Addressing the 100 Million Youth Challenge
Perspectives on Youth Employment in the Arab World in 2012
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Addressing the 100 Million Youth Challenge - Perspectives on Youth Employment in the Arab World in 2012 is being released at a moment when all countries across the Arab world, from the transition countries of North Africa to the Gulf Cooperation Council states, face the same economic mandate: support growth and create jobs. Job creation, a perennial challenge for the region is compounded by the region’s demographics, whereby 100 million youth between 15 and 29 years old representing 30% of the region’s, total population are in dire need of an economic future which will support the conditions for human development, as well as vibrant and inclusive political life and social cohesion in the coming decades.

Persistent and sticky unemployment has become the most significant economic and political issue faced by leaders across large regions of the world, from Europe to Central Asia, and the Middle East and North Africa. At the global level, unemployment is a manifestation of structural challenges: there is an increasing gap between education, skills and jobs; the global population is rising and we are witnessing increased protectionism; economic growth is out of balance at the global level, while policy-makers are urgently seeking plans to re-balance economies at the national level. These factors are impairing growth and hence job creation.

Though addressing the job creation imperative remains a global and cross-regional issue, there are challenges specific to the Arab world, which today demand innovative thinking and responses framed within the reality of the new regional context.

This publication is a direct response to this unique situation in the Arab world and concretely to the renewed urgency in addressing the youth unemployment challenge in the wake of the Arab spring to sustain the early gains from the transitions and ensure long-term positive outcomes overall. Emphasis has been put on surfacing novel thought leadership, global best practice, and counsel, which are actionable for decision-makers across the region.

The essays in this publication cover the following topics: social innovation and new approaches to the employment challenge, determinants and challenges of the current youth unemployment situation, female economic empowerment, building Arab civil society to promote economic growth, access to credit, the economic agendas of Arab Islamist parties, education for employment, a paradigm shift in government – from creating jobs to enabling job creation, and recent case studies from Tunisia and Iraq.

This publication is a great culmination of the work of the 2011-2012 Global Agenda Council on the Arab World, a unique group of intellectuals and practitioners committed to improving the state of the region. It follows the earlier Compendium on Economic Governance in the Arab World and feeds into the World Economic Forum’s ongoing regional activities related to the role of large employers in job creation. The World Economic Forum has been playing a unique role in shaping economic policy in the region, particularly through its Arab World Competitiveness Report and I am delighted that we can further build on this great tradition with this publication.

Addressing the 100 Million Youth Challenge - Perspectives on Youth Employment in the Arab World in 2012 was compiled under my leadership and edited by Miroslav Dusek, Director and Head of the Middle East and North Africa; and Matthew Miller, Global Leadership Fellow and Associate Director, Middle East and North Africa. I would also like to thank all of the members of the Global Agenda Council on the Arab World and, in particular, the Council Chair Tarik Yousef, Chief Executive Officer, Silatech, Qatar, for their thoughtful contribution to this edition.

The ideas expressed in these essays represent the views of the authors and do not necessarily represent the views or opinions of the World Economic Forum.
After the Spring: New Approaches to Youth Employment in the Arab World
Tarik M. Yousef, CEO, Silatech

With the projected profile of the demographic transition in the Arab world, youth will continue for the foreseeable future to be a dominant force in the region’s population structure. In the context of this “youth bulge”, young people are seeking to achieve the transition to adulthood, competing with a large cohort of peers to secure places in preferred educational fields and gain employment in scarce positions in the formal sectors of the economy. They are also trying to successfully reach other important milestones in the transition to adulthood like marriage and household formation. Over the past two decades, efforts to achieve these normative milestones have been increasingly met with growing frustration and failure, as evidenced most clearly by the poor outcomes in the region’s labour markets. In the future, such efforts will take place in the context of greater domestic political uncertainty and increased global economic dislocation.

On the eve of the Arab Spring in 2009, regional youth unemployment stood at nearly 24%, the highest of any region in the world and almost twice the international average, a pattern that started and has persisted since the early 1990s. While securing a first job is always a challenge for young people entering the labour force, unemployment for many youth in the region has become a state of normalcy with the average spell of unemployment in Egypt, for example, lasting nearly 34 months.

For those able to secure work, outcomes have not necessarily improved. While the public sector has retreated as a major engine of job creation, the formal private sector has been resistant to hiring young, inexperienced workers due to a restrictive regulatory environment and widely-reported skill mismatches. In turn, an increasing share of youth has turned to the informal sector, which provide them with little social protection and few opportunities for human capital accumulation.

The Legacy of Institutional Rigidities and Failed Reforms

The problems associated with labour markets for the region’s youth often begin with the region’s education systems. Despite significant public investments in education and a long history of reform efforts, the region’s education systems have continued to fail to provide the region’s youth with skills demanded by the private sector employers. Facing exclusion within the employment markets, the region’s youth are facing a host of additional challenges as they struggle to complete the transition to adulthood. This is perhaps most notable in regard to marriage and family formation. In a relatively short period, the average age of marriage in the region has risen to the point that 25-29-year-old men now have the lowest rates of ever being married within the region’s developing world, a trend driven largely by high costs of marriage, poor labour market outcomes and the difficulty of securing housing due to poor access to mortgage lending and restrictive rental markets.

Despite the widely acknowledged importance of the youth agenda, little progress has been made to confront the challenge in a sustained manner. A growing body of research suggests that the determinants of the region’s inability to deal effectively with the youth agenda are not due to demographic pressures, lack of investment or even economic growth per se. Rather, the roots of youth economic exclusion are found in the formal and informal institutions that govern the education, employment, marriage and housing markets, and in the incentives that such institutions impose on the choices and behaviors of youth, their parents, their educators, and their potential employers. For example, despite the reduction in opportunities within the region’s public sector, the legacy of government employment in the form of relatively high wages and job security means that many youth continue to queue for such jobs. Moreover, the lure of government employment shapes educational choices, with students pursuing degrees that will land them those jobs rather than investing in degrees or work experience that prepare them for private sector employment or entrepreneurship.

The Youth Agenda in the Post-Arab Spring Transition

In the context of the post-revolution transition, the question arises as to how old and new regimes will be able to effectively tackle the hopes and aspirations of Arab youth. Can the region embark on comprehensive reform of the institutional structures affecting youth to generate sufficient economic growth to absorb new job seekers, while responding to the growing demands for voice and participation? This poses two possibly conflicting goals faced by Arab societies, especially those in transition. The first is to ensure that the voice of youth is integrated into a rapidly changing political context and that their expectations are embedded in policy formulation. The second requires societies to embark on sustained long-term reform projects to address the core drivers of youth exclusion – an effort that would require difficult choices in a complex political environment, choices that might not, in the short term, align with the heightened expectations of youth and their demands for immediate results.

No less challenging is the task of absorbing short-term pressures without undermining sustained long-term policy reforms, a conundrum shared by all governments in the region at present. To date, government response to the vulnerability and change brought forward by the Arab Spring has been largely reactionary. In some cases, announcements of grand projects for public sector hiring, wage increases and reinforced subsidies did relieve immediate political tensions. However, they do little to address the long-term economic challenges facing youth. In fact, by reinforcing institutions that disincentivize job creation and skills development, such efforts could accentuate the challenges facing long-term institutional reform efforts.

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2 For a framework on the broad challenge of youth inclusion in the region see Dhillon, Navtej, Paul Dyer and Tarik Yousef, eds., Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East (Washington, DC: Brookings Institution Press, 2009).


At the same time, none of the newly formed governments in the Arab Spring countries have put forward an economic vision that departs markedly from the status quo. As pressures build to alleviate post-revolution economic dislocation, new governments will likely lean toward similar strategies of public-sector-led employment and investment – particularly as continued instability wards off private investment, and the global recession shrinks nonoil export sectors.

Increased public investments in the short term can help address the starkest of employment outcomes and cushion the most vulnerable against the effects of economic downturns. However, serious efforts aimed at putting the next generation of youth on the pathways of healthy transitions to adulthood will require sustained efforts at addressing key institutional and regulatory rules that govern the education and employment markets. Serious efforts are also required to design programmes that are mindful of current structures and are implemented in a way that incentivizes young people to develop marketable skills, educators to emphasize skills development, private sector firms to hire first-time job seekers, and parents to aid youth in taking risks in building 21st century careers and aspirations. But in view of the political constraints, youth employment in the Arab world can best be served in the short term by targeted innovations in programmes and policies that are championed by emerging actors in the post-Arab Spring public space.

From Grand Reform Projects to Social Innovation

In fact, there are many examples of new approaches by government and non-governmental organizations (NGOs) aimed at tackling youth unemployment, from interventions in skill acquisition and career development to youth-focused microfinance and entrepreneurship programmes. Actors from the public sectors, civil society and the private sector – often working in tandem and blurring the distinctions amongst them – are increasingly engaged in efforts to implement innovative solutions, even in the absence of knowledge on the efficacy of such programmes in fundamentally shifting outcomes. Lacking off-the-shelf proven models of social innovation in the region, these efforts are responding to the growing need for new thinking and experimentation, both in regard to the creation of innovative programmes and to the introduction of innovative applications of more traditional programmes. These efforts mainly aim to bridge deficits created, or left unaddressed, by traditional education and labour market institutions. They tend to focus on skills development, job readiness, career guidance, job placement, entrepreneurship, and enterprise development. Particular areas of interest to youth employment are detailed in the six points below.

Skills Development and Vocational Training

Given the notable skills gap in the region, seen best in the widely reported skills mismatch, job-relevant skills training – whether focused on vocational training or more broad-based soft skills training – is a priority area for social investment. Skills training has also proven to be a fairly straightforward entry point for organizations seeking to create programmes for regional youth. Whether done in cooperation with formal school systems or in parallel, such programmes have the potential to fill important gaps left by traditional curricula and methods of instruction. These gaps vary from country to country, but notable needs are basic business skills, computer training, up-to-date vocational training and, perhaps most importantly, soft skills training including communication, teamwork, negotiation, self-expression, etc.

Formal school systems in most countries of the region have been willing to introduce skills training as add-ons to traditional curricula. For example, the International Labour Organization’s Know About Business curriculum has been introduced in the school systems of six countries in the region, and plans are under way in another five. Ease of entry has led to the creation of scores of technical and soft skills development initiatives by NGOs and corporate citizenship arms of the private sector, such as Royal Dutch Shell’s Intilaqah programme. Whether vocation-specific or not, such training programmes should be informed by local market needs and integrate the perspective of the business sector in order to be effective in improving job-readiness of youth. Also, given the rigidity of labour markets, firms must be able to ensure that graduates of such programmes have developed the required skills, or firms will not respond with significant hires. With this in mind, it is important to build reliable assessments into such programmes and provide graduates with recognized certificates that signal their skills attainment.

Service-Based Learning and Experience Building

Young people entering the labour market in the Arab world not only lack marketable skills; they also lack relevant experience and knowledge of the working world. While in school, young people are encouraged to focus on getting high grades and preparing for national exams in order to secure coveted university slots that can help them gain access to sought-after formal sector jobs. Little emphasis is placed on gaining experience and exploring different career options. After school, most young people find themselves unprepared for the world of work. Government approaches to dealing with this issue have centred on active labour market programmes and public works, which may address a share of the immediate needs of youth, particularly those leaving school early, but do little to prepare them for work beyond the end of the programme.

Short of reforming the incentive structure in each country, public sector efforts should at least focus on providing opportunities for young school-leavers to engage in service activities in a way that helps build job-relevant skills and experience while ensuring that youth are engaged in activities that support national development priorities. At a basic level, this means creating a larger window for NGOs and civil society groups to engage young people in community service, while promoting volunteerism among youth.

More dynamically, governments should work towards the establishment of national service programmes. By designing such programmes in a way that allows youth to develop and implement their own local projects not only ensures that such programmes meet local needs, but also provides youth with valuable learning experience and skills that enhance future market readiness. A similar orientation towards skills building can be applied to national military service programmes.
Facilitating Job Information and Career Guidance

One important yet commonly overlooked intervention in national labour markets is attention to effective mechanisms for information sharing. Youth report an interest in finding private sector work, but consistently indicate that they do not know how to go about searching for a job effectively or how to present themselves to potential employers. As a result, young job seekers are mostly searching blindly for matching opportunities.

Few schools in the region provide any effective career guidance, and while there are a growing number of programmes aimed at aiding youth in their job search efforts, some 75% of Arab youth surveyed for the 2010 Silatech Index report having not availed themselves of any of these services. Similarly, part of the private sector’s challenge in identifying skilled workers is a lack of systematized information on available applicants, along with the inability to assess the validity of purported skill sets.

Universities and training centres throughout the region are realizing the importance of offering career guidance and job placement for their students and have begun introducing career guidance centres within their institutions. However, there have also been notable innovations in this area in recent years. There is a particularly important role for web-based and mobile technology applications that aggregate opportunities across sectors and employers. Organizations like SoukTel are only beginning to bridge information asymmetries between job applicants and job providers by allowing young users to post mini-CVs through their mobile phones and to receive job listings by SMS.

Career guidance centres, like the Bedaya Centre in Qatar, are using psychometric assessment tools to help youth and career counselors identify aptitudes, personality traits and career interests. Others, like the Egypt-based Nahdat El-Mahrousah are using successful young volunteers to provide job counselling services to younger peers. While there is tremendous room in this space for innovative service provision, the greater challenge is scaling up these activities to reach larger numbers of youth.

Fostering Youth Entrepreneurship and Access to Finance

In the context of general frustration with the ineffectiveness of traditional approaches to job creation, entrepreneurship is widely seen as key to addressing the employment challenge. There is considerable merit to the argument that the promotion of youth entrepreneurship will promote self-employment, and there is exceptional interest in entrepreneurship by the region’s youth. According to survey data from the 2009 Global Entrepreneurship Monitor (GEM), young people from the region were more likely than in other regions to indicate an interest in starting their own business. Thus, while the entrepreneurial spirit is alive among Arab youth, it remains constrained by a myriad of barriers, including access to sustainable forms of finance and effective business support services. For example, the most recent Global Financial Inclusion Database reveals that financial access for youth in the region is the lowest in the world, with only 12% of young people using formal financial services.

While there remain evident gaps, the region has seen a proliferation of programmes aimed at entrepreneurship training (e.g., INJAZ Al-Arab, Help Leads to Hope in Somalia, Khadija in Yemen, to name just a few). A small but growing number of microfinance and small loan providers are targeting youth with lending programmes, although appropriate collateral and guarantees remain significant problems. A nascent angel investor culture has begun, but the significant funds made available have not been absorbed due to the limited number of viable, innovative entrepreneurial firms.

Among these diffuse efforts, what is clearly missing – and where considerable scope for innovation lies – is creating mechanisms to form an enabling enterprise ecosystem. Basic business training and access to capital are important and need to be complimented with access to business development services, mentoring, incubation, loan guarantees and a pro-entrepreneurship policy response, a response that might include tax breaks for youth-run businesses, subsidized lines of credit to youth-serving financial institutions or temporary exemption from labour regulations which may stifle business start-ups.

