

AN OVERVIEW OF EDUCATIONAL SYSTEMS AND LABOUR MARKETS IN THE MEDITERRANEAN REGION¹

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Abstract – *Investment in ‘human capital’ can contribute to the economy through: (i) the quality of educational systems and the resulting human capital; and (ii) the allocation of human resources into the labour market. Following the same logic, this paper reviews educational systems and labour markets of the Mediterranean region. The first part gives an overview of the level of human capital stock and identifies some common challenges related to the quality of educational systems and reform initiatives. The second part focuses on the structure of labour markets (labour force participation, productivity, unemployment rates, etc.) and highlights the impact of the public sector and informal employment. In addition to the challenges facing the quality of education, labour markets in the region may not be functioning well in the allocation of human resources to their best uses, which is crucial to the success of any policy aimed at fostering economic growth through increased investment in education.*

Introduction

Most countries in the Mediterranean region can be defined as economies in transition. While some of them are developing market economies and have a certain degree of world economic integration, others are still at a very early stage of liberalising their economy. However, the pace of political and economic reform has often been slower than in other regions. This is most likely because the need for change was not marked by a sudden event such as, for instant, an unforeseen change of political regime, but rather from the ‘pressure’ of world developments. Most of the countries in the region are still actively engaged in economic adjustment with the aim to create an efficient public sector and a dynamic private sector. Increasing the size and role of the private sector without creating a negative impact on society is a challenge being faced by most of these countries. Enhancing competitiveness of the productive sector and increasing the employability of the active population are basic conditions for any successful implementation.

‘Human capital’ is considered a major component in the generation of economic growth. Two major factors influence the impact of human capital on

growth: (i) the quality of the education and training systems and the resulting quality of human capital; and (ii) the allocation of human resources into the labour market.

Education and training are a means of generating employment opportunities, enhancing productivity and increasing the incomes of various groups of people. Education is therefore an important component of the economic and social development process. In the light of radically transformed work environment and recent economic, employment and labour market trends in the context of globalisation, the success of educational systems depends on their focus on the skills that are relevant to economies and societies. Adequate development of human resources is also a fundamental requirement in the battle to resolve the inequities of globalisation. However, it is insufficient in itself to ensure sustainable economic and social development, or to resolve all the issues pertaining to the employment challenge. Efforts to this end must be consistent with, and an integral part of, comprehensive economic and social policies. Investments in quality education must be made within the context of a stable political and macro-economic environment, equitable social services and flexible labour markets.

Therefore, good education does not guarantee economic development. An educated workforce in a dysfunctional economic environment will produce high unemployment, not high growth and wages. The structure of the labour market is critical both for the quantity and quality of human capital. As shown by Pissarides (2000), a major function of the labour market is to allocate human resources to their best uses and to determine quality, quantity and productivity of human capital through reward mechanisms. The structure of the market will determine, for example, how much human capital is put into growth-enhancing activities and how much into other activities. Depending upon how well the labour market functions, the level of efficiency in the use and allocation of human resources varies and this has significant effects on employment, unemployment and economic growth.

Following the same logic, this paper adopts an integrated approach and reviews the educational systems and the labour markets in the region. The first part focuses on the educational systems and their outputs, discussing issues such as the level of human capital stock and challenges related to the quality of education. The second part looks at the functioning of labour markets where the outputs of the educational systems finally end and highlights the challenges concerning an efficient allocation of human resources. Under each part, the main issues of the systems are presented in sub-sections.

It should be emphasised that the countries in the Mediterranean region are far from being homogeneous and present a high variety of socio-economic situations. It is therefore difficult to make generalisations. There are however a number of

features that appear common, although with different degrees of intensity, and that have a considerable impact in the shaping of their educational systems and labour markets. This paper tries to identify the commonalities of the education and employment systems in the region and focuses on their most relevant features from a cross-regional perspective.

Educational systems and human capital formation in the region

A discussion of educational systems must include the coverage (access), quality, and cost of education and what incentives there are for individuals to engage in education and training. Before this assessment, it is however important to highlight and discuss a common feature of Mediterranean societies and its consequences on educational systems and labour markets. This is the high population growth and young age structure.

Demographic pressure

Whether youth is a 'gift' or a 'burden' for the region is a matter of long discussions, but demographic pressure is a key feature of educational systems and labour markets in most of the Mediterranean countries. Although there are signs of demographic change, population growth still remains high. In 2001 the number of children per woman in most of the Mediterranean countries was between 1.8 and 3.6 (with the exception of Palestinians at 5.9) and these figures are much lower than in the 1980 (from 5 to 7 children per woman), which indicates that a demographic change is taking place (Eurostat, 2002). Average annual population growth rate is between 1.1% (Tunisia) and 3.6% (WBGs) in the period of 2000-2005 (UNESCO, 2005). As a result, the region includes the largest number of young people in the world: United Nations Development Programme (UNDP) (2002) gives more than half of the population under the age of 25, with almost 38% under the age of 14.

