including for graduates;
- **To enhance so-called soft-skills, such as** ICT literacy, foreign languages, communications and social skills, analysis and synthesis, critical thinking and work discipline. All studies point to this element as a major shortcoming in AMCs, including among graduates. Soft skills should be mainstreamed at all educational levels. Teachers' professional development and change in school and university curricula could contribute much more to improve them than a proliferation of extra-curricular programmes.

These are the elements that should be taken into account in the design of policy measures and programmes to address the issue of youth employability in the Mediterranean.

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Sectors with High Job Creation Potential

The quest for sectors with a high potential for job creation has become a widespread exercise in the region, often leading to overlapping priorities. In Egypt, for instance, the Ministry of Manpower and Migration has identified construction, garment, tourism and high-tech sectors such as industrial control technologies, food processing, ICTs and renewable energies as the most promising sectors in the coming years. In Tunisia, authorities point to ICT and renewable energies as key driving sectors of future labour demand, as well as biological agriculture. Some entrepreneurs identify agriculture (in particular tree-growing) and the health sector. In Algeria, sectors pointed were fishing, agro-food business and public works, as well as all sectors linked to the energy sector and to water.

Tourism, construction, agro-food business and ICT, in any case, seem to have a big potential for employment creation in all Arab Mediterranean countries, but this will depend on the real policy implementation and dynamics of economies in these countries. Besides that, some sectors with a proven high employment creation potential over the short term (agriculture, construction and tourism, for instance) are very sensitive to external factors (e.g. weather, global economy, political stability) and in some cases feature low productivity levels, and hence poor wages and working conditions.

Social and Non-Governmental Sector

In the current context of political and economic transition, social policies are poised to play an increasingly important role in those societies, and education, healthcare or community services offer many job opportunities (particularly for young females) which have been not mobilized so far because of lack of public investment. A win-win option would be to direct young unemployed workers towards those sectors in the framework of current active labour market policies (sometimes

providing financial support without any labour engagement) or of some kind of contractual civil service for young people providing them with a first work experience to build on in their professional future. For example, as pointed out in the Arab Developmental Challenges Report 2011, the State can also engage in large-scale programmes that provide a minimum amount of predictable part-time work opportunities and facilitate support to schools (e.g. teachers' aides) and health facilities (e.g. community health workers and home based care). These programmes can contribute to an improvement of the quality and reach of public health and education services. One widely-shared conclusion of research on employability stresses the importance of direct work experience -internships and practical experience in real employers' world- as a key to successful labour insertion programmes.

Part-time public work programmes jobs can also be created in a number of other areas –e.g. child care and other social services, food security through community gardens; etc., as well as major public awareness campaigns (e.g. adult literacy). The non-governmental sector and the social economy, including cooperatives and other non-profit economic operators, can be also an important source of jobs in the current context.

Social Entrepreneurship

FEMISE (2012) notes that many young entrepreneurs start businesses that have a social impact (training, environment, health, notably, that is, offering services to poor consumers or addressing issues of a social nature. But unfortunately they currently face considerable impediments since their status is a blurry one (no legal options for hybrid social enterprises, for example). To facilitate this kind of youth social entrepreneurship can be a good job creation strategy and at the same time promote social innovation.

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