Enabling Small and Medium Enterprises

More generally, small and medium sized enterprises provide an important source of entrepreneurial activity and job creation, as international evidence consistently shows. The region is no exception, even as large employers, public and private, have tended to dominate product markets, enjoy privileged access to banking systems and shape the rules of competition to their advantage. As such, targeted policies and programmes that stimulate growth of start-ups and SMEs across much of the region have been in short supply. These interventions may not make the legal environment friendly for SMEs, but they can introduce flexibility in the regulation of start-ups, improve access to finance, enhance the business skills of entrepreneurs, provide strategic guidance to companies and support the introduction of innovative business models.

Although starting from a low base, there are a growing number of platforms aimed at providing business and financial support to SMEs through private equity and venture capital vehicles. Building on these efforts – and steering these efforts towards investments that have a more direct impact on job creation – requires a more coordinated effort among the diverse players in this space, which includes not only public and private sector entities, but also regional NGOs and international donors. Large multinational corporations as well as public sector companies are also experimenting with SME development, through procurement policies for products and services in specific sectors and through the creation of public-private partnerships aimed at incubating new firms. Finally, a number of microfinance platforms are transforming their lending models to support large enterprises and are combining their services with financial literacy and business skills.

Core Principles of Social Innovation for Youth

Social innovations may not be a substitute for economic reforms in addressing the challenge of youth exclusion. But they can serve as models to the larger policy and business community and, through replication and upscaling, may bring about real
change in the lives of the region’s youth. As we move toward the development of innovative solutions to the youth employment crisis, there are several core principles that should guide these efforts:

− **Solutions should be localized:** While the lessons of experience in other regions have not been examined and provide a wealth of innovative policy and programmatic interventions to draw upon for various aspects of youth inclusion, effective and sustainable solutions depend on local ownership and should be informed by the particulars of the local context.

− **A holistic approach is needed:** No matter which sector is targeted, creating opportunities for youth requires a mix of inputs that are integrated so as to form an ecosystem that will enable change. Investments towards one identified need, i.e. entrepreneurship training, will do little if other needs, i.e. access to finance and business development services, are not met in a coordinated manner.

− **Partnerships are key:** The challenge we face precludes unilateral efforts. While innovative solutions may be developed, and even tested, in a bubble, ensuring that innovations are implemented successfully and expanded to meet the scale of the region’s challenge will require cooperation between and support from government, the private sector and actors in civil society.

− **Technology should be leveraged:** While technology has facilitated tremendous advances in economic growth and globalization, it is not being adequately exploited to address youth employment. Innovative ideas must be supported by innovative technology-based approaches to ensure that solutions are implemented efficiently and targeted widely.

− **Sustainability should be built in:** Innovations in youth programmes must be built on a basis of sustainability. This requires organizations to steer away from a traditional dependence on large donors and funding sources that are subject to shifting priorities. Rather, such programmes should be built upon more sustainable revenue streams, including the provision of fee-based services, government adaptation, alternative income generation and diversification of donor sources.

**From Pilots to Scale and Comprehensive Reforms**

In the wake of the Arab Spring, governments will continue to respond to popular pressure and economic dislocation in the short term through public sector led employment and investment. It would be wishful thinking to expect anything else, given the fragility of the political arena and loss of confidence amongst policy-makers. Since countries are unlikely to undertake comprehensive institutional reforms in the near term, a second-best approach to addressing the challenge of youth employment involves identifying and developing innovative, sustainable programmes, demonstrating success through rigorous monitoring and evaluation, and bringing successful programmes to scale.

Moving to scale should be done in a holistic fashion that addresses key elements of the local ecosystem for job and business development, requiring the development of coalitions of local partners from government, the private sector, civil society, academia and the wider public to affect change. While change through such an approach will be incremental at best, the cumulative experience of successfully piloting and scaling up programmes, through inclusive processes of formulation and implementation by a diverse community of actors, can eventually tip the balance of public support in favour of more comprehensive projects and help shape the contours of future reforms.
Youth Unemployment in the MENA Region: Determinants and Challenges
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A Longstanding Urgent Challenge

Addressing high unemployment is a longstanding but increasingly urgent challenge for MENA countries. Unemployment in the MENA region is the highest in the world (Figure 1) and largely a youth phenomenon. The share of youth (ages 15 to 24) in total unemployment at least doubles the total rate. Moreover, at about 25%, the youth unemployment rate in the MENA exceeds that of any other region in the world – a rate that reaches up to about 30% in Tunisia (Figure 1). The recent social and political events in the region have contributed to a decline in economic activity and to increased unemployment. In 2011, unemployment has increased in the MENA countries, with the largest increase registered for Tunisia (about 7 percentage points) and Egypt (about 3.5 percentage points).

Unusually, education in this region is not a guarantee against unemployment. In fact, unemployment tends to increase with schooling, exceeding 15% for those with tertiary education in Egypt, Jordan and Tunisia.

In most regions of the world, the duration of unemployment spells is shorter for youth than for adults, reflecting the natural tendency of youth to more frequently move between jobs. In most MENA countries, however, youth unemployment appears to be the result of waiting for the right job. Thus, unemployment spells may be longer, especially for educated youth, who may require more time to find a good job match for their skills. This is an important point, because it is the duration of unemployment, rather than its occurrence, that is most detrimental to human capital accumulation.

Key Factors Behind Youth Unemployment

High labour force growth, skill mismatches, labour and product market rigidities, large public sectors, and high reservation wages have been key factors behind the large and persistent level of youth unemployment.

Demographic Transition

Demographic pressures in MENA might be a leading cause of the high youth unemployment rates in the region. The origins of the current demographic trends began in the 1950s. Over the past 50 years, MENA countries experienced large declines in infant mortality rates. The combination of low infant mortality rates and high fertility rates between 1950 and 1980 led to high population growth rates, which translated into high labour force growth rates from 1970 through 2000 and beyond.

Over the past decade, the labour force in MENA has grown at an average annual rate of 2.7%, faster than in any other region of the world, save Africa. And it will continue to outpace most other regions. The number of labour force entrants remains daunting – approximately 10.7 million new entrants are expected to join the labour force in the coming decade, compared with 10.2 million in the previous decade. However, youth labour force growth is expected to gradually decelerate over the next decade, easing labour market supply (Figure 2). And in some countries, such as Tunisia, the demographic transition will occur even earlier.

Skill Mismatches

Labour market mismatches have been driven by the inability of the economy to create highly skilled work but also by the inappropriate content and delivery of education. Over the past decades, the MENA countries have made important strides in providing education. Average years of schooling for those 15 years and older increased four-fold between 1960 and 2000, more than any other region in the world. In 1999, average years of schooling in MENA was 5.3 years, ahead of South Asia (4.6 years) and Sub-Saharan Africa (3.5 years), and only one year behind East Asia (6.6 years) and Latin America and the Caribbean (6.4 years). With respect to illiteracy rates, however, the MENA region still lags behind other regions of the world. In addition, entrepreneurs regularly cite the lack of suitable skills as an important constraint to hiring (Figure 3), and unemployment rates are highest among the most educated. Taken together, this suggests that education systems in the region fail to produce graduates with needed skills.

Labour Market Rigidities

According to the Global Competitiveness Report 2011-2012, hiring and firing regulations in most MENA countries are more restrictive than those in the average emerging and developing country. Similarly, data from enterprise surveys indicates that, worldwide, the percentage of firms identifying labour regulation as a major constraint to their business operations is, on average, greatest in MENA. In addition, indicators of labour market flexibility show that such rigidities are particularly high in MENA (Figure 4) and could significantly limit employment creation, particularly for first-time job seekers, by discouraging firms from expanding employment in response to favourable changes in the economic climate.

Large Public Sectors

The MENA region also has the highest central government wage bill in the world (as a percentage of GDP) – 9.8% of GDP compared to a global average of 5.4%. The high wage bill partly reflects the fact that government employment in MENA is comparatively high, but it also reflects the fact that public sector wages in MENA were on average 30% higher than private sector wages, compared to 20% lower worldwide. Around the turn of this century, the public sector accounted for about one-third of total employment in Syria, 22% in Tunisia, and about 35% in Jordan and Egypt.

Public-sector employment shares are even higher as a percentage of nonagricultural employment – reaching 42% in Jordan and 70% in Egypt. The dominant role of the public sector as employer throughout MENA has distorted labour market outcomes and diverted resources away from a potentially more dynamic private sector. Government hiring practices have typically inflated wage expectations and placed a premium on diplomas over actual skills, influencing educational choices and contributing to skill mismatches.

This note focuses on the MENA oil importers unless otherwise indicated. These include Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Syria and Tunisia.
High Reservation Wages

The comparatively greater job security, higher wages, and more generous on-wage benefits offered by the public sector have inflated wage expectations among new entrants. In fact, public sector wages are 48% and 36% higher than those offered by the private sector in Egypt and Tunisia, respectively. Relatively high wages and benefits encourage workers to seek jobs in the public sector instead of potentially more productive jobs in the private sector.

In addition, generous childcare and maternity leave policies encourage females to focus on obtaining public sector jobs. However, public sector jobs remain valued because of job security, high compensation and benefits, and lack of opportunities in the private sector. It appears that the system essentially has created a dual labour market, with the public sector representing the high-wage, high-benefit sector.

MENA Oil Importers Need to Increase Employment

To absorb the unemployed and new entrants to the labour force, the MENA oil importers will need to increase employment by an estimated 18.5 million full-time positions over the next decade – although even this would leave the ratio of employment to working-age population lower than that currently observed in any other region.

Reaching the job target will require a combination of permanently higher economic growth and reforms to improve the responsiveness of the labour market. The fact that youth unemployment has remained high for so long indicates that the problem is largely structural and will not be resolved by a cyclical increase in output, but would need a sustained high and job-creating growth, supported by a sound macroeconomic environment.

A higher growth performance will be necessary but not sufficient to significantly reduce unemployment over the medium term. In particular, in the absence of structural reforms aimed at improving the responsiveness of labour market conditions to changes in economic activity, higher economic growth is likely to have only a modest impact on youth unemployment. In this context, deepening structural policies such as:

- Improving the flexibility of the labour market will be essential to increase labour demand over the medium term and to facilitate the integration of young outsider workers into the labour market. In this context, reforms aimed at reducing search and hiring costs will be crucial.
- Improving the business climate and fostering product market competition will also be key to reducing unemployment over the medium term. In particular, lower barriers to entry curb market power and incumbents’ rents, and they tend to reduce wage claims and close the gap between productivity and real wages. Moreover, stronger competition may reduce bargaining positions of employers and increase employment costs for higher wages. Reduced rent sharing would also decrease the time spent searching for employment opportunities in high-wage sectors. In addition, improvement in business climate and product market competition will also be essential to raising potential growth over the medium term.
- Addressing skill mismatches will be key to reducing youth unemployment. In this context, realigning curricula with private-sector needs, reforming university admission policies and improving the quality of educational systems will be of crucial importance.
- Improving public-sector hiring practices and compensation policies. Public sector hiring procedures should place greater emphasis on skills and competition and less on paper qualifications. Moreover, strengthening the link between compensation and performance and implementing merit-based promotion policies would also send the right signals regarding skill formation for young people.
- Reducing the size of public sector. Large government sectors tend to crowd out private investment and to reduce the size of the private sector and sustained growth over the medium term. In addition, large government sectors often involve higher taxes, which can have depressive effects on aggregate demand and on the labour market.

Ongoing Social and Political Turmoil

The ongoing social and political turmoil in the region has created urgency to start implementing measures in the short term that would also have long-term benefits.

Turn Infrastructure Investment into a Vehicle for Employment Generation

Investment in infrastructure can have a sizable impact on employment generation, even in the short term. For example, evidence from Latin America and the Caribbean suggests that about 40,000 annual direct and indirect new jobs can be created in the short term for every US$1 billion spent on infrastructure projects. Extrapolating these numbers to Egypt and Tunisia, for instance, suggests that 1% of GDP spent on infrastructure could generate in the short term as many as 87,000 new jobs in Egypt and 18,000 jobs in Tunisia. To have an immediate effect, policymakers in the region can therefore seek to bring forward viable labour intensive infrastructure projects that are already in the pipeline, while maintaining fiscal sustainability. Such a policy will not only provide wage employment – including for young people – but will also enhance long-term growth, thereby leading to sustained job creation.

7 The number of new jobs to be created is significantly larger for the entire MENA region.
Support Private-Sector Activity through Macro Policies

To encourage job creation, policy-makers can explore the possibility of giving tax incentives or providing credit guarantees to viable labour intensive small and medium enterprises, as was done in many emerging markets and transition economies during the global financial crisis. Moreover, removing impediments to access to credit would also help these enterprises.

Scale up Promising Training Programmes based on Past Successes in the Region

The region offers a growing range of promising youth-oriented training programmes. One such example is the Education For Employment Foundation (EFE), which currently operates in several countries in the region, including Egypt, Jordan and Morocco. EFE works with corporations and industries to assess demand for skills and to provide corresponding tailored training programmes for young people. Through both in-class and on-the-job training, EFE has proven successful in providing job seekers with skills relevant to businesses and placing unemployed youth in jobs. For example, 85% of programme graduates were placed in jobs in Jordan and 86% were placed in jobs and internships in Morocco. Policy-makers should seek to scale up and replicate such promising programmes.

Introduce New Well-Designed and Effective Training Programmes

Given the magnitude of youth unemployment and the urgent need to address it, policymakers may want to initiate new investments in well-designed training programmes, in addition to expanding training programmes that have shown some success. It is crucial that policymakers act now, given that it may take some time to reap the benefits of new investments. Some lessons can be learned from the experiences of other countries when designing such programmes. For example, evaluations of youth training programmes in Latin America indicate that those that are demand-driven, offer on-the-job training, focus on both hard- and soft-skill formation, monitor performance and perform impact evaluation have a significant positive impact on employment and earnings of programme participants.

At the same time, when designing short-term solutions to youth unemployment, governments should ensure that such solutions do not harm the long-term goal of sustainable job creation and productive skill formation. For example, in light of the ongoing political turmoil and uncertainty, governments may be enticed to quickly create unneeded jobs in the already large public sector. Such a policy, which may be difficult to unwind later, may distort labour market incentives and divert resources away from a potentially more vibrant private sector. As another example, giving subsidies to the educated unemployed youth, while well-intended and providing relief, may reinforce skills mismatches for future labour market entrants if the qualification for such subsidies is based solely on diplomas and credentials.

Turning the Labour Force into an Asset

In sum, the key to successfully addressing the formidable youth unemployment challenge in MENA oil-importing countries is to turn the large and growing labour force into an asset, rather than a constraint. This will require ensuring sustained, high, and job-intensive growth, refocusing education and training to reduce skills mismatches, enhancing labour market flexibility and maintaining macroeconomic stability.
Figure 3: Labour Market Flexibility 2008 (0=least flexible; 10=most flexible)
Source: Economic Freedom of the World Database.

Figure 4: Firms Identifying Labour Skill Level as a Major Constraint
Source: World Bank, Enterprise Survey Results.

(most recent, %)
Gallup research suggests that to improve women’s economic empowerment in the Middle East, policy-makers should focus on elevating their country’s human development as a whole, rather than focusing on gender-specific programmes or secularization of social norms.