The numbers above carry strong implications for the provision of educational services and the employment situation in the region. The current decade has witnessed the arrival at education and working ages of the largest ever generations in the history of the region. Ever increasing numbers of students and education costs, as well as higher expectations for quality education, create enormous pressure on the national systems. According to the enrolment rates of students at different levels of education, the demographic pressure is shifting from primary education toward secondary and higher education, and the era of demographically driven investment in basic education is almost over in many of the countries.

However, school-age cohorts (roughly ages 5-14) will only begin to shrink after 2015 in best-situated countries (Tunisia and Lebanon), while this will take another three decades in Jordan and WBGs. The need for post-basic education opportunities will continue to grow in all countries, as few have reached the participation levels in secondary, vocational or tertiary education to which they aspire. According to demographic projections in 2000-2040, the school-age cohorts aged 15-19 and 20-24 will continue to increase in the highest numbers during that period.

The first individuals of the high birth rate generation have already begun to move into their early career. As a result, labour force growth remains high at more than 3% annually due mainly to the large numbers of young people entering the labour market and to the increase in female activity rates. According to estimates, the work force will continue to grow by more than 3% for at least another generation in the region. Therefore, youth unemployment is, and will be, a matter of high concern. Competition for education, employment and income is fierce. This is likely to create a permanent pressure for regional and international migration unless the economies of the region will not perform better than today. It may also create a higher demand for international education among those who have high aspirations and financial resources for good quality education.

This period in the histories of countries is also called 'demographic window opportunity', since the growth of the economically active population (aged 15-64) will exceed that of the economically dependent population by a much greater amount than in any other region by the end of next decade. New generations will bear low demographic burden due to a dramatic drop in current fertility and low burden of older persons due to high birth rates in the previous generation. The potential is big if this unique opportunity could be used efficiently in the economic take-off of the countries. The results will depend on the performances of educational systems and labour markets, supported by a continuous economic growth.

Level of human capital stock and improvements in educational attainment

According to UNDP (2002), there is a solid economic base for improving human development in the Arab world. Per capita income is still higher than that of most other developing regions. However, while Arabs outperform sub-Saharan Africa and South Asia in terms of human development, they rank below Latin America, the Caribbean, East Asia, Eastern Europe and the Balkans on the Human Development Index. In spite of this average, there is a huge difference between Arab states when it comes to human development (Gulf countries such as Kuwait, Bahrain, and Qatar are at the top and others like Yemen, Mauritania, and Sudan

are at the bottom). The MEDA² countries included in this paper are mostly spread in the middle of the regional average. Tunisia, Jordan and Lebanon are often mentioned among the better performers, while Morocco, Egypt, are Syria are behind them on most indicators.

Except for Lebanon where nearly 60% of the total enrolments in grades 1-12 are in non-governmental schools (European Training Foundation [ETF], 2006), state provided free education has been a central tenant of the social contract in MEDA countries since independence. Post-independence governments significantly expanded their education systems, driven by rapidly expanding youth populations and the need to build nationhood. Primary education is compulsory in all the countries. For some countries, like Tunisia and Algeria, 'basic education' covers both primary and lower secondary levels (i.e., 9 or 10 years). As a political priority, the region has been doing a significant investment in education during the last four decades, with an average of 5-6% of the Gross Domestic Product (GDP). According to the latest data, expenditure on education is 5.2% of GDP in Egypt, 6.4% in Jordan, 6.6% in Morocco, 6% in Tunisia, and 8.9% in Lebanon (ETF, 2006).

As a consequence, the formal education indicators of these countries have been improving very rapidly. Indeed, with few exceptions, they provide basic education to most children and opportunities for upper secondary, vocational training and tertiary education to many. By 1995 more than 90% of males and 75% of females were enrolled in primary schooling, and nearly 60% of males and 50% of females were enrolled in secondary education. Opportunities for access to secondary and higher education are rationed through national or regional examinations at the end of the primary and secondary cycles. After another decade, most countries have achieved almost universal primary enrolment and significant increases in their secondary enrolment rate. In Egypt, the net enrolment rate in 1999 was 96.94% in primary education, 74.3% in preparatory education and 65% in secondary education. In Algeria, the enrolment rates for primary school are about 94% for males and 92% for females. Tunisia has one of the best enrolment rates in the region – in 2001, 99.2% attended primary education. Morocco, in spite of raising the primary enrolment rate from 84.6% in 2000 to 91.6% in 2004, still has the worst rate in the region (ETF, 2006).