Educational attainment has increased significantly among women in the MENA region since the 1950s. The average ratio of women’s years of schooling to men’s years, for example, has increased from 0.2 in 1970 to 0.7 in 2010. In addition, women’s average life expectancy was higher than that of men in 2009, at 74.1 and 70.5 years, respectively.

Unlike their impressive strides in education, Arab women’s participation in the labour market remains among the lowest in the world. MENA women’s participation rate in the labour force has been increasing at an extremely slow rate of 0.17% since the 1970s. Furthermore, roughly one-quarter of the region’s female population participates in the workforce, compared with more than 50% in the rest of the world.

Some blame the rise of conservative religious values in the Arab world for these realities, while others point to slow job growth in the region generally. This essay explores the factors shaping women’s economic empowerment in the Middle East and what, in light of these findings, policy-makers should do if they seek to increase women’s economic contributions.

Women Want Rights and Religion

The rise of Islamist political parties in Tunisia and Egypt has many secular Arab women’s rights activists and Western observers worried that the change women helped ignite has betrayed them. For example, Moushira Khattab, a former Egyptian minister of family and population in the Mubarak regime, writes that since the uprising: “The train of change has not only left them behind, but has in fact turned against them... Dormant conservative value systems are being manipulated by a religious discourse that denies women their rights.”

Moreover, in Egypt, women’s support for the Freedom and Justice Party, as well as Hizb Al-Nour, is virtually identical to that of men's. There was also no gender difference on whether “a parliament with a strong Muslim Brotherhood presence is a good thing for Egypt”. Strikingly, Egyptian supporters of Islamist parties are equally likely as those who support liberal political groups to say they support women’s rights to employment, to equality before the law, and even to initiate a divorce.

Figure 1: Arab Women Are as Likely as Arab Men to Want Shariah as a Source of New Legislation

- “What role should shariah have in legislation? Should it be the only source of legislation? A source but not the only source? Or should shariah not be a source of legislation?”

Figure 2: “Do you agree or disagree with the following statements?” Percentage “Agree” shown

- Women and men should have equal legal rights
- Women should be allowed to hold any job for which they are qualified outside the home
- Women should have the right to initiate a divorce
It is interesting to note there is no “female consensus” across the Arab world on what role religious principles should have in new legislation. Rather, Gallup surveys find that Arab women in the countries surveyed are far more similar to the men in their respective countries than they are to fellow females in the region. This suggests that local historical and cultural contexts shape views of shariah’s role in society, rather than a general regional female perception.

There is a great deal more agreement among women across national borders about their own role in society – that it must be active and empowered. Roughly nine in ten women in Tunisia, Egypt and Yemen agree that women should be able to work in any job for which they are qualified. And here is where we find the greatest gender gap. Though majorities of men agree women should have the right to work at any job for which they are qualified, their support lags that of women by double digits in many countries.

Economic Troubles, Not Religion, May Negatively Affect Women's Rights

Men’s views of women’s rights matter. Gallup found that the more men support women’s participation in the workforce in a given country, the more women are likely to work in professional jobs. So the key question is, what propels progressive views of women’s rights among men in the Arab world? Is men’s support for shariah linked to lower support for women’s rights? The answer is no. Men’s views of religious law have no correlation whatsoever to how they regard women’s equality.

Instead, far more pragmatic factors drive men’s support for women’s equality. The more men are happy, employed and educated, the more they support women’s rights.

For these reasons, an unexpected consequence of the economic problems following the Arab uprisings may not only be a decline in living standards, but also of women’s rights. Gallup analysts found that across the Arab world, men’s support for women’s equal legal status and right to hold any job for which they are qualified was positively linked to their level of life satisfaction, employment, and other measures of economic and social development – such as education and national score on the Human Development Index, not support for shariah. This suggests that in principle, economic trouble is a greater threat to women’s rights than public support for religious legislation.

Figure 3: “Do you agree or disagree with the following statements? Women should be allowed to hold any job for which they are qualified outside the home.”
*Based on 2010 data.

Table 1:
- “Do you agree or disagree with the following statements? Women should be allowed to hold any job for which they are qualified outside the home. Women and men should have equal legal rights.”
- “What role should shariah have in legislation? Should it be the only source of legislation? A source but not the only source? Or should shariah not be a source of legislation?”

<table>
<thead>
<tr>
<th>Men’s Views of Women’s Rights Linked to Development, Not Support for Shariah</th>
<th>Men: Women should be allowed to hold any job for which they are qualified outside the home (Agree)</th>
<th>Men: Women and men should have equal legal rights (Agree)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Perceptions Are Levels Among Men in Each Country</td>
<td>No correlation</td>
<td></td>
</tr>
<tr>
<td>Male Employment (%) Pearson Correlation</td>
<td>.761**</td>
<td>.541*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.025</td>
</tr>
<tr>
<td>Number of countries in model</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Men thriving (%) Pearson Correlation</td>
<td>.678*</td>
<td>.810**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.003</td>
<td>.009</td>
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<tr>
<td>Number of countries in model</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Men with post-secondary school education Pearson Correlation</td>
<td>.642*</td>
<td>.482</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.005</td>
<td>.050</td>
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<tr>
<td>Number of countries in model</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Men reporting living comfortably on current income Pearson Correlation</td>
<td>.602</td>
<td>.591*</td>
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<tr>
<td>Sig. (2-tailed)</td>
<td>.010</td>
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<td>Number of countries in model</td>
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<tr>
<td>Regulatory Quality Pearson Correlation</td>
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<td>Sig. (2-tailed)</td>
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<td>Number of countries in model</td>
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<tr>
<td>Human Development Index Score Pearson Correlation</td>
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<tr>
<td>Sig. (2-tailed)</td>
<td>.036</td>
<td>11</td>
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</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).
To Empower Women, Focus on Human Development

Women’s empowerment must be seen as part of a holistic approach that elevates society as a whole, and therefore must also include men. Higher human development is linked not only to men’s support for women’s rights and greater female economic empowerment, but it is also what women say they want. According to Gallup surveys, women’s problems and priorities across the region are not gender specific, but reflect their nation’s challenges: unemployment, instability and poor education systems.

One of the most powerful illustrations of how men’s and women’s outcomes are linked is this figure illustrating the percentage of males and females in both rich and poor Arab societies, as well as the global mean for high- and medium-GDP countries with no education. While the gender gap is largest in absolute numbers in the poorer parts of the Arab world and smallest among wealthy nations globally, regardless of where one lives, women are always 20% more likely than men to have no formal education. In other words, the better boys are doing, the smaller the gender gap. This suggests that efforts to improve girls’ schooling must be holistic and address education in general in order to shrink the gender gap.

The same can be said about economic development. According to Ronald Inglehart, who has studied global values for decades through the World Values Survey, human development in almost any society begins with economic modernization and development, which in turn demands the integration of women into the workplace, which in turn brings about cultural change, not the other way around. Some have argued that economic stagnation, especially in the Arab world, can be attributed to underutilization of women as a human resource because of traditional cultural values. However, with high Arab male unemployment rates, the issue does not seem to be a lack of use of human resources, but rather one of low demand for these resources because of a shortage of economic opportunity in general.

Figure 4: Education Gap between Men and Women

![Figure 4: Education Gap between Men and Women](image-url)
Building Arab Civil Society to Promote Economic Growth
Timur Kuran, Professor of Economics and Political Science and Gorter Family Professor of Islamic Studies, Duke University

Just to absorb new entrants into its labour markets and bring unemployment down to a palatable level, the Arab world must create up to 80 million new jobs by 2020. Increasing labour demand on such a scale requires massive investments. And if the task is to be accomplished without vast migration within the region, the new capital must flow primarily to its most populous countries – to Egypt, Sudan, Algeria, Iraq and Morocco, collectively home to two-thirds of the domestic Arab population.

In 2007, right before the global economic crisis, foreign direct investment (FDI) in these five countries represented 0.72% of the global total, less than a quarter of their aggregate population share of 3.08%. This poor record for attracting capital reflects the unfriendly investment climate of the most populous Arab countries. The 2011-12 Global Competitiveness Index of the World Economic Forum and the Organisation for Economic Co-operation and Development ranks Morocco, Algeria and Egypt in the bottom half of 142 countries; war-torn Sudan and Iraq, both extremely uncompetitive, are not even ranked.

The factors commonly identified as the sources of Arab countries’ lack of competitiveness include antiquated and underfunded education systems, inflexible labour markets, price distortions, ossified bureaucracies, cronyism and pervasive corruption. Leaders of the Arab world have long been aware of these problems. If they have been slow or reluctant to undertake meaningful reforms, sometimes the reason has been that they, or their allies, had a stake in the status quo. A deeper and more general reason is that they have lacked the political legitimacy, and thus the political capital, necessary to overcome the resistance of vested interests. As a result, the economic failures evident in competitiveness and foreign investment statistics stem from political failures.

Political Causes of Low Investment

Political indices prepared annually by international organizations such as the World Bank, Transparency International and Freedom House provide clues as to why many Arab leaders are held in low esteem by their own people. Rule of law and government transparency are weak by contemporary world standards. These failures of political performance explain the failures of Arab leaders to achieve educational, fiscal, regulatory, and administrative reforms that would enhance the competitiveness of their economies, draw in capital, and put more of their citizens to work.

The causal links between political and economic performance are by no means unique to the region. Global cross-national studies reveal a positive correlation between per capita investment and political performance, whether measured by transparency, rule of law or liberty. Safety considerations as well as cost calculations drive capital away from poorly governed countries and towards those that are more democratic, less corrupt and relatively free.

Hence, there would be more investment in Arab countries were they ruled more democratically by regimes perceived as more popular and thus more stable. Moreover, the new investments would come partly from Arab sources. Mindful of the political instability of the Arab world, even Arab sovereign wealth funds are currently investing heavily outside the Arab world.

If political factors are compounding the Arab world’s employment challenge, it is worth taking a closer look at the institutional sources of its political systems. These include not only governments, but also non-governmental organizations, or NGOs. In countries governed relatively efficiently, government policies are constrained institutionally (for example, by division of powers), and also through NGOs that serve as intermediaries between individuals and the state. Collectively NGOs form a key component of what is known as civil society. Among the functions of civil society is to constrain government leaders. Forcing governments to obey the law and to operate within bounds acceptable to NGOs, enables leaders to gain public acceptance and build legitimacy. As a result, the capabilities of Arab civil society are relevant to the challenges of boosting Arab investment and creating employment.

Civil Society and the Investment Climate

A two-decade-old study identifies 13,000 registered Egyptian NGOs, including charitable associations, trade unions, chambers of commerce, and professional associations; and the number has grown since. Despite their numbers, they have done a poor job with respect to monitoring state officials and keeping them in check. Few have had the clout to keep officials from bending or breaking laws. Nor have they been effective at exposing corruption and mobilizing public outrage at the perpetrators. As elsewhere across Arab lands, officials routinely break rules with impunity, and bribery is both endemic and widely tolerated. If Arab societies had more powerful NGOs, their officials might find it riskier to violate laws, and corruption might decrease under the threat of exposure.

In a nutshell, structural reforms that strengthen Arab NGOs would improve the economic performance of Arab governments. Better governance through self-sustaining political checks and balances would then make the Arab world seem increasingly safe and profitable for investment. A greater share of global investment would end up in Arab countries, raising the demand for Arab labour. A stronger civil society would thus stimulate Arab employment.

However, even if all the necessary political reforms were launched immediately, the effects on labour markets would take time to materialize. A reason lies in the stickiness of risk calculations. In view of the political history of the Arab world, the perceived riskiness of investing in Arab countries would diminish only gradually even under the best of circumstances.

In any case, the economic effects of stronger Arab NGOs would not be uniformly positive. Stronger labour unions and professional associations would be expected to use their increased clout partly to preserve privileges that their members enjoyed under previous regimes; they might even strive to reinforce them through additional restrictions on competition. After all, entry restrictions and other types of market barriers are observed even in the freest and most democratic societies. In this regard, the difference between authoritarian and democratic societies is one of degree rather than kind. Democratic societies suffer less, and not because their citizens are reluctant to seek rents. Rather, the enforcement of broad associational and expressive freedoms boosts the chances of organizations harmed by anti-competitive policies to mount resistance.
Entrepreneurship involves the identification and exploitation of unmet opportunities for social gain. Government agencies can fulfill entrepreneurial functions by finding vacant niches in the world economy, disseminating relevant information, laying the infrastructure for successfully pursuing the opportunities and extending credit to private investors willing to shoulder the risks involved. For their part, international development organizations can support these tasks by providing expertise and financial assistance.

As Dani Rodrik points out in *One Economics, Many Recipes*, a critique of boilerplate development strategies, governments and supra-national organizations play diverse constructive roles with regard to employment and wealth creation. The chances of entrepreneurial success improve, of course, insofar as private parties – including both profit-seeking entrepreneurs and NGOs – participate in the processes of seeking, pursuing and communicating opportunities. Indeed, Rodrik’s overarching message is that sound development policy is an iterative process involving constant feedback and cooperation among diverse actors, repeated reassessments in response to emerging information, steady experimentation, and adaptations in the face of failure.

The optimal distribution of roles depends on the capabilities of the actors involved. The greater the capabilities of government agencies, the more effectively they can support entrepreneurship. In the case of the Arab world, government bureaucracies are packed with political appointees tied to privileged constituencies. Such bureaucrats are generally poorly suited to forging new visions. A further problem is that the bureaucratic culture tends to discourage innovation and experimentation.

Although these characteristics are shared by bureaucracies everywhere, it is a matter of degree. Bureaucracies of the Arab world tend to be particularly beholden to narrow interest groups. They are also unusually sclerotic. For these reasons, it is unrealistic to expect Arab governments to excel in the identification of global niches for Arab businesses of the future. Nor should they be expected to perform well at preventing the removal of entry barriers that are harmful especially to young workers, who tend to be particularly open to innovation and experimentation.

However weak the performance of Arab governments with respect to promoting entrepreneurship, their cooperation is needed to remove procedural obstacles and to facilitate the timely provision of necessary infrastructure. This underscores the need to reform government as part of any package of initiatives to create millions of new jobs for the rapidly expanding Arab working-age population. Bureaucratic difficulties can be dampened over time by turning government agencies from regulators of market processes, as they were envisaged under various forms of Arab socialism, to market-augmenting actors committed essentially to the facilitation of economic activity.

Non-governmental organizations can help the transformation by identifying bureaucratic inefficiencies, building constituencies for addressing them, developing blueprints for reform, deliberating possible solutions and their execution, and pressuring political power holders to support, implement and pursue changes. In performing these roles, NGOs participate in the reconstruction of government through analysis and persuasion, but also through adversarial stands that are almost certain to provoke resistance from vested bureaucratic interests.

**Civil Society as a Stimulant to Entrepreneurship**

Government agencies, the more effectively they can support entrepreneurship. Hence, the challenge is not to choose between them but, rather, to ensure their cooperation.

Governments serve infrastructural and regulatory functions that no civil society organization can meet. Thus, at least for the foreseeable future, the coordination of road building in Arab countries must be led by governments, and the same can be said of basic health policies such as the prevention of epidemics. Yet even in these areas, NGOs are often better suited than government monitors to identifying needs and spotting inefficiencies.

One reason is that they have constituents who, as consumers of government services, are uniquely qualified to provide feedback. Another is that the polycentric structure of civil society and the absence of coordination among its many units make it less prone to capture by groups vested in the status quo. Still another is that variations in the origins, goals and constituencies of NGOs enrich their contributions to debates about the efficacy of government services.

Just as government efficiency depends on civil society, so the viability of civil society depends, in many contexts, on third-party enforcement of contracts. NGOs often work at cross purposes, as with labour unions and employer organizations on minimum wage legislation, and environmentalists and hotel chains in regard to tourism. Without state-imposed restraints, rival organizations could pursue their causes through fraud and even violence. In carrying out their protective duties, governments keep NGOs from preying on each other. Quite literally, they keep civil society from self-destructing.

The complementarities between government and civil society are salient in export promotion campaigns. Through their diplomatic networks, governments enjoy economies of scale and scope in the dissemination of information about local products. For their part, chambers of commerce and professional associations, not to mention private firms, are usually better informed than government bureaucrats about product lines and potential markets.

Another example lies in the task of matching school curricula to the evolving needs of businesses. As both operators of public school networks and major employers in their own right, governments are integral to the process. But private employers, industrial associations, and educational foundations are better qualified to anticipate future needs of the private sector. They can also provide invaluable feedback on school performance and

To recapitulate, reforms that strengthen Arab civil society would tend, over the long term, to stimulate Arab employment through checks and balances constraining both governments and civil society itself. However, this is not the only channel through which civil society affects job creation. It promotes employment also through the stimulation of entrepreneurship.

**Complementarities between Government and Civil Society**

Responsibility for selecting and implementing growth and employment generating policies need not be the exclusive privilege of the government, or that of civil society. Both government and NGOs have indispensable and complementary roles to play. Hence, the challenge is not to choose between them but, rather, to ensure their cooperation.
programme success. In such cases, then, cooperation between governments and NGOs is essential to the attainment of broad objectives.

The Challenges of Political Liberalization

Through decades of state-centred rhetoric, Arab masses are conditioned to treating government-directed economic development as efficient and private entrepreneurship as inherently suspicious. So giving civil society a greater say in formulating, implementing, evaluating and redesigning Arab growth and employment policies will not come naturally to them. True, the Arab uprisings triggered by a police-harassed Tunisian fruit vendor have rekindled Arab debates on the proper role of government. They have also stimulated interest in strengthening associational and expressive freedoms. Yet the region’s bureaucracies remain bloated – which is itself a symptom of low job creation in general. Worse, no major constituency has articulated a programme for fundamental reforms in government decision-making – at least nothing coherent.

Besides, Arab civil society is itself unprepared to take on, in full, the responsibilities of restraining the state and participating in its transformation. Some Arab NGOs are run autocratically, which limits their capacity to provide bottom-up feedback. Many are accustomed to submissiveness on matters that state authorities consider sacrosanct. Their conflict avoidance stems partly from conditioned fears of reprisal, but also from reticence to upset bureaucrats with whom they have had working relationships. In any case, some were founded by governments to draw in foreign aid reserved for private Arab organizations. These NGOs will need to be transformed if they are to check government power and provide meaningful feedback on government activities.

Again, it follows that the political problems underlying the Arab world’s weak economic performance cannot be overcome in short order. An unfortunate implication is that the massive investments needed to create tens of millions of new Arab jobs in a few years are unlikely to materialize. Without credible commitments to some form of democratization, the available capital will go elsewhere. Economic slowdowns in other parts of the world will only aggravate the difficulties of attracting capital to the populous Arab countries in need of massive employment expansion.

Initiating Self-Reinforcing Reforms

The interdependencies between government performance and that of civil society form a vicious circle. The same interdependencies also offer some room for guarded optimism. If somehow reforms get under way, they may start to feed on themselves.

Suppose that an elected Egyptian government were to adopt a structural reform package. Suppose further that oil-rich Arab states extend generous support to Egypt during its transition. All goes well, and at the end of a year, signs emerge of economic improvement, including job growth. The consequent benefits might widen the constituency for political liberalization, raise the influence of reformist NGOs, make state agencies increasingly responsive to social pressures and produce favorable demonstration effects in other Arab countries. Arab economic growth and thus the demand for Arab labour could continue to rise through self-generated transformations.

As political liberalization, democratization and decentralization gained steam, NGOs would feel freer to express views and to publicize government inefficiencies. With dissenters no longer risking charges of sedition, debates concerning development problems would gain depth. Individual citizens would feel more ready to criticize the leaders of organizations representing them. In tolerating respectful dissent and avoiding penalizing others merely for objecting to particular policies, diverse actors would promote political liberalization.

No magic formula exists for initiating such a virtuous circle. The political histories of countries with mature democratic regimes display various sequencing patterns, each shaped by more or less unique contingencies. However, in the Arab world, the ongoing upheaval, which carries the possibility to produce further shocks, has created the best opportunity in a half-century for NGOs to assert power and autonomy, and for state agencies to open themselves up to assistance and feedback from private organizations.

References:


The Access to Credit Dichotomy: Arab Financial Markets Caught Between the Pull of the Disenfranchised and the Push of the Entrenched
Mohamad Al-Ississ, Assistant Professor of Economics, School of Business, The American University in Cairo

The Arab world faces the daunting task of creating 80 million jobs over the next decade to keep pace with population growth. Meeting this tall order requires robust growth and a structural transformation of the region’s institutional, regulatory and educational landscape. However, the region’s job-creation journey starts with the key step of rehabilitating its financial markets. Access to credit is vital for a dynamic and growing economy: it pools savings and channels them to the most deserving investments; it diversifies risks; and it lowers information and transaction costs.

Underdeveloped and under-serving financial markets have held back the region from realizing its potential growth for centuries. While the Amsterdam Stock Exchange, for example, was established in 1602, most of the Arab world had to wait well into the second part of the 20th century. Prohibition of *riba*, usury, is often used as an explanation for the underdevelopment of financial markets. Yet this argument fails to address the fact that Europe managed to develop such markets in spite of similar prohibitions on usury in Christianity and Judaism. Furthermore, Islamic banking, which was developed to address these religious prohibitions, did not take off until recently, and *shariah*-compliant banking remains a niche market, with limited exposure to a wide strata of society. To date, the state of the region’s financial markets leaves a lot to be desired.

**Arab Financial Markets: Current State**

The Arab financial sector suffers from structural ailments that render it undiversified, uncompetitive, underexposed and concentrated.

**Undiversified Financial Institutions:** Arab financial markets are heavily dominated by banks that are well-endowed with assets and petrodollars averaging about 130% of GDP. In comparison, alternative financial outlets, such as mutual funds, insurance, private pension funds and microfinance combined, account for less than 7% of GDP. Aside from banking, Arab financial markets remain insignificant, underdeveloped and shallow.

**… In a Non-Competitive Environment:** The regulatory bottlenecks, and prevalent public and dominant institutions, have limited the exposure of Arab financial markets to the disciplining forces of competition. While Arab countries have embarked on reform of the financial sector, the regulatory barriers to entry remain high and public banks remain dominant, accounting for 33% of total banking assets in 2008.

**… Offering Limited Access to Credit:** Financial market penetration into the rest of the economy remains shallow. Egypt’s loan-to-deposits ratio was 58% in 2006, far less than the world average of 86%. The World Bank estimates that only 20% of SMEs in the region have a bank loan or a line of credit. This share is smaller than any other region in the world. Larger enterprises fare better than SMEs, but their share is also smaller than their counterparts elsewhere in the world.

**… To a Concentrated Clientele:** Even among those who are able to get credit, few large enterprises receive the lion’s share of funds. The Arab world’s loan concentration is the highest in the world, reflecting a well-established banking relationship with a few large corporations. SMEs, on the other hand, receive a mere 8% of total loans, which, according to the World Bank, is below countries of comparable income.

**… Due to Incomplete and Asymmetric Information:** A key hurdle to expanding the reach of financial institutions is the lack of information on the creditworthiness and history of individuals and institutions, given the inexistence, or infancy, of private credit bureau. The World Bank’s *Doing Business Report* (DBR) states that Arab credit bureaux have information on only 9% of the population, compared with 34% for Latin America. It is not surprising, therefore, given this informational opaqueness, that banks limit their financial relationships to a small group of well-established clientele, with deep historical relationships, to mitigate their risk exposure.

**… Insecure Property Rights:** The Arab region has an enormous proportion of its assets and businesses languishing in an extralegal shadowy state. The Institute of Liberty and Democracy (ILD) reports that at least 90% of the population is holding real estate without formal property rights in Tunisia. Egypt and Libya. It further reports that 99%, 82% and 85% of entrepreneurs are operating extralegally in Tunisia, Egypt and Libya respectively. The reason behind these high figures is the cost and time it takes to secure property rights. The DBR states that it costs 351% of the annual income per capita in the MENA region to acquire a construction permit.

These assets held without property rights are “dead capital”, as the Peruvian economist Hernando De Soto terms them, for they cannot be collateralized to borrow against. This represents wasted opportunities for millions of Arab entrepreneurs and businesses who are unable to access credit to expand their businesses or to create new ones. The magnitude of this wasted opportunity is astonishing. The ILD estimates that the value of these extralegal assets in Egypt alone is US$ 347 billion – “six times the foreign direct investment since Napoleon departed in 1801”, and 5.8 times the total market capitalization of the Cairo Stock Exchange.

**… Lack of Creditor and Borrower Legal Protection:** A key obstacle to extending access to capital in the Arab world is the limited and under-developed legal institutional framework for upholding and enforcing the rights of creditors and borrowers. The DBR evaluates the collateral and bankruptcy laws protection using the strength of legal rights index on a scale of 1 to 10 (strongest protection). The Arab world’s index is 3, half the average of the rest of the world, and every other region including Sub-Saharan Africa and South Asia. This results in heightened risk aversion among lenders and borrowers in the Arab world. It is a key reason in explaining why financial institutions limit their exposure to a few large companies.

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10 Ibid.
11 Ibid.
13 Ibid.
... And Disorderly Market Exit: Failure is an integral part of a well-functioning market system and a natural byproduct of experimentation and competition, the hallmarks of a dynamic economy. Thus it is vital to have orderly exit rules for firms that protect their owners and lenders alike. Such frameworks separate personal liability from a corporate one, and allow for the recuperation of invested capital to divert it into new outlets. According to the DBR, it takes 3.4 years in the MENA region to close a business, the same length as Sub-Saharan Africa and South Asia, and higher than all other regions of the world. Another important metric is the recovery rate, which measures the percentage of claims that can be recovered by creditors, employees and tax authorities. That rate is 30% for the MENA region, compared with 68% for OECD countries.

Arab Financial Markets: The Path Forward

It is clear that the status quo of financial markets in the Arab world is neither sustainable nor conducive to growth and job creation. The culmination of the aforementioned factors led to the marginalizing of the majority of Arab populations and enterprises. While Arab countries enjoyed satisfactory growth rates over the past two decades, this growth remained concentrated among the few who were part of the inner circle of the economic and financial transformation of the region. The disfranchised and young people are held back from using this growth to escape the vicious cycle of marginalization. They remain poor because they were poor to start with in a system that has all but ignored them. They have no hope of upper mobility through their entrepreneurship or rewarding job opportunities. Financial markets exclude them because they neither have collateral to leverage nor formal credit scores. Many of those who own collateral are unable to produce satisfactory proof to their property rights. Sadly, financial markets turn down even some of the few who overcome these hurdles out of fear of securing their investments, given the region’s underdeveloped financial legal and enforcing institutions.

The Arab Spring represents the moment when reform ceases to be a buzzword uttered for the pleasure of international dignitaries; rather it is now the sole means to surviving the collective wrath of the marginalized masses. The high barriers of entry, that have kept these masses in the shadows of Arab economies, must be levelled to bring the marginalized masses into the mainstream. Extending the access to capital to a larger spectrum of society and businesses will break the vicious cycle of poverty and marginalization. It will unleash the entrepreneurial spirit and empower SMEs to penetrate the economy, creating jobs and hope along the way.

The faucets of Arab financial markets should be opened for the benefit of the economy as a whole, including the disenfranchised. The roadmap to this transformation consists of opening up the sector to competition, breaking the reliance on banks, resolving the informational handicap, and building up an enabling and modern legal environment to bring the marginalized out of the shadows.

Expose Arab Financial Markets to the Disciplines of Competition: Legal and regulatory barriers to entry should be removed to allow free movement of capital in a competitive landscape. The role and subsidization of public banks should be aggressively revisited. Competition will push banks to expose themselves to more calculated risk beyond the comfort of well-established, insider-lending relationships.

Diversify Financial Markets: Create an enabling environment for the growth of financial outlets other than banks. The legal and technical hurdles that prevent mutual funds from developing in the Arab world should be removed. Furthermore, the large public pension funds should be geared towards pursuing reasonable and less conservative investment opportunities, making them part of the growth agenda, not a mere well-endowed bystander. In addition, microfinance should be encouraged, and perhaps even subsidized, for its spillover effects. Microfinance does not only provide business education for aspiring entrepreneurs and targeted financing to the poor, it also specifically focuses on the most vulnerable constituents, such as women.

Resolve the Informational Deadlock: Collection and dispersion of credit history should be streamlined by capitalizing on private sector providers. Regulations should be changed to permit the outsourcing of credit bureaux to private sector operators. New entrants into the private registry business should commit to expanding information coverage to the marginalized. Experimentation with creative models for resolving the high transaction costs, associated with tracking the credit history of low-income individuals, must be encouraged. Cutting-edge advances in low-cost screening tools, such as psychometric assessment, are encouraging news for Arab financial markets. The region should be among its early adopters.

Assign and Enforce Property Rights: The region cannot afford to continue to leave its valuable assets languishing in stagnation and inefficiency. Registering and transferring property rights must be streamlined, both in time and cost. Modern survey and communication technology should be adopted to break down this cumbersome process.

Protect Financial Players: Creditors and borrowers must be protected through a modern and resilient network of legal and enforcing institutions. Financial cases should be adjudicated in an expedited fashion before specialized courts, which are staffed with capable personnel representing top legal and financial expertise.

Empower Regulatory Framework: The unplanned and under-regulated opening up of financial markets has led to unwanted turbulence in other regions of the world. Modern financial markets are capable of wreaking havoc in global economies, not to mention the underdeveloped Arab financial markets. Dynamic and empowered regulatory authorities are needed to ensure desirable financial activity.

Dynamic financial markets are a key ingredient to growth and empowerment. As it stands, access to credit in the Arab world is a binding constraint that is preventing the region from meeting the hopes of its youth. High barriers to entry have protected the exclusive elite of sheltered relationships that governed the region’s economic transformation. Yet as the Arab world faces the unfulfilled energy of its youth and the anger of its disenfranchised, these barriers must be levelled. An inclusive dynamic financial sector is needed to lead the region forward. The aforementioned ailments and prescriptions for reform are neither new nor original. However, they are urgent and, therefore, must be brought to the top of the region’s action plan.

References:


Islamist Parties: An Agent of Change for MENA Economies?