Another consequence of government investment in education has been a significant increase in the literacy rates and the average educational attainment of the labour force. Literacy improved dramatically in almost all countries from 1960 to 1995, more than doubling in every country that started with a low base. Improvement in literacy was larger than in any other region. Among the population aged 15 years and above, the literacy rate in 2000 was 66% in Egypt, 90% in Jordan, 87% in Lebanon and 75% in Syria. This was achieved by

improving access to education and recording increases in the average number of school years per person. The overall weighted average of school years for the Arab region amounted to 1.1 years in 1960, which increased progressively to reach 4.83 years by 2000. In 2000, the average school years for the population aged 15 years and above were 6.91 years in Jordan, 5.77 years in Syria and 5.51 years in Egypt (United Nations, 2003).

However, in spite of the impressive educational expansion in the region, equal access to different levels of education by males and females, by rich and poor, and by urban and rural residents is still an important issue, albeit to varying degrees, among the countries. As literacy increases more rapidly in urban areas (Lebanon, Jordan, and Tunisia), countries with very significant rural populations (Morocco, Egypt, and Yemen) have lower adult literacy rates – around and above 50%. Moreover, a gender gap is apparent from an early age. Literacy in the region is at least 20% lower among women. Females in predominantly rural countries, such as Morocco, are at a distinct disadvantage. Only one in ten rural women can read and write in Morocco. Thus, girls are less likely to be literate, to receive a secondary education, and to reach university or higher vocational training in the region. By 2000, 9 girls were enrolled for every 10 boys in primary schools across the region. At the secondary level, the enrolment gap was even smaller: 74% of girls and 77% of boys were enrolled.

According to World Bank (2002), the number of children not attending school, in particular females and the rural poor, may increase in the next decade. A large proportion of dropouts include children from rural and poor families who are likely to join informal labour markets during times of economic hardship. Poverty dramatically affects access. In Egypt, for example, the enrolment rate for children in the top quintile of households in terms of wealth remains above 80%, while enrolment in the poorest one-fifth of households is around 50%. In 1994, Moroccan net primary enrolments were 58% in rural areas and 85% in urban areas, and Tunisian secondary enrolments in rural areas were as low as 19% while in Tunis they were 78%.

To sum up, even after decades of massive investment, the coverage of the educational systems and the average attainment levels of education in the region seem to be lagging behind in comparison with the good examples of the developing world (e.g., Eastern Europe, East Asia, and Latin America). This has potential important consequences for growth prospects. Due to the very low starting levels of education during the 1950s and 1960s, the region still needs to allocate significant financial and human resources in this sector despite the improvements. A continuing strong public sector commitment is required for the completion of universal access to compulsory education, reductions in dropout rates, higher completion rates, and internationally competitive learning achievements.

Public expenditure on education has however been declining since 1985 (maybe not always in nominal terms, but in expenditure per student). According to some observers, the quality of education is neglected at the expense of expanding education for all, and the most serious problem facing Arab education is its deteriorating quality at all stages of education (UNDP, 2003). Focus on access often overshadows the issue of quality. But quantitative developments need to be accompanied and supported by quality improvements in terms of performance. It is highly likely that concerns for good quality education have only recently started to be voiced loudly because quantitative targets are closer than ever to be reached in the region.

Challenges to the quality of educational systems

The crucial question for developing countries (including the MEDA ones) is how education can meet the challenges of the 21st century, which are different from traditional literacy and schooling rates. Educational systems must generate awareness in students concerning the nature of the modern economy including its values, attitudes and practices; ensure that this informative process is inclusive and does not further exploit marginalised classes; ensure that sound work ethics are instilled into the new generation; and help improve the quality of life of all people (United Nations, 2003). Students – one of the key pools of human resources for developing countries – must acquire certain skills that are required for the new economy (i.e., ‘core’ skills, digital literacy, languages, technical/vocational skills, and knowledge production). Among the non-technical core skills necessary for performing a job and operating in society, learning-to-learn skills, literacy and numeric skills, communication skills, problem-solving skills, creativity, personal effectiveness (self-esteem, goal setting and motivation), group effectiveness (interpersonal, teamwork, negotiation), organisational and leadership, and labour market navigation skills are often mentioned.