- Islamist parties across the MENA region have expressed market-friendly views by calling for reforms on different economic policy fronts that could trickle down into opportunities for the young unemployed.
- The challenges facing any party in government are substantial, and managing expectations will be necessary to avoid the disappointment of the already restive streets.
- The case of the Justice and Development Party (AKP) in Turkey leads us to be optimistic with respect to the path likely to be taken by Islamist parties in the Arab world.

Festering chronic unemployment among the young and growing population in the MENA region culminated with the “Arab Spring” that toppled ineffective regimes. The need for change paved the way for an unprecedented rise of Islamist parties to power, which led to concerns about the business friendliness of Islamist governments and their ability to respond to some of the region’s most pressing social problems.

This research develops a database and analyses the economic platforms and public pronouncements of leading Islamist parties in MENA, to assess whether they are likely to promote free-market, investor-friendly policies. We focus our analysis on the Muslim Brotherhood’s Freedom and Justice Party (FJP) in Egypt, Morocco’s Justice and Development Party (PJD), Ennahdha in Tunisia and the Islamic Constitutional Movement (ICM) in Kuwait. Based on international standards of good economic management, we evaluate the positions these parties have expressed on different aspects of economic policy and their labour market implications. We score “market friendliness” on a scale of -2 (least market-friendly) to +2 (most market-friendly). Neutral positions receive a score of 0, while the absence of pronouncements is discounted from the analysis.

Our results are illustrated in the table below. Findings suggest that Ennahdha is the most market-friendly party overall, although on some important parameters, the FJP comes out ahead. The Kuwaiti Islamic Constitutional Movement lags behind its peers because of issues pertaining more to the structure of the country’s economy (the size of the state in particular), yet remains, on balance, market-friendly in its approach to trade and investment.

<table>
<thead>
<tr>
<th>Party</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>FJP - Egypt</td>
<td>47.2%</td>
</tr>
<tr>
<td>PJD - Morocco</td>
<td>41.7%</td>
</tr>
<tr>
<td>Ennahdha - Tunisia</td>
<td>50.0%</td>
</tr>
<tr>
<td>ICM - Kuwait</td>
<td>11.1%</td>
</tr>
</tbody>
</table>

What They Say
Labour Market and Social Policy: Testing the Ability of Islamist Parties to Deliver on Promises

The intentions to spur job creation, integrate the parallel economy and reform public administration are clear across the board, but the ability to successfully implement labour market reforms requires serious policy considerations.

Before the “Arab Spring”, Ennahdha and the FJP operated through an extensive network of charitable organizations to meet the social needs of the masses. Campaigning now under the banner of job creation, decentralization and fairer social policies, these ambitious assertions raise concerns of political and practical feasibility. One example is the PJD’s claim to reduce unemployment to 7% from the current 9% by 2016, which is certainly not a conservative call. The current global slowdown has raised unemployment levels globally, making it difficult to create jobs. As such, we do not expect sudden drops in unemployment (quite the contrary, we expect it to rise in the short term) but rather a gradual move towards economies that are more conducive to the creation of opportunities and that in the medium term will become more absorptive.

In Kuwait, on the other hand, protests and subsequent elections have centred on the issue of corruption in government. Yet as long as the public sector is quasi-unanimously accepted as the largest employer, efforts to tackle the future of youth unemployment and the revival of the private sector will remain subdued. Any squeezes in current account surpluses in the medium term will severely restrict the government’s largesse and likely trigger a fresh round of protests with sustainable employment requests at the forefront.

Fiscal Policy: A Struggle to Maintain Sustainable Budgets while Providing Needed Expenditure

Islamic parties acknowledge the need for fiscal consolidation and reducing government size. Raising minimum wages could hamper this effort. Subsidy reforms will be difficult to implement, due to political and social constraints.

The economic programmes of the parties we study are, to a certain degree, very conscious of governments’ balance sheets, and the fiscal frameworks emerging from Morocco, Egypt, Tunisia and Kuwait aim to maintain fiscal discipline. In this respect, Ennahdha’s fiscal programme is based on a combination of tax burden alleviations, fiscal deductions for lower-income households, and the modernization of tax collection mechanisms. Funding gaps across the region are widening, especially following the extensive stimulus packages during the global financial crisis and the “Arab Spring”. As a result, the newcomers are unlikely to sustain increases in social spending despite the appeal of populist measures, but will look to maintain their extensive networks of charities and social services outside of government.

15 Member of the Global Agenda Council on the Arab World.
16 Based on the total sum of scores given to each party on the 18 parameters studied: -100% is least market-friendly, 0% is market neutral, and 100% is most market-friendly (see Appendix).
Costly subsidy programmes on food and energy, especially in Egypt and Morocco, are a significant drain on national finances. Morocco provides a prime example whereby poor households receive only 5% of the energy subsidy fund’s support, while rich households receive up to 75%. Egypt’s FJP has been very vocal about the need to restructure energy subsidies, ideally charging higher prices for energy-intensive industries, rather than households. But while the enactment of these measures is feasible, the political and social ramifications make their implementation a sensitive matter, which probably explains why this issue goes unmentioned in the PJD’s programme. We note that scores pertaining to the need for improved subsidy policies are disappointing (an aggregate of one for all four parties). The question is whether this outcome is the genuine and complete view on subsidies (hinting at an element of fiscal populism), or strategic silence on an explosive social issue they wish to skirt as they approach their first turn at governance.

Fiscal policy calculations will have to take into consideration the dire need for minimum wage increases of a labour force with eroding purchasing power. The FJP committed to further remedying wage structure imbalances by raising the minimum wage level and possibly implementing a maximum wage ceiling. The implementation of such reforms will involve a tricky reshuffling act in national budgets that will certainly be met with resistance by established powers. Nevertheless, we expect the pressure from the street to drive Islamist parties to hike wages further.

Monetary Policy: Paving the Way for Uninterrupted Central Bank Independence

Islamist platforms across the board adhere to the principles of central bank independence that would steer the economies on a sustainable monetary policy path. No major implementation troubles should surface.

Inflationary pressures stemming from food and commodity imports continue to pose a threat to MENA economies, and the need for independent central banks to improve performance is more present than ever. Our findings suggest that Islamist parties clearly support this trend. The Central Bank of Egypt was left to defend the currency by using its foreign reserves, hiking rates when needed, and cutting the required reserve ratio to ease the liquidity squeeze in the market. Still, some controversy emerged following the ratification of the Tunisian government’s programme for the 2012-2013 fiscal year, around clauses on the adoption of expansionary monetary policy and low interest rates, as well as measures pertaining to the purview of the central bank.

Islamist parties across the board are expected to respect central bank independence. While we anticipate they will initially take a more proactive role, at times questioning the nature of the relationship between the central bank and the government relationship, we do not foresee major interference that would jeopardize central banking operations.

Trade Policy: Slow Liberalization, but Further Protectionism not on the Cards

Further trade liberalization is likely to be pursued, and the challenge will lie in the parties’ abilities to eliminate economically unviable restrictions currently in place.

The FJP in Egypt and PJD in Morocco clearly place trade liberalization at the top of their economic agendas, highlighting the opportunities inherent to regional integration, particularly in the Maghreb. Yet trade restrictions still exist, prompting investors to fear arbitrary barriers that might impact prices, restrict access to promising neighbouring markets and fuel political instability. Tensions between Egyptian and Israeli companies over a natural gas agreement are an example, in addition to the hampered trade at the closed Moroccan-Algerian border. While we do not expect any further protectionist measures from any of the newcomers, we maintain a reserved outlook on the speed and scope of trade liberalization, especially in the short term. Infant sectors, not efficient or competitive enough to survive in free trade markets, could curb the process. Still, we see a gradual opening of trade and geographic borders.

Islamist-leaning parliaments in MENA also advocated the serious implementation of anti-trust laws aimed at fighting monopolistic practices. The PJD in Morocco made this issue a central part of its programme while running for office, while the FJP in Egypt also places the issue very high on its economic agenda, as monopolistic practices benefited a number of the previous regime’s close associates. Despite the extensive networks that have been entrenched throughout corporations by previous governments, given the current sentiment and pressures from the street, we expect litigation and legislation to be successful in reducing monopolistic tendencies. This is highlighted by the aggregate score of four for the “monopolistic practices” parameter. Cronyism is an issue that Islamist parties in the Arab world regard as severely problematic.

The implications of trade liberalization on youth unemployment are broadly positive, as more fairly regulated business environments are conducive to investment and opportunity growth. In addition, we expect regional integration to facilitate labour mobility – reallocating human capital more efficiently, and ultimately relieving the unemployment burden in some countries (Gulf Cooperation Council countries are “integrated”, but still have labour market restrictions).


Islamist parties broadly advocate financial development via promoting Islamic finance and investment policies that will lead to further job creation. The diversity of measures should ensure the general acceptance and success of these initiatives.

While relations between government regulatory bodies and capital market authorities vary greatly across MENA, the majority of mainstream Islamist political entities believe in the importance of capital market authorities. This is illustrated by our results: the “investment and financial markets” category obtains the highest average score, highlighting the importance placed on the financial markets as a means of economic recovery. Ennahdha’s participation in the political dialogue programme initiated by the Tunis Stock Exchange (TSE) for instance, is both encouraging and necessary. Approximately 90% of private sector financing is supported by the banking sector in Tunisia; the balance will have to be shifted towards capital markets as a viable financing source to boost access to finance. This is particularly important for the

17 See Arabia Monitor, MENA Outlook Q2 2012.
development of small and medium enterprises – the backbone of the Egyptian, Tunisian and Moroccan economies.

The countries we study have relatively well-functioning markets, but more must be done to bolster the viability of equity and bond markets and to prompt entrepreneurs and established corporations to seek investors as a means to expand their businesses. The heavy retail bias these markets suffer has been a source of volatility, especially due to political shocks, which means that acceptance will be gradual, but with proper awareness, we expect a shift towards capital market financing. Reducing foreign ownership constraints and reforming the legal and regulatory environment to attract more foreign capital are other measures raised by Islamist parties that could be within reach in the short to medium term. A positive internal business environment will balance out some of the investors’ political risk concerns and will pave the way to further employment opportunities. Radical, fringe parties such as Alhurriyah wal Adala in Egypt, advocate the replacement of conventional banking by Shariah-compliant institutions only. Mainstream Islamist parties, on the other hand, have been promoting the rise of Islamic finance as an additional tool of financial intermediation complementing the existing banking sector. We note that the “promotion of socially responsible investment” parameter obtains the maximum number of points (eight in total), as it figures high on the priority list of all parties in our sample. In our view, the desire to grow Islamic finance, as long as it is a complement to conventional finance, is a welcome development, not least given the growth of this sector internationally over the past decade, including in non-Islamic markets. Egypt could well spearhead growth in this industry and become a regional hub for Islamic financial products.

What They Do

Turkey: An Optimistic Control Case, but No Panacea

The rise of an inexperienced Islamist party following a financial crisis opened up a new page for the Turkish economy, as business-friendly initiatives restructured the economy and spurred its growth. Similarities abound with the “Arab Spring” economies. Turkey’s financial crisis in 2001 shed light on the weaknesses underlying the coalition government operating at the time. The relatively inexperienced Justice and Development Party (AKP) rose to power in 2002, campaigning for a pro-reform economic agenda designed to pull the country out of its dire state.

Designed by the IMF and AKP officials, the programme implemented by the AKP was centred on debt management, inflation targeting, central bank independence, flexible exchange, and fiscal discipline, including wage cuts. The austerity measures implemented were unpopular among the public. Still, the AKP abided by this tough cure with the aim of acceding to the EU, paving the way for policies which were both market- and business-friendly. The result saw FDI skyrocket in Turkey to a peak of US$ 19.9 million in 2007 from levels of US$ 0.9 million in 2002. GDP over that same period also recorded an average yearly growth of 6.8%.

However, this programme missed reforms on the micro-level, which the AKP promised to deliver upon re-election. During their second term in office, post-2007, the AKP placed more focus on education and labour market reform, in addition to improving the country’s business environment. The AKP’s successful first term drove them to promote a bolder vision that Istanbul would be transformed into a regional and global financial centre. These initiatives have yielded mixed results and most have yet to materialize, especially following the shock of the global financial crisis. Still, the overall experience of Turkey with an Islamist party at the helm has been a market-friendly miracle for the country’s economy.

The AKP first term in office, at the time of the implementation of an International Monetary Fund (IMF) programme, and the rise of Egypt’s Muslim Brotherhood with an IMF programme in the making, draws striking similarities. The necessity of such a programme after Turkey’s 2001 financial crisis dictated the need for a ruling party that was pro-reform, akin to the current condition in Egypt. The membership of a significant number of successful capitalists in Egypt’s FJP implies a market-friendly approach to the operations of this party, and attracting foreign capital will be very much on the table. Morocco’s calls to become a regional hub also echo those made by the AKP previously, and given the country’s dynamic population, we expect a pro-reform government to further this goal.

Looking Ahead

This study suggests that on balance, the pronouncements of mainstream Islamist parties across the region are market-friendly, and, at times, more market friendly than the regimes ex ante, for example on topics such as exchange rate liberalization. While those that accede to government will face challenges in implementing their respective economic policies, some of the shortcomings will be due to structural impediments, rather than to any particular religious leaning or interpretation thereof. Indeed, we believe the new Islamists will face the very same structural impediments that precluded reform before they arrived, including with the assistance of the multilateral community. IMF programmes are not new to Egypt, nor to Tunisia.

The case of the AKP in Turkey makes for an optimistic reading, despite differing dynamics. We do note that Turkey’s reform “anchor” for many years was the prospect of accession to the European Union. While no similar anchor exists in the Arab world today, we believe that the “Arab Spring” has provided the region with an arguably more compelling “home-made” anchor, capable of taking to the streets again and renewing momentum for change. As such, the political and economic pressures to reform (along with the power of new social media) now provide the Arab countries with an anchor no less binding, nor less compelling than EU accession did for Turkey.

Nor do we believe that the Turkish model is a panacea with a perfect linear path. Indeed, that model will most likely have to continue to evolve as the AKP acquires longevity in government to avoid creating pockets of influence that remind voters of the status quo ante.

We cannot see further into the future for the new Islamists, but we maintain that they are likely to seek to provide an environment conducive to inclusive, job-creating growth that is investor-friendly, not without some learning on the job as the AKP did.
Figure 2: Labour Market and Social Policy Ranking

- Wide tax base and efficient tax authority
- Sustainable and efficient subsidy programs
- Control on fiscal consolidation/fiscal soundness
- Efficient/optimal size of the public sector

Figure 3: Fiscal Policy Rankings

- Advocacy of anti-trust laws
- Absence of monopolistic practices
- Low corruption levels, in both public and private transactions
- Absence of international trade restrictions (particularly on political grounds)

Figure 4: Monetary Policy Rankings

- Efficient public administration
- Competitive job market, efficiently absorbing the country’s young graduates
- Integration of parallel economy
Figure 5: Trade Policy Rankings

- Efficiently managed inflationary pressures
- Guaranteed and enforced Central Bank independence
- Allow for full exchange rate fluctuation

Figure 6: Investment and Financial Market Policy Rankings

- Promotion of socially responsible investment (e.g., Islamic finance, micro-finance)
- Sensible foreign ownership restrictions on local markets
- Cooperation with local capital market authorities
- Advantageous incentives for foreign investment
Youth unemployment in the MENA region has become a pressing issue for governments. The social aspect of the Arab Spring protests is just the most recent manner in which the unemployment problem has grabbed governments’ attention.

The unemployment problem has deep-rooted causes. One is that many students enter the labour market ill suited for the jobs that are available because their schools have not provided them with the necessary skills. Many young Arabs today value the importance of education as a stairway to self-improvement and economic independence. However, they do not believe that their education system is helping them achieve their goals. In a recent Booz & Company survey of Arabs between the ages of 15 and 24, 45% stated that getting a good education is their first priority. At the same time, only 19% of respondents said that their country’s education system helped prepare them (or is preparing them) to find a job.18

Another reason is that tertiary (college-level) education offerings are limited and often of low quality, due partly to insufficient funding. Similarly, education systems tend to suffer from ineffective governance. Schools, colleges and universities often fail to deliver on the demands of the private sector and government enterprises. Indeed, many MENA workers find it hard to compete in their own national job markets. Although there have been marked improvements in recent years in the employment of nationals in selected industries, MENA employers still turn to expatriates to meet their needs for many high-skill jobs. As a result of these shortcomings, MENA countries are at a competitive disadvantage on the world stage.

The State of Education and Unemployment

Unemployment is perhaps the greatest challenge facing the MENA region in the 21st century. The UN Development Programme and the League of Arab States estimate that Arab countries must create 50 million jobs by 2020 just to accommodate the growing workforce – a monumental challenge, given current economic trends. Other estimates are even higher. In terms of unemployment, the region’s youth have been most dramatically affected. According to International Labour Organization reports, the MENA youth unemployment rate is 25%, around double the global average. High youth unemployment has contributed to the Arab Spring and will loom large in the region’s social and political landscape if it is not adequately addressed. Large-scale unemployment also has broader negative economic effects.

MENA countries have sought to tackle this issue during the last decade by allocating a substantial share of domestic investment to education. These efforts have yielded considerable gains in some important areas. Governments have succeeded in narrowing the gap in education outcomes between boys and girls. They have increased enrolment rates, reduced illiteracy and kept young people in school longer.

Key Points

- Higher education in the MENA region is not a panacea for joblessness. There is mounting evidence that those with tertiary degrees face employment challenges similar to those with lower education attainment.
- MENA education institutions are not teaching students the skills that the labour market demands. Reasons for the gap between what education provides and what the market wants include limited collaboration between industries and education and training institutions, along with poor capacity planning for vocational and professional training.
- For-profit education institutions and other private-sector companies can have a major impact in reducing the gap between skills and labour market needs. Businesses can provide physical infrastructure, advice on academic curricula and financial support for students through scholarships and student loans. They can also participate in the governance of education institutions.
- Businesses are in a unique position to identify jobs needed and design/deliver tailored education and training programs around those jobs. These types of initiatives can provide short- and medium-term solutions that cannot be delivered through longer-term education reforms.
- Governments must create the proper incentives for businesses to be active participants in the design and delivery of education and training programs, in the form of either inducements or mandates. Rather than commanding, however, the government should take the role of a convener, bringing together stakeholders to cooperate.
- Not-for-profit organizations such as civil society organizations (CSOs) can play a major role in advancing government and private-sector goals by providing training and education services and by closing the demand/supply skills gap in the labour markets.

Perspectives on Youth Employment in the Arab World in 2012

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This impressive progress notwithstanding, education in MENA countries continues to lag behind that in advanced economies, in some cases to a significant degree. A number of studies have called into question the quality of the education provided to students in Arab countries. These studies have highlighted the rigidity of the education system, which often focuses on rote memorization at the expense of honing students’ critical thinking and problem-solving abilities. Studies have also underscored the gaps in soft skills such as communication and organization, abilities demanded by the job market. As a result, investments in education undertaken in the MENA region have had a disappointing return in terms of faster economic growth, especially when compared to regions such as East Asia. It is no surprise that youth are the hardest-hit age group, especially those with the least education.

Youth are well aware of the extent of the problem. Booz & Company’s survey results of Gulf Cooperation Council (GCC) youth show that only 22% strongly believe that their country’s education system has prepared or is preparing them to succeed in their chosen career. Such findings suggest that young people perceive a mismatch between what the education system is providing and what the workplace is requiring. A recent development that is more surprising – and troubling – is that higher education is not a solution for joblessness. In Saudi Arabia, for example, the share of the unemployed who had a tertiary degree actually increased from 19% in 2001 to 43.6% in 2009, according to the World Bank. At the same time, the number of graduates from tertiary education was increasing steadily. Furthermore, Saudi Arabia’s overall rate of employment as a percentage of the population remained almost unchanged. These trends have been mirrored in other MENA countries; higher numbers of residents with tertiary education have not translated into increased employment rates (see Exhibit 1).

There are five primary reasons for these education-related shortcomings in the MENA region:

- **Skills mismatch:** Education institutions are not teaching students the skills that the labour market needs. The main reasons are limited collaboration between academia and industry, which affects those leaving tertiary education; poor capacity planning for vocational and professional training, which affects the least educated; and a lack of internship opportunities, mentoring programs, career guidance and job placement services.

- **Limited tertiary education offerings:** In many countries, tertiary education capacity has not increased at the pace of demographic growth because of limited public funding.

- **Tertiary education quality:** Tertiary education offerings often suffer from quality issues stemming from overcrowding, inadequate teacher training, limited research infrastructure, weak cooperation with industry and poor preparation for the demands of tertiary education among K-12 graduates.

- **Low female workforce participation:** Although women are earning tertiary degrees at a higher rate than before, they are either not registering for work or not finding gainful employment due to cultural and social factors.

- **Ineffective governance:** Policies, strategies and operating plans are not well aligned. As a result, official education plans are only partially implemented. Governments tend to be overinvolved in operational matters, while different government, education and other stakeholder groups often do not coordinate well. Insufficient attention is given to accountability. Education systems operate inefficiently. This lowers education quality, particularly in the tertiary education sector.

MENA governments need to find new ways to assist the least and best educated among their youth, because both sets are facing significant employment challenges. This will mean encouraging further youth skills development through vocational or higher education. It will also require improving the quality of tertiary education offerings and strengthening regulatory oversight. The question is how resources and capabilities can be marshalled so that the improved education system builds its graduates’ employment prospects.

We know from Booz and Company’s global experience supporting education development that governments will need to collaborate with enterprises, whether those in the private sector or state-owned firms. In this collaborative approach, the government behaves as a leader and convener of stakeholders rather than acting as a central authority issuing directives.

### The Private Sector to the Rescue

The private sector can use its planning, governance and service delivery capabilities to help address the youth unemployment problem. For-profit education organizations and other companies can provide education institutions with physical infrastructure, such as information and communications technologies (ICTs) equipment. They can reinvigorate curricula by providing...
guidance on academic content. In addition, they can financially support students through scholarships and student loans. Private companies can also assist by improving the governance of education institutions. For example, private entities can contribute to public institutions’ research and advisory boards. They can provide inspection, accreditation and auditing services. They can also help manage academic coordination and exchange programs, both domestically and overseas. Equally, they can lend their professional counsel to formulate financial, human resource and performance management policies.

The private sector has an important role to play in introducing and developing internship and apprenticeship programs within schools. These build students’ character and their love for work. They equip the future workforce with real-world skills while inculcating a new work ethic and culture. As our survey revealed, almost half the respondents (49%) listed lack of previous work experience as a top challenge in job hunting. This deficit could be fixed if young people had opportunities to get job training through internships and part-time work.

In some cases, private companies have met labour market needs by creating their own education institutions and programs. Infosys Technologies Ltd. in India has helped reshape education through its corporate technical university. The company’s Mysore campus houses software development facilities capable of training thousands of professionals. In addition, Infosys maintains a leadership institute, a global education centre, and internal research and internship programs to train its newer employees and to engage the company’s top management in developing its next generation of leaders.21

In a similar manner, not-for-profit organizations such as CSOs have proven valuable in developing and strengthening the link between education and labour market needs. For example, the Education for Employment (EFE) Foundation operates a network of locally run not-for-profits that help youth build skills and help place them in jobs. In Jordan, EFE’s affiliate has trained more than 1,280 young people, many of whom have not even completed secondary education, and has placed more than two-thirds in jobs. Jordan also provides an example of collaboration involving the government, not-for-profits and the global private sector. The government and the World Economic Forum joined forces in the Jordan Education Initiative (JEI) to reform education and help youth gain job skills. Among the global private sector partners in this scheme are Microsoft, Intel, and Cisco Systems. JEI has launched 100 “Discovery Schools”, which are ICT enabled. Children at the Discovery Schools earn better test scores than those not attending these schools, an important short-term gain. JEI also has a lifelong learning initiative and contributes to local ICT industry development. What JEI illustrates is the long-term nature of the education reform commitment; the scheme began in 2003.

In the MENA region, some businesses have developed plans that define their needs and the extent of their participation in joint planning processes with public-sector education leaders. In Morocco, semiconductor manufacturer STMicroelectronics NV is partnering with the Mohammadia School of Engineers to establish a new design centre in Rabat that will provide the engineering students with work experience. STMicroelectronics also advises postgraduate students on research topics and helps them identify career opportunities within the firm and with other private companies.

A good MENA example of a private company/government initiative is provided by the Tamer Group and the Human Resources Development Fund (HDF) of Saudi Arabia’s Ministry of Labour. The firm urgently needed workers with expertise in logistics and operations. Tamer Group could not find Saudi nationals with the correct skills, and there was nowhere for aspiring workers to receive this education. The company therefore created a training institute in partnership with the HDF. Tamer Group designed the three-month curriculum to teach logistics and operations skills, and to provide some English language education. The company supplies the training facility. The HDF picks up about three-quarters of the cost, and Tamer Group pays the remainder. The company generally offers jobs to the top 20% of trainees. The next 30% receive certificates that they can use when approaching other firms (the remainder fail or drop out). Tamer Group finds skilled workers and reduces its recruitment costs. The company also helps align Saudi nationals’ skills with job market needs, thereby enriching the economic environment in which it operates.

The Role of Governments

MENA governments have a common need to develop an effective human capital strategy that equips young people to enter the labour market and simultaneously prepares the labour market to absorb them. This need is shared across the region, despite its considerable social and economic disparities. However, governments must do more than simply adopt the necessary social and economic policies. They need to take an active role in convening stakeholders, catalysing initiatives and creating mechanisms that ensure the grooming of an appropriately skilled and educated workforce.

For example, imposing conditions on government grants to universities is a means of connecting education to the labour market. It also helps to improve the governance of education institutions. Grants should be conditional on developing programs that address the most immediate labour market priorities.

Governments can also work with private sector employers to ensure that required skills are taught. In Saudi Arabia, for example, the government established the HDF in the Ministry of Labour to introduce training programs for public-sector employees and the unemployed. The aim is to assist these workers and the unemployed in obtaining the skills needed to fill private-sector vacancies.23

Governments also need to construct incentives that get businesses to actively participate in the design and delivery of education programs. These incentives can be inducements—such as tax breaks, priority consideration in the procurement of government projects and services, or direct subsidies. Or they can be mandates; legislation can dictate businesses’ and state enterprises’ involvement in the education system.

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Finally, MENA governments can collaborate with not-for-profits to complement national or regional initiatives targeted at lowering unemployment. For example, the International Finance Corporation (IFC) and the Islamic Development Bank joined forces in March 2011 to launch the Education for Employment (e4e) initiative (which is unrelated to the EFE). This scheme addresses the mismatch between the needs of the labour markets and the current labour supply by engaging the private sector in vocational-technical education finance and provision.25

Not-for-profits can provide support for policy and legal reforms, technical assistance, and risk sharing, and can access financing through initiatives such as the Micro, Small and Medium Enterprises program. This mechanism is linked to the IFC’s global Small and Medium Enterprise financing and technical assistance framework.25

The Role of State-Owned Enterprises

One set of organizations has a distinct role to play: the state-owned enterprises (SOEs). These firms straddle the public and private sectors in many MENA countries; they are publicly owned, but they may operate with private-sector professionalism. SOEs are often among the largest employers in the country and have an important role in education, training, and commercial capacity within the local economy. This support extends to economic output, because SOEs are typically involved in the processing of goods for export. It also relates to inputs.

SOEs are closely involved in technology and knowledge transfer, creating employment opportunities for nationals, and increasing national ownership and control over the economy. As a result, SOEs directly and indirectly help spread skilled labour throughout the economy.

Some SOEs, however, are less capable of assisting with the education alignment problem. These SOEs have a legacy structure. They are overstaffed, and part of their workforce can be under-skilled. These characteristics exact a considerable toll on an SOE’s efficiency and its competitiveness in the global marketplace.

The ability of SOEs to build alliances with the education system and the government will depend to a considerable extent on whether they can outgrow this legacy structure and redistribute a higher-skilled workforce to other parts of the economy. Simply shedding excess staff will compound the unemployment problem. Instead, SOEs can train employees in a manner that aligns SOE skills-development programs with government diversification policies. SOEs can also provide the appropriate incentives to encourage worker participation. Another approach that SOEs should consider is spinning off operations into growing sectors of the economy. This would allow these newly independent firms and their employees to align themselves with labour market needs.

An Engaged SOE

A prime example of an engaged state-owned enterprise is Saudi Arabian Oil Company (Saudi Aramco), the region’s leading oil and gas company. The company’s strategic goal is to invest in Saudi nationals. Saudi Aramco spends around US$ 1 billion per annum on programs to recruit, train and retain workers. The company also awards numerous international scholarships each year to Saudi nationals through its College Preparatory Center.26

In addition, Saudi Aramco has partnerships with local universities such as the King Fahd University of Petroleum and Minerals. For example, Saudi Aramco was involved in King Fahd University’s creation of the Dhahran Techno-Valley in 2006. This technology cluster is part of the government’s effort to diversify the economy away from oil by improving the skills of nationals and commercializing their research. Saudi Aramco secured pledges from multinational corporations to establish research and development centres in the Dhahran Techno-Valley.

Like governments, SOEs need to develop a human capital strategy that is in line with their business objectives and with national economic policy. In addition, SOEs must play a greater role in the education system by partnering with educators and creating long-term education relationships at different levels. Such connections will enable SOEs to communicate their job market needs to the education establishment. SOEs and educators can form these partnerships through reshaping curricula and teaching methodologies to reflect current labour demand. Moreover, SOEs can build ties with pre-tertiary and tertiary education institutions to develop internship programs to further students’ development.

Promoting Skills and Development

An example of a company that aligns its skills programs with government diversification aims is the Saudi Basic Industries Corporation (SABIC). The company is one of the world’s largest chemical and petrochemical producers. At home, SABIC is using its market position to promote skills development. The company is training workers for its suppliers in partnership with official bodies, cooperating with the HDF and the Royal Commission for Jubail and Yanbu (RCJY).