Evaluating the quality of education in the Arab world is difficult owing to insufficient information and data. In one of the few examples of standardised comparative measurements, ten countries of the region (Bahrain, Egypt, Iran, Jordan, Lebanon, Morocco, WBGs, Saudi Arabia, Syria, and Tunisia) took part in the 2003 Trends in International Mathematics and Science Study (TIMSS) together with 35 other countries from around the world³. The results showed that the proportion of students failing to achieve even the low benchmark in mathematics and science is 81% in Saudi Arabia, 71% in Syria, 58% in Morocco, 49% in Bahrain, 48% in Egypt, 46% in WBGs, 45% in Tunisia and Iran, 40% in Jordan, and 32% in Lebanon. Countries like Singapore, Japan and South Korea have less than 2% of their students falling below the low benchmark. Similar

national assessments also confirm that basic literacy and mathematics skills have deteriorated since the late 1980s in Egypt, and a declining performance in French and science has been reported in Morocco (European Training Foundation & World Bank, 2005).

There are also signs of high failure and repetition rates, leading to longer periods being spent at the different stages of education. In Algeria, the repetition rates reached 10% in the 1st year of the primary school, 15% in the 6th year, and more than 30% in the 9th year. And the total number of school dropouts in the 9th year was around 360,000 in 1997. Only half of the children pass the examination to enter the secondary school, and the repetition rates in the secondary school reaches 40% in the 3rd year. The situation in Tunisia is comparable. The repetition rate is about 16% in the basic education and 16% in the secondary school, and the drop out rate is about 10% in the lower secondary (which is part of the basic school) and 9% in the secondary school (ETF, 2006).

The lack of link between the educational systems and labour markets is another well-pronounced problem in the region. The two reported reasons behind this are: (i) overly general academic-oriented curriculum, particularly in secondary and higher education; and (ii) the notion that Vocational Education and Training (VET) is a second grade option. The vocational stream of education does not seem to attract enough interest from the students. A strong bias exists toward choosing the general education stream in order to continue university education.

As a result, while the number of graduates with diploma from the different stages of education is increasing, they lack in most cases the core competences and relevant skills needed in the labour market. Thus, while vocational systems in the region are expanding, the problems remain. These include the fact that there has been no analysis of skill needs and the limited interaction with the private sector in the majority of countries (leading to a fragmented system burdened with a surplus of duplicated training programmes and marred by lack of coordination). Over-centralised management of educational institutions and lack of diversification of financial resources (especially in Technical and Vocational Education and Training [TVET]) lead to a further inflexibility in the whole system⁴. Such programmes tend to attract those students who have dropped out of academic oriented schools. Graduates of these programmes are consequently often ill equipped for the job market and remained unemployed for long periods. Furthermore, the prevailing environment does not reward the acquisition of knowledge, technical skills, or creativity. In most cases, the diploma is considered more important than the learning outcome itself.

With few exceptions, curricula and teaching methods in the region give high importance to memorising and rote learning, and the teaching content remains information-based, not knowledge application oriented. Mostly due to the lack of

active learning techniques, students do not develop a sense of initiative and a problem-solving attitude. The resulting memorisation without thought of the meaning is in strong contrast with the new trends and techniques in the global world that seek to cultivate in students creativity, critical thinking and the ability for self-initiated reasoning. Most indicators suggest that education systems in the region do not seem to reward these 21st century skills (United Nations, 2003)⁵. Obviously, this system of learning has a negative impact on the competitiveness of graduates in the national, regional and international labour markets.

Recent pressures to expand higher education have also led to a significant decrease in quality and, in many cases, diverted universities from pursuing research (which is their major role in the transmission and generation of knowledge). High enrolment rates at primary and secondary levels, combined with a high population growth, have led to a strong demand for higher education. For example, in Jordan the number of students enrolled in universities increased from 31,049 in 1990/91 to 120,000 in 2001/02 (Kirchberger, 2001). But while increases in enrolments can be viewed as a positive phenomenon, it can be argued that quality of education has, in some cases, been compromised. The wider coverage has been at the cost of quality, particularly in some private universities.

Students face several problems within educational systems – such as, overcrowded classes, inadequate libraries, poorly equipped laboratories, low quality and not-enthusiastic teachers, and non-existent student services. The wages of teaching staff, which are low, increase by seniority (i.e., by years of service) rather than by teaching abilities, or publications and research. There is lack of coordination between universities, colleges and other technical training establishments. UNDP (2002) report also draws attention to an emerging duality in Arab education systems: an exclusive private educational system enjoyed by the minority, and a lower quality government educational system for the majority. Furthermore, higher education is viewed only as a means of achieving social status, but not as a means of increasing the productivity of individuals. The benefits of education (especially higher education) are eroded by political factors. Favouritism and nepotism in the selection of individuals for education and employment (both within the public and private sectors) significantly undermine the value of education and reduce the productivity of the systems.