The joint programme will provide job-related education to 5,000 young Saudi nationals (out of 50,000 applicants). RCJY provides the training. HDF pays the students during the first two years of the course. SABIC commits to locating jobs for the trainees with its suppliers. The company makes a contribution to the cost of the first year’s salary of all those whom its suppliers hire. SABIC thereby uses its position to oblige its suppliers to engage qualified trainees.

The Way Forward

Many countries in the MENA region, especially the high-income GCC countries, are investing considerable sums in education and are planning for economic diversification. Although these initiatives have resulted in some measurable gains, education reform requires a different set of capabilities from those needed for economic or social policy. Education reform for employment is an immediate demand that can be addressed with mechanisms that are at hand. At the same time, education reform is a long-term effort that demands sustained commitment. The experiences of successful education reformers such as Singapore and South Korea suggest that it may take several decades before the results of investments bear fruit.

The immediate approach should be to embark without delay upon targeted initiatives that are informed by evolving employer needs and that engage the relevant stakeholders. The range of stakeholders is broad and includes private employers, not-for-profits, education ministries, SOEs, and the ultimate stakeholder, the youth. As the ultimate beneficiaries of these schemes, young people must also be involved in this process. By taking this approach, stakeholders can also learn to collaborate and create successful mechanisms to align education systems with economic demands. The old command-and-control approach to education is obsolete. Successful reform requires that education alignment with labour market needs be achieved through collaboration and partnership.

These short-term initiatives are critically important. These programmes have to run parallel to long-term education reform efforts. Long-term changes, although laudable, necessarily provide little short-term relief; stress must now be placed on bold short-term measures because of the urgency of the unemployment problem and the lost opportunity that it represents. The MENA region has considerable potential thanks to its young and aspiring population. The key to unlocking this potential can be turned today through targeted education for employment initiatives delivered by coalitions of engaged stakeholders that include the young people of the region.

Biographies

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Dr Karim Sabbagh is a senior partner with Booz & Company and focuses on the communications, media, and technology industry. He also serves as chairman of the Ideation Center, Booz & Company’s think tank in the Middle East. He has more than 20 years of management consulting experience in deregulation strategies, privatization, strategy-based transformation, mergers and acquisitions, investment strategies, and operating and governance models.

He is a member of the board of directors for SES SA. He is a visiting professor in technology management and member of the Academic Council for the School of International Management at Ecoles des Ponts ParisTech (Grandes Ecoles) in France. In addition, Dr Sabbagh is a member of the World Economic Forum’s Regional Agenda Council on the Middle East and North Africa.

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Jussi Hiltunen is a Senior Associate with Booz & Company and a member of the firm’s public sector practice. He has over 10 years of consulting experience acquired through various engagements in the Middle East, Europe and Southeast Asia. He focuses on public policy and strategy as well as performance management. Hiltunen has worked extensively with the human capital and education sectors.

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A Paradigm Shift in Government – from Creating Jobs to Enabling Job Creation

Mina Al Oraibi, Assistant Editor-in-Chief, Asharq Al-Awsat Newspaper; Yasar Jarrar, Partner, Middle East Strategy Leader and Global Education Leader, PwC

Have we witnessed an Arab Spring, or were the events of the past two years a set of bread riots that were consequently glossed over by an overenthusiastic media? The answer lies somewhere along that spectrum, and differs from one person to another and from one country to the other.

Whatever the political outcomes of the historic events of 2011 will be, it must not be forgotten that these did not start as ideological revolutions, despite some emerging governments being ideologically inclined. These were also not revolutions orchestrated by charismatic leaders with a set agenda or a unified vision. These were uprisings against stolen futures – a loss of hope for a better tomorrow. Young and old people alike reached a tipping point; one that was built on broken government promises and on institutionalized and widespread corruption on various levels and across sectors.

In recent decades, rising living standards and literacy rates, as well as the increased availability of higher education, have resulted in an improved human development index in Arab countries. At the same time, technology and media were revolutionized, and the Arab citizen was empowered with information access – and the ability to transmit information, thanks to social media across and beyond borders. These trends were not coupled with sustainable economic development, nor political reform and inclusion. The result was a natural tension between rising aspirations, needs and knowledge, and a lack of economic opportunities and political participation.

For those of us from the Arab world who grew up living this tension, the main surprise was how long it took for the tipping point to be reached. It was never a matter of whether it would actually happen, rather of how and when the untenable status quo would give way. The same question still applies to some Arab countries where uprisings have not spread – unless radical and genuine reforms are delivered, fast.

We got our answer in 2011. It took the mix of a growing youth bulge, unprecedented levels of corruption and “elite” control of national wealth, a technology revolution that rendered parts of the state control vulnerable and not in control, and a global financial crisis. The combination of demographics, bad governance, development of ICTs and diversification of media, underpinned by overwhelmingly difficult living conditions and lack of public finances to prop up the fragile system, led to an unprecedented shake up, if not collapse, of the status quo.

This overwhelming mix of frustration and a sense of stolen futures was ignited by a spark from a vegetable seller in Tunisia who could not take one more blow from the state. The story of Mohammad Bouazizi has gained legendary status because it exemplified the state of mind – and heart – of so many across the Arab world.

The Beginning of a Decade of Changes

Now, and after the initial euphoria of people taking to the streets and perceiving an immediate impact, it is evident that what happened was only the beginning of a decade of changes that will sweep through the whole Arab world. The future is not clear, and no one can claim to predict where it is heading, but what is certain is that it will never look the same again, nor will fear alone be a tool to govern.

The generation demanding the change today is different from the generations that preceded them. One of these differences is that access to technology enabled them to compare themselves to others on a daily basis – their living standards, their future hopes and aspirations and their governments and governors. The comparison was not favourable for many. Today, young people’s expectations are high and will continue to increase, and it appears that they will not be told what to think, or who to thank.

In trying to understand the reasons behind these revolutions, many point to the issue of high unemployment as the key driver, identifying it as a primary indicator of the loss of hope and frustration driving young people to revolt. Yet this dynamic cannot be taken out of context.

All too often, the political challenges of the region are disassociated from the economic ones. While officials are comfortable discussing economic pitfalls, they veer away from the political reasons behind them (or at least compounding them). “One cannot be a reformist in his economics and reactionary in his politics.”

The reactions to the events of 2011 among Arab countries varied in speed and scale. Some rushed to increase, or even double, the wages of civil servants; others chose political gestures as far and wide as introducing major amendments to their constitutions. Yet the flurry of activity was often to placate in the short term, with longer-term demands, especially of the youth, either still being worked out or ignored altogether. So far, we saw a plethora of band aids, but the actual wounds are still open, painful and getting worse. What is more worrying is these band aids and knee-jerk social hand-outs are very expensive, often leading to either increasing state deficit or ever-rising break-even oil prices in oil producing countries. For those nations opting for more structured reforms, generous funding will be required to turn things around and re-start nation building on the inefficient “institutional rubble” that is today’s public sector.

So where would a nation start? In addition to ineffective and overinflated government institutions, there is no shortage of challenges impairing Arab economies, such as ineffective subsidies, the overuse of regulations, a mismatch between education and the workplace, youth unemployment, weak entrepreneurial base, mushrooming deficits and a deficit of meritocracy. And yet these are not unknown ailments and have been discussed in the past many times over.

A key manifestation of the above challenges is the current state of youth exclusion in the region. Youth unemployment in the Middle
East is the highest in the world – estimated to be at 30%. These developmental challenges are a failure of public policy thinking and execution (i.e. a failure of both governance structures and government performance). They do not arise from a lack of information about what needs to be done. The core policy solutions to youth unemployment have been long known and widely discussed for some time now. They focus on a comprehensive group of policy reforms including: reforming education to promote opportunities and incentives to develop a range of market-applicable and adaptive skills; ending the ineffective reliance on inflated public-sector employment by rationalizing government hiring; reforming wage and non-wage practices and policies; improving labour market regulations by introducing more flexibility into hiring and firing decisions; easing business start-up regulations; improving access to credit; and introducing effective social protection schemes, such as like unemployment insurance.

Yet the will and ability to actually tackle the issues at stake remained missing. Officials in the region knew about the challenges, discussed them in hundreds of conferences and openly talked about the 100 million jobs needed by 2020. Across the whole of the Arab world, there were plenty of words but few deeds.

“We Need an Economic Revolution”

Today we face a crisis of leadership. Can we expect policies for a better future to be designed and delivered by the same government institutions that have been neglected for decades and are quite often inefficient and ineffective? Can we expect the current civil service, which has been mostly a social employer in many cases in the Arab world, to suddenly handle complex public policy needs effectively and create public value? More importantly, can we expect the top-down approach to be the way forward in tackling these challenges? Many still believe that “government knows best”, and both leaders and the populace can fall into the trap of seeing it as the only feasible plan.

The inconvenient truth is that it will take a decade, if not decades, to rebuild these state institutions, to develop the civil service capabilities and to regain public trust. The road ahead is long and hard. There are no silver bullets, and whatever frustrations the youth had which led to the uprising will only grow over the coming years when they see that, despite some political reforms, what we really need is an economic revolution.

Unemployed people voting in open elections will not be the route to a better tomorrow, despite the expected, and welcome, cheers from democracy enthusiasts – it is simply not enough. In Tunisia, almost a year and a half after the ousting of Zain Elbadein Ben Ali, the revolution has so far brought little tangible improvement in living standards. Chronic unemployment has risen since the revolution, standing a year later at 19%, and the country recently saw various crowds of young men attacking government buildings to protest what they said was a slow response by the authorities to their immediate needs. In attempting to deal with the crisis, the government has pledged 25,000 civil service jobs this year. This is not the solution; it is simply a repeat of past mistakes.

We need an economic revolution that is beyond rhetoric, ideologies and blaming others for our past failures. This is needed at a time when even the most advanced economies are struggling to create jobs for their own people. According to the International Labour Organization, 12.7% of youth around the world were unemployed in 2011. In the United Kingdom, unemployment among those under 25 years of age reached 20.3% last year, while Brazil has similar levels.

This economic revolution needs to be underlined by a shift in mindsets towards real innovations in governance and economic growth. Governments cannot go on running “business as usual”, subsidising welfare, controlling the media and simply creating more civil service jobs. International organizations coming to the region with “one-size-fits-all” models will not be successful either. Solutions need to be unique and tailored to each country. Many will not forget how in 2007-2008 the World Bank praised Tunisia as an exemplar Arab country in economic reform and the Egyptian government as “top global reformer” in its Doing Business report of 2010.

A Paradigm Shift in Thinking

What is needed now is a paradigm shift in thinking about job creation. Governments should stop speaking of their plans for job creation and should start implementing policies for enabling job creation. This is not a simple academic argument or a semantic one. Governments and citizens have to accept that governments cannot do it by themselves anymore. What governments should do is to develop policies that create the enabling environment for the private sector and civil society to ensure that jobs are created and transparent decisions are taken and upheld.

The solution rests in the ability to balance government measures and to unleash enablers in society – and particularly the private sector – to catalyse the dynamism and innovation of the youth. Public value will have to be created via a deliberate and well-structured collaboration among the public sector, private sector and civil society. While this is a major paradigm shift in the Arab world, it is by no means a novel idea. The world over, governments are reinventing themselves along those lines, including the current UK’s Big Society, and the Open Government initiative being adopted by various countries around the world. Everyone is searching for the “new normal” in governance.

31 “We Need an Economic Revolution”

32 A Paradigm Shift in Thinking

33 Figure popularized by the World Bank 2003 report.


35 “Doing well on parole”, The Economist, 7 April 2012.

36 Unemployed people voting in open elections will not be the route to a better tomorrow, despite the expected, and welcome, cheers from democracy enthusiasts – it is simply not enough. In Tunisia, almost a year and a half after the ousting of Zain Elbadein Ben Ali, the revolution has so far brought little tangible improvement in living standards. Chronic unemployment has risen since the revolution, standing a year later at 19%, and the country recently saw various crowds of young men attacking government buildings to protest what they said was a slow response by the authorities to their immediate needs. In attempting to deal with the crisis, the government has pledged 25,000 civil service jobs this year. This is not the solution; it is simply a repeat of past mistakes.

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Governments in the Arab world should focus less on expanding the civil service and creating public-sector jobs and more on providing the space for others to participate in job creation; they should expedite freeing up their markets and improving competition. This clearly implies breaking up decades of monopoly and elite control of the economic sectors. This will not be easy and will generate resistance from powerful, vested-interest stakeholders. Steps should be taken to reduce red tape and simplify the process for starting a business and to eliminate the institutionalized corruption that is embedded in the process.

Dubai provides a clear example from within the region – setting up a business there is at times easier than it is in the United States. And while some point to the fiscal troubles of Dubai as an excuse to write off some of its achievements, it would be short-sighted to dismiss the lessons learned in Dubai and the success made possible there by limiting bureaucracy and government modernization. Dubai remains the number one destination Arab youth site as their first choice to live and work.

In parallel, governments also need to remove limitations on freedom of expression, which in large part has begun with the rise of the internet and social media, and yet they must accept the change and adapt to it, not continue to fight and censor it – that is an expensive and losing battle. Most importantly, governments need to “walk the talk” when it comes to fighting corruption. The easiest way to demonstrate how sincere these attempts are is to adopt policies regarding open government data, and share transparent information on performance and public finances. Open government data enables the citizens and media to scrutinize and weed out improper financial and regulatory behaviour; it empowers business with hard-to-find data for growth and development; and enables new start-ups and simplify the process for starting a business and to eliminate the institutionalized corruption that is embedded in the process.

Countries in the region should also start thinking outside their own geographic boxes. There is a compelling imperative to seriously start looking at some form of genuine economic collaboration. Many of the region’s countries are too small (by economic size, population, geography, global political weight, or all these combined) to tackle the complex policy issues facing them. This holds true for transnational issues such as water security and food security, as well as more local issues of job creation. What happens in Yemen is a core concern for Jordan’s future, and Dubai’s trade is dependent on a healthy and stable Iraq.

Another major shift is needed in how governments perceive and treat civil society organizations. Civil society must be allowed and encouraged to develop and flourish. No society can simply be split between governments and business – there is a need for the essential third sphere of civil society organizations to foster development. In many countries, NGOs have been the first responders to crises, and a major driver in youth education and employment. Governments in the Arab world should curb their regulations of civil societies and NGOs and embrace them as major players in creating jobs and public value. This is an area that has major potential, especially in a region where the Islamic tradition of Waqf is well developed. Foundations can flourish, and philanthropy can be a major development driver, especially on social and economic local issues. It is such organizations that have been hailed the “great American secret” behind powerful development in the United States’ education and knowledge society.

Towards Opportunity Creation

All of these elements could combine to create a dynamic of change and an environment conducive to job creation – or, more importantly, opportunity creation. However, the crucial factor is the change in mindsets to allow the success of any or all of the above policy suggestions to unleash the talent of young entrepreneurs, business entrepreneurs and social entrepreneurs, and to generate entrepreneurship in the public sector and innovations in creating public value.

James Caan, the leading British-Pakistani serial entrepreneur and media leader has noted, “being an entrepreneur means striving to control your destiny”. It is the battle over this control – from the family structure to the political systems in place – that inevitably will determine the talent that is born and fostered in the region.

When we speak of talent and opportunity, this cannot simply mean the ability to rise in certain spheres and not in others – that a company can succeed, as long as it does not impose on the business interests of the ruling elite, or a young man or woman can dream of rising to the top ranks of a multinational organization but never the top ranks of government. Yes, the silver bullet is meritocracy.

These reforms will mean the curtailing of powers and privileges of the very people who need to lead and implement the changes. This is the region’s development paradox: reforms have to be undertaken by the same people who stand to lose, in the short term, from their implementation. However, everyone realizes that this is not merely a moral imperative, but a realistic one for survival.

35 Several Arab countries continue to strengthen government entities that look after “press and publications”, spending precious resources to censor the written word (books, newspapers, magazine, etc.). One can download the same publications on hundreds of sites, or purchase them online (directly of via shop-the-world businesses). Others have announced plans recently to issue laws to regulate social networking sites.

36 Access to data has been often cited as one of the top five challenges to doing business in the Arab world.

37 See the Cycle Hire App developed by Little Lotty Toys in the United Kingdom.

38 So far, most efforts have not produced positive impact and have fallen short of objective and aspirations. Even with the Gulf Cooperation Council (GCC), there is much work to be done to reap the benefits of true economic collaboration. See “Integrating, Not Integrated: A Scorecard of GCC Economic Integration”, Booz & Co.

39 Examples are numerous including the infamous Katrina Hurricane disaster in the United States (NGOs vs. the Federal Emergency Management Agency response) and Haiti.

40 Examples are numerous in this space. Some well-known examples include the Bill & Melinda Gates Foundation (www.gatesfoundation.org) and Mission Australia (www.missionaustralia.com.au).

The imperative for technical and vocational education is clearer today than it has ever been. Both developed and developing economies need a trained labour force that includes those equipped with training outside of university halls. Iraq is no exception, especially with the demands of a national economy growing at 12.6% in 2012, as estimated by the World Bank. While university and higher education remains an important component of providing a skilled labour force, the role of the General Directorate of Vocational Education at the Ministry of Education is to improve technical and vocational training in a country that has a history of budding industries and enterprise and has the potential to be an engine for growth across the whole Middle East and North Africa region. Moreover, like other countries in the region, Iraq has to face the challenge of unemployment, with national unemployment at 11.7%, which is higher among young adults (20- to 24-year-olds) – at 16.9% for men and 35.7% for women. Vocational training is key to tackling this challenge and providing solutions for a growing market, which is under-served by the domestic workforce.

**Background**

In Iraq, the main educational systems at the secondary stage consist of three vocational schools in addition to the academic school. There are: agricultural, commercial, and industrial. As in most developing countries, the core objectives in founding such schools are: to create manpower for better socio-economic growth, to reduce the obstacles to hiring school graduates of lower levels and to provide employable workers with intermediate skills.

The Technical Vocational Education Training (TVET) sector in Iraq suffers from low enrolment and increased dropout rates. This is due to outdated teaching and training programmes that do not reflect modern technological needs required by the labour market, and a limited awareness of the importance of the TVET sector in economic development and poverty reduction.

The General Directorate of Vocational Education (GDVE) is responsible for 250 vocational schools offering training and equipment to secondary schools (grade 12). These schools accommodate about 25,000 full-time students annually. Overall, more than 95% of all technical and vocational training in Iraq is provided by public schools. The Foundation of Technical Education (FTE) of the Ministry of Higher Education and Scientific Research (MOHESR) is in charge of technical education at higher levels.

The Directorate of Employment and Training (DET) of the Ministry of Labour and Social Affairs (MoLSA) has the political mandate to carry out the training and further education of unemployed youth and adults. It has access to a total of 16 Skill Centres for the purpose of training its target groups. These Skill Centres offer non-formal training beyond the formal educational system under the Ministry of Education. As such, the qualification needs of disadvantaged persons can be fulfilled very flexibly. Cooperation with the MoLSA guarantees the target groups appropriate access. The Employment division, which is affiliated with the MoLSA, has the exclusive task of finding employment for graduates.

**TVET Institutions in Iraq**

1. The General Directorate of Vocational Education (GDVE) of the Ministry of Education: The vocational education (secondary level) curriculum now covers all provinces of Iraq, with a total of 287 vocational schools as of 2011.
2. The Foundation of Technical Education (FTE) of the Ministry of Higher Education and Scientific Research: The FTE includes, as of 2011-2012, 27 technical institutes and 16 technical colleges spread throughout 15 provinces, in addition to one centre for developing cadres. This accounts for about 40% of the total admissions in higher education.
3. The Directorate of Employment and Training (DET) of the Ministry of Labour and Social Affairs: Operating through 29 specialized training centres associated with the work-production or service institutions, it provides vocational training according to needs. DET aims to teach specific skills and upgrade the performance of the trainees. In addition, there are specialized training centres belonging to some institutions (other than Ministry of Education sector) with the aim of developing individual talent needs.

**Challenges for the TVET Institutions**

While Iraq benefits from a solid foundation of support for vocational training, as provided by the bodies listed above, there are certain challenges facing Technical and Vocational Education and Training in Iraq that must be addressed to develop the sector. These challenges are as follows:

- The fragmentation and uncoordinated management and administration of each sub-system
- The absence of an institutional framework to organize, articulate, integrate, regulate and ensure the quality of training interventions and programmes
- Unnecessary duplication of efforts and ineffective use of scarce training resources
- A centralized decision-making structure in the Vocational Education System
- Generally weak management capability at the school level contributing to inefficient use of resources
- Lack of accurate data about the reality of the labour market in Iraq, as well as the current and future professional skill requirements (i.e., a lack of clear vision about the supply and demand of job skills)
- Weak channels of interaction and coordination with labour market institutions – both public and private – in the development of curricula and programmes, the provision of training requirements and direct outputs according to actual needs of the labour market
- Weakness in rehabilitation and training to organize joint programmes with the various economic sectors
- Students’ reluctance to join these programmes because of negative social attitudes and the dearth of opportunities for graduates to complete their higher study, coupled with uncertainty regarding future career prospects, which has led to an overall reduction in the number of students enrolled in technical and vocational education programmes
- Practical teaching and training costs, making technical/vocational education in Iraq more expensive than general academic programmes
Strategic Approach

TVET’s Mission

Development of conditions that contribute to raising educational levels, pursuant to standards that ensure quality; and establishment of an educational system that provides the foundation to enable an individual to be independent and develop the creative abilities necessary for independence, as well as to achieve sustainable development objectives and create a cooperative environment that strengthen the values of good citizenry.

Objectives

- Accept 15% of preparatory-level graduates to the vocational preparatory level by the target year
- Maintain the ratio of six students/teacher or trainer by the target year
- Maintain the student-to-teacher ratio of 14:1 by the target year
- Monitor the needs of the labour market to the output of the TVET programmes, in partnership with the labour market to achieve common goals
- Diversify sources of funding for TVET’s institutions
- Enact laws and issue a legal system for TVET institutions

UNESCO’s Role in Iraq

The TVET Programme, which is jointly implemented by UNESCO (the United Nations Education, Scientific and Cultural Organization), the International Labour Organization and UNHABITAT, was designed to support rehabilitating and modernizing the TVET sub-sector in Iraq by re-orienting and improving the TVET system to prepare young people effectively for wage earning and self-employment in the industrial, construction and service sectors of the economy. Major components of the programme, on which UNESCO is currently working, include the following:

- Designing a TVET policy document aimed at guiding the TVET sector reform and streamlining the TVET sub-sector in light of the labour market requirements
- Developing and adopting organizational reform plans for individual TVET schools, institutes, colleges and training centres to facilitate the implementation of the changes in the TVET system
- Developing a TVET programme review and renewal plan
- Implementing a short-cycle, modular training “Skills for Work” programme, consisting of modular training in selected vocational skills that are in high demand in the labour market, to achieve quick impact in terms of youth employment and self-employment
- Establishing contract training centres (CTCs) in three pilot governorates as pilot Business Units within the Foundation of Technical Education (FTE) to capture industries’ needs
- Introducing an apprenticeship-based vocational system for six selected disciplines at six pilot schools to demonstrate best-practice based approaches
- Upgrading the quality and relevance of vocational programmes in pilot MOE schools, FTE/ MOHESR MOHESR colleges and MoLSA centres
- Improving TVET equipment and ICT infrastructure through procurement of workshop equipment and computer labs
- Upgrading equipment in all three ministries according to stakeholders’ needs

Planning Phase

Policy-making

- Institutional context: amending laws and regulations of TVET institutions, enacting legislation to regulate the relationship with stakeholders and ensuring multiple sources of funding.
- Enrolment opportunities: increasing the proportion of females in TVET, and increasing the contribution of the private sector and stakeholders in TVET.
- Comprehensive quality management: This is performed at two levels – QMS of TVET institutions (vocational schools and technical institutes), and TVET quality management framework (QMF). The QMS focuses on continuous improvements of the quality of TVET delivery. QMF, on the other hand, functions as a supportive framework for securing and improving quality in TVET continuously.
- Setting future plans: mutual understanding on enhancing quality and expected outputs.
- Securing financing resources via investments, daily operations and funding diversification.

Governance Systems

- Legal framework: setting regulations and procedures for implementation
- Strategies: setting techniques for organizations and steering bodies
- Values and ethic.
- Processes for communication and cooperation
- Creating a stimulating environment to acquire quality programmes to meet labour market needs.
- Conducting training programmes with updated curricula and market expectations
- Openness to other international institutions with portfolios similar to TVET, to cooperate in programmes and exchange expertise
- Involvement of women as a priority for TVET goals, especially in Iraq where women are major financial supporters of families

Supreme Coordination Committee

The Supreme Coordination Committee (SCC) was established in 2010 to be attached to the Advisory Board of the Prime Minister’s Office of Iraq. SCC is in charge of coordinating between governmental institutions and the private sector. SCC also includes representatives from labour, the Iraqi Chamber of Commerce and the Iraqi Industries Union, in addition to the TVET institutions’ directors. Some of SCC’s achievements include:

- Founding a central group to coordinate cooperation between TVET and the private sector to develop training curricula, implement quality standards, create a database and conduct surveys on actual needs of the labour market
- Providing training for TVET students in private sector workshops during the summer holiday
- Having an agreement with GIZ Germany whereby the SCC acts as the focal point in Iraq and oversees activities of the project
- Directing the focus of some of TVET programmes towards small businesses as well as rehabilitation programmes for the community
- Forming working groups and teams to monitor progress and do the follow-up tasks
Implementation Process

Implementation concentrates on the adoption of mechanisms and training programmes to establish small-scale business (entrepreneurship) in the disciplines and professions required in the labour market in Iraq. Following is a brief overview of the experience of TVET institutions and the Iraqi Industries Union in this area.

Foundation of Technical Education (FTE)/ Ministry of Higher Education and Scientific Research

The FTE conducted an integrated work programme including training courses for the unemployed and released prisoners to equip them with professional skills needed in the labour market. This programme helps in the establishment of private projects to contribute to the reduction of the unemployment problem and to achieve security and social stability. The FTE grants the participants in the training workshops promotional incentives in the form of allowances during the session in addition to the tools, equipment and other supplies necessary to practice the profession for free.

The programme commenced in 2008-2009 during which 173 workshops were organized, and were attended by 3,777 participants. In addition, 170 workshops were provided in 2009-2010 involving 3,109 participants. The variety of disciplines and professions covered in the courses included electricity, welding, air-conditioning and refrigeration, computers, first aid, sewing, management and agriculture. The workshops were implemented by 23 technical institutes and 12 technical colleges located in various provinces across Iraq.

Directorate of Employment and Training/ Ministry of Labour and Social Affairs

In addition to the regular professional training courses organized by the Directorate of Employment and Training (DET) in various professions and disciplines required by the labour market, it has recently launched a training programme called Know About Business (KAB). KAB aims to establish small private businesses, individually or jointly, based on the growing needs in the labour market.

DET provides incentives to assist participants by giving participants per diem allowances and loans during and after completing the workshops to assist them in creating their own projects. To help the technical education graduates to establish private businesses, a mechanism of cooperation was agreed on between FTE, DET, and the Ministry of Labour and Social Affairs (through the SCC of TVET institutions) to introduce some graduates to the KAB programme and to qualify and encourage them to establish small businesses – whether individually or in groups – and give them appropriate loans according to the prevailing laws.

Iraqi Industries Union

The Iraqi Industries Union adopted a programme designed to offer an opportunity for graduates of technical institutes and colleges to establish private industrial projects. The union cooperates with the FTE to set up workshops in various industrial disciplines to introduce students to the procedures for establishing and managing projects, as well as learn how to ensure the supply of machinery and raw materials and production processes and to manage relationships with governmental entities. The union provides financial support in the form of loans and guaranteed facilitated benefits to help graduates run their projects until they are able to integrate into the local market.

Case Studies

Case Study I: Private Sector (Role of Construction and Services Dept., Prime Minister's Advisory Council (PMAC))

The private sector in Iraq is highly diversified. Since 2008, PMAC has concentrated its efforts on the industrialized private sector as a first stage in close cooperation with UN agencies, especially UN Development Programme. This was part of an ambitious programme called Economic Reform in Iraq. This programme established a taskforce, from which seven working groups were formed. Approximately 200 experts participated in these groups. As far as the private sector is concerned, the working group was called Strategy for Private Sector Development. The work covered the following:

- Legal reforms
- Finance and microfinance of small and medium enterprises with loans and credit
- Establishing various development banks and funds
- Activating the public and private insurance companies
- Establishing modern industrial cities
- Public-private partnerships
- Establishing a High Committee to monitor and follow-up all issues regarding the private sector

Case Study II: The role of Agricultural Initiative (AI) Loans in Developing the Private Sector in Iraq

Establishing specialized loan funds is one of the most important functions of the government. The AI programme provides funding for the private sector working in agriculture. AI has achieved the following:

- AI has strengthened the role of the private sector and enhancing its capabilities in developing agricultural production, as well as encouraging investment in the agricultural sector according to the state regulations.
- AI has created a solid basis for agricultural development without burdening the state budget. The capital funds remain state property while developing the private sector. The loan is then restored in order to achieve the rates of additional development through the private sector as well.
- AI has developed the capacity of the farmers, which will be significant to the success of projects funded by government investment plans.
- Effective contribution to the development of the countryside, growth in the incomes of rural households, has reduced poverty levels in the countryside of Iraq.
- AI has provided jobs for the unemployed graduates of veterinary and agricultural engineers and rural people and reduced the level of the unregistered unemployment in farmer families.

The expansion in agricultural lending, which enables developing production services and providing employment opportunities through activating the private sector, is one of the important strategic tools that raise revenues for the state and should be given a priority in the economic and financial plans.

Between August 2008 and December 2012, the project is expected to fund 63,017 loans with amounts of 1,154,367 billion Iraqi dinars (approximately 967 million US dollars), which averages a yearly rate of 332 billion (approximately 283 million US dollars). This amount is higher than the yearly amount allocated to the Ministry of Agriculture. According to the Ministry of Agriculture, the estimated number of beneficiaries in these projects is about 1 million workers.
References

Al-Mulla Khalaf, M. S. Current Issues and Progress on Technical and Vocational Education in Iraq. FTE. Iraq

Endnotes

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