With regards to scientific research and the generation of knowledge in the region, United Nations (2003) data pertaining to the mid-1990s reveal that gross expenditure on Research and Development (R&D) in the Arab world is marginal, amounting to approximately 0.4% of GDP, the lowest figure in the world in terms of spending on R&D. The number of patents held by Arab nationals is negligible, and the scientific output of the Arab world (as measured by publications per million inhabitants) is low, amounting to 0.7% of world publications. Another

problem is the growing mismatch between the excessive supply of tertiary graduates in the conventional fields of liberal arts and the requirements of a fluid global economy: 72.7% of the 1998/99 university graduates in the region majored in the fields of education, arts and business, compared to 6% in science subjects, 7.4% in medicine and 9.8% in engineering (United Nations, 2003). This mismatch has been exacerbated by increasingly rapid innovations in the field of technology. In 2001, only 1% of the world Internet users were from the region and the corresponding penetration rate at that time of the personal computer was around 2% (Aubert & Reiffers, 2004). High cost is the main obstacle to Internet access and telephone connections.

Countries that continue to neglect the relevance of quality education are at risk of becoming increasingly marginalised in the global economy. Furthermore, they are likely to suffer from delayed social progress, and find it increasingly difficult to keep up with other developing and developed countries. The possible outcome of this scenario is that countries face rising unemployment and underemployment levels, increased poverty and social tension, and fail to attract Foreign Direct Investment (FDI). It should be emphasised that the overall assessment given here does not mean that no good quality schools or 'centres of excellence' exist in the region. Although their impact is rather very limited, there are good quality education and training institutions as well. The main issue here is how to mainstream these 'isolated good examples' into the system.

Reform initiatives of the educational sector

As a response to the challenges explained above, most of the governments in the region have acknowledged the need of reforms and have engaged themselves in the revision of different educational stages. They agree on areas such as: (i) upgrading the performance, relevance and quality of the systems; (ii) the need to better take into account the labour market demands through more 'employment-driven' education and training strategies and policies; (iii) better involvement of stakeholders and social dialogue; (iv) enhancement of governance; (v) institutional capacity building for definition of policies and decision-making; and (vi) increase and diversification of sources of funding. Some countries are just starting the reform process, while others are continuing or speeding-up the ongoing reforms mainly with donors' support.

Among these reforms, decentralisation of education systems has received particular attention in most countries. Tunisia has developed an ambitious programme – known as MANFORME – for decentralising the provision of public training services in pilot centres⁶. In Egypt, the Mubarak-Kohl Initiative is one example of decentralised provision of training, and the recent EU-financed TVET

Reform Project seeks to develop public-private partnerships at the local level. The involvement of social partners into the educational systems is another dimension of the reform. But experience shows that the quality of the participation of the private sector is uneven, with some private sector representatives unprepared to assume their responsibilities.

Curriculum development is another priority in the region and there is a trend to move to competency-based approaches even if the teaching methods are not always compatible with the reforms (e.g., lack of cognitive skills and flexibility). Qualification frameworks – meant to provide certification of workers' competencies, to increase workers' job mobility, and to provide assessments and accreditations – are being developed in a few countries. In Egypt, the qualifications framework seeks to establish not only skill standards, but also the procedures for testing and certifying trainees in certain pilot sectors. National standards in Jordan are maintained through the use of common national curricula among training institutions and the application of common exit examinations.

It should be emphasised that these reforms have been mostly promoted and partly pushed by donors such as the EU, World Bank or other development aid agencies⁷. During the last decade, the region has attracted a considerable amount of donor support for education and training reforms. The nature of this support is not only large in terms of amounts, but also ambitious in terms of its objectives that are geared toward systemic reform (in Tunisia, Morocco, Algeria, Egypt, and Syria). However, the results so far are mixed. A number of reasons have been attributed to this. One observation is that donor-funded programmes are not always successful in creating full ownership by countries that will lead to the continuation and dissemination of the projects results to the whole system. Moreover, financial resources for the reform of the whole system are not sufficient in these countries, and donor-funded projects do not have financial sustainability when the donors leave. Public organisations (such as ministries and schools) in charge of reform initiatives have weak institutional capacity to implement these reforms. Many 'individualised' initiatives are implemented without dialogue, coordination and synergy⁸.

Socio-cultural and institutional reasons may be other obstacles to the modernisation of the systems. In contrast to a rapid adjustment to technical and technological developments without questioning, changes in attitudes and mind-sets are extremely slow. Managing and monitoring a change process in the social and socio-cultural area is complex. Only where there is internal consistency between political support, financial and human resources and social values can the change process develop successfully. Any change process or reform in the educational area induces resistance and opposition in those who may feel threatened by the intended changes. By definition, a reform touches upon

territories and power structures, and it leads to ‘gains’ and ‘losses’ in one way or another. The question is how far a reform can go without provoking a backlash that may endanger its entire existence. The picture presented here does not mean that nothing has changed in the region or that the introduced educational reforms have failed. This is far from being the case. However, the efforts made and the resources devoted to education and training cannot hide the fact that the intended educational reforms remain significantly uneasy to implement.

Finally, it is too early to assess the full impact of the changes introduced in the educational systems, as such reforms are long-term investment. Most of the reforms are still continuing and one must wait before reaching early conclusions. However, overlapping initiatives and piecemeal changes are not the best way to reform the system. If it is to be a successful reform, a comprehensive approach needs to be developed that advances quality in relation to the development of skills, expands employment choices and achieves economic growth.

Allocation of human resources in the labour market

An important source of economic growth is that unproductive jobs are continuously replaced by more productive ones. This is the core of the labour market reforms in countries where the public sector has had a dominating role and where the formal labour market has been static, often aiming at creating life-long jobs for workers. These labour market reforms are closely connected to reforms in the functioning of product markets. Reforms aimed at strengthening competition through the removal of barriers to entrepreneurship and explicit barriers to trade and foreign investment can have strong employment effects.

In most developing regions, private returns from education tend to be higher for primary education than for secondary and university education. By contrast, returns from education appear to increase with the level of schooling in MEDA countries (Krueger & Lindahl, 2001). One explanation is that public employment plays a more important role in MEDA countries than in any other developing region. Thus, higher returns from education for high school and university graduates may reflect government pay scales rather than improved productivity (World Bank, 2004). A recent ETF (2006) study confirms the low return from primary and secondary education, but reports higher returns to women and to those working in the public sector. For example, while in Jordan the wage by educational attainment indicates significant returns with increasing levels, especially for men, wages in Lebanon indicate some returns for higher education. Significant returns are observed for all levels of education in Tunisia, but are higher in the public sector, especially for women.

In contrast to the high private returns explained above, recent evidence collected in the region suggests that social returns from education are low and that the relationship between investment in education and economic growth in general is weak (Pritchett, 1999; Makdisi, Fattah & Limam, 2003). Fast expanding school and university enrolments have resulted in an expansion of the stock of human capital and higher educational attainment levels. But growth performance has been disappointing and labour productivity growth has been small and in many cases negative. In other words, the economy-wide payoff of investment in education has been limited, largely because the economies of MEDA countries were not able to make effective use of rising cohorts of educated labour. Economists argue that human capital can only have a limited impact on economic growth if it is employed in socially unproductive activities (including the administrative public sector), even though it may be remunerated at the micro-level⁹.

Within the context of sluggish labour markets, education has expanded horizontally in terms of enrolment without substantive improvements in the quality and enhancement of skills. At the same time, demand for labour has decreased as government recruitment policies reached their peak and employment schemes were discontinued. The only exception to this is recruitment of education and health professionals for increasing public services in these fields. The ability of the non-public formal sector to absorb the increasing supply of labour has been limited. Employment in the productive sector is the only vehicle through which education is translated into growth and equitable distribution of this growth. When the link between education and employment is broken, significant resources are wasted and the returns from education diminish. Due to insufficient skilled job creation in the private sector, the contribution of education to GDP growth has been severely limited in the recent past. The inefficient use of educated labour is, therefore, an equally important issue for the region. This suggests that the functioning of the labour market and the employment creation mechanisms are crucial to the success of any policy aimed at fostering economic growth through increasing investment in education. Within this conceptual framework, the second part of this paper discusses key structural issues of the labour markets in the region.

Labour force participation and productivity

Due to the demographic pressure discussed before, the International Labour Organisation (ILO) (2004) estimated that the labour force in the Arab region would increase by more than 3% per year between 2000 and 2015. According to World Bank figures, the labour force of the region totalled about 104 million workers in 2000, and this figure is expected to reach 146 million by 2010 and 185

million by 2020. Given this expansion, the economies of the region will need to create some 80 million new jobs in the next two decades (World Bank, 2004).

An examination of labour force participation trends shows low activity and employment rates in the region. Average employment and activity rates are generally changing from 45% to 50%. According to ETF (2006), Morocco had 52.2% activity rate and 48.2% employment rate in 2003. In Lebanon these were 50% and 44% respectively, and in Tunisia these were 49.5% and 42.1% respectively. At the lower end of the comparison, Egypt had 45.6% activity rate and 40.6% employment rate, and Jordan had 39.4% and 34.4% respectively. The main explanation of these low rates is the extremely low female labour force participation in the region. When compared with the EU averages of 66% general employment rate and 56% female employment rate, the regional average is quite low. Looking at the qualification levels of the working population, Tunisia's pyramid of worker qualifications is 60% low-skilled, 30% medium-skilled and 10% high-skilled. This places Tunisia as one of the best performers in the region. The average distribution in Europe is 20%, 60% and 20% respectively.

The limited access of women to wage employment is an important feature in the region. In fact, the contribution of women to economic or productive life still tends to be marginal, remaining a largely untapped resource. In some countries, although as much as 63% of university students are females, women only account on average for 25% of the labour force. The activity rate of women is 11% in Jordan, 20.6% in Egypt, 25% in Lebanon, 25.7% in Tunisia, and 27.2% in Morocco. The impressive progress achieved in the region with regards to the improvement of female education has not been translated into women's economic participation. This low female participation is hindering the capture of a large part of the return on this investment.

The lack of employment opportunities for women can be related to the general scarcity of employment opportunities in the region. Demand factors (high unemployment) and gender discrimination in labour markets have an impact on the outcome. But socio-cultural problems may yet be another reason. Gender roles and dynamics within households are shaped by a traditional gender paradigm which is based on the centrality of the family rather than the individual, the recognition of the patriarchal family structure and the man as sole breadwinner, and an unequal balance of power in the private sphere. In fact, large numbers of well-educated women remain at home when they get married. Moreover, females attending higher education tend to opt for the humanities and the arts (in accordance with their traditional role in society) rather than subjects that would maximise their opportunities in labour markets. The training for females in non-marketable areas (e.g., embroidery or other crafts, which are typically considered as female domains) also reduces significantly the impact of vocational programmes.

While the average years of schooling per person have increased dramatically in all countries, the growth of output per capita, as measured by real wages, has often been slow and in many cases negative. In the early 1990s, the industrial labour productivity was estimated to be at approximately the same level as in 1970. The total factor productivity dropped steadily by 0.2% during the 1960-1990 period. As of 2002, it was virtually stagnant. In 1998/99, the Gross National Product (GNP) per worker in all Arab countries was less than half of that of South Korea or Argentina (United Nations, 2003).

Furthermore, increases in productivity in other parts of the world have been mirrored by a significant relative decline in the competitiveness of the region. It is worth noting that this decline occurred after massive investments in gross fixed capital formation and the massive expansion of educational systems in the region. This situation has led to declining labour total factor productivity and resulted in unemployment and underemployment of youth, in particular school and university graduates. Interestingly enough, while the increases in the average years of schooling per person during the past 40 years have been higher than in any other region in the world (with the exception of East Asia), productivity has been among the lowest in the world. This fact proves that structural imbalances are an obstacle to the formation of human capital.

High unemployment

Finding consistent and comparable data on unemployment trends in the region is difficult. Statistical data originate from different sources and often vary from one to another. The obvious facts are that while economic growth has not been sufficiently high to create new employment opportunities and accommodate the rising number of new entrants to the labour market, unemployment rates remain high in most of the countries. According to ILO (2004) estimates, the average unemployment rate in the region has remained around 15% in these years. An exception to this trend is Morocco and Tunisia that have recently recorded some growth in employment rates. ETF (2006) data on the 2003 unemployment rate was 14.9% in Tunisia (14.4% men, 16.2% women), 11.5% in Lebanon (9.3% men, 18.2% women), 12.6% in Morocco (12.3% men, 13.5% women), 12.6% in Jordan (12% men, 16.5% women) and 11% in Egypt (7.5% men, 23.3% women).

Unemployment is especially high among the new entrants to the labour force with intermediate and higher education. The women unemployment rate is also higher than that of men. For example, it is double that of men in Egypt, Lebanon and Syria, and one-third higher in Jordan. This structure of unemployment suggests that a significant part of unemployment results from high job expectations by workers with some formal education and a low valuation of these

credentials by the private sector (because education systems have concentrated on making public sector jobs accessible rather than on building skills). Higher unemployment rates for graduates from secondary and higher education are particularly significant in Egypt and Morocco, but are less significant in Jordan, Lebanon and Tunisia. Although government hiring has been curtailed in recent years, the structure of the labour market remains segmented. Despite falling civil service wages, educated new entrants continue to queue for government jobs because of non-wage benefits such as job security and social protection.

Youth unemployment therefore remains a matter of major concern. With an average rate of 25.6%, youth unemployment in the region was the highest in the world in 2003 (ILO, 2004). Unemployment among the 15-24 age group was as high as 39% in Algeria and 37% in Morocco. Female unemployment rates (31.7%) are considerably higher than the male rates (22.7%). However, estimates for the 2001-2005 period illustrated that while 66% of available employment is for unskilled labour, only 17% of job opportunities require higher education. The profile of an unemployed person in Egypt is typical of non-oil producing countries in the region: 84% are first time job seekers, 54% are graduates of intermediate education, 52% are from rural areas and women are three times more likely than men to be unemployed (United Nations, 2003).

Weight of public sector in employment

The public sector has traditionally been an important source of employment in most Mediterranean countries. It concerns not only administration, but also state-owned enterprises. The involvement of the state in economic production varies from one country to another, but the share remains generally high despite privatisation and public sector reforms. The share of public sector employment, including state-owned enterprises, ranges from 10% in Morocco, 20% in Tunisia, almost 40% in Egypt and in Jordan, and close to 60% in Algeria (World Bank, 2004). In addition, while the share of 'civilian government employment' worldwide is on average 11% of total employment, in the Mediterranean region it can go up to 17.5%. This was also a consequence of the increase in the provision of social services (education and health) that had positive impacts on living standards in the region. Poverty rates are indeed low in the region.

Employment in the public sector (both in state-owned enterprises and in public administration) has followed, like in many other parts of the world, rigid labour market legislation. It consequently became difficult to have a flexible response to economic changes and labour market pressures. Due to this inflexibility of response and the need to limit labour market redundancies, public sector employment has turned in some cases into 'deficit financed' jobs

in order to absorb the excess supply of labour. In other words, there have been cases where employment in the public sector was used to absorb the excess supply of labour.

Another characteristic of public employment is the high level of graduates from intermediate and higher education institutions. Guaranteed employment without concern for productivity in the public sector has led to the prevalent rent-seeking behaviour among the graduates and created strong disincentives for working in the productive sectors. Historically, many countries in the MEDA region have set up mechanisms guaranteeing employment in the public sector to high school graduates in the form of rent seeking positions, losing in the process a big share of the stock of human capital (Chemingui & Ayadi, 2003). Essentially, this type of behaviour that bypasses laws and regulations or uses them for personal profit can only be accomplished by individuals with a certain level of education. It is hence not surprising that rent-seeking is intensive among skilled workers¹⁰.

The result is poor use or waste of educated labour by distorting the incentives in labour markets. In 2003, to give an example, 75% of the total active population in Syria with a higher education degree (i.e., post-secondary and university) were employed in the public sector that is characterised by low labour productivity. Only 20% of higher education degree holders were employed in the private formal sector. In many countries, especially those with high underemployment in the public sector, it is also common for workers to combine public sector employment with informal employment or with other positions in the formal sector.

Unless the public sector is rationalised and the employment situation in the private sector is improved, educational reforms are unlikely to succeed in the region. The present labour market system promotes and rewards the acquisition of academic diplomas rather than skills that enhance the productivity of the worker. The government may continue to be a source of employment for a minority of new job seekers, but it is highly unlikely for the public sector to remain a leading sector of job creation in the future.

Many countries have already started privatisation and/or downsizing processes of public sector services and enterprises. Significant changes are under way in Tunisia, Algeria, Morocco, Jordan, and Egypt. However, the public sector is still over-sized, both in public enterprises and in public administration, in many countries. Its downsizing remains a pending subject due to the current context of high unemployment rates and poor economic growth perspectives. Reducing employment in the public sector can create important social tensions and may have important cascading effects in internal markets, especially when there are no social safety net systems in societies (i.e., beyond the families in most cases).

Large informal sector¹¹ versus over-regulated formal sector

Although difficult to quantify, the size of the informal sector in Mediterranean countries is estimated to be very high. According to World Bank (2004), the informal employment as a percentage of non-agricultural employment accounts, on average, to almost half. For example, it accounts for 30% of non-agriculture employment in Algeria, 35% in Tunisia, 42% in Syria, 55% in Egypt, and 63% in Morocco. Furthermore, the informal sector employment in some countries has accounted for the most important source of jobs for new entrants to the labour force. In Egypt, the majority of the jobs created in the private sector during the period 1988-1998 were in the informal sector (McCormick & Wahba, 2004). In Syria, there was a drop in the percentage of people employed in the formal private sector from 40% in 1995 to 34.8% in 2001, and an increase in the percentage of employees in the informal sector from 33.8% to 39%.

The increased informalisation in Egypt during the 1990s – which was concentrated in manufacturing, construction, trade and transport – primarily involved workers with either no or below intermediate education. In fact, there is a negative correlation between good educational attainment and the probability of being informally employed. In Tunisia, where informalisation is concentrated in manufacturing, the proportion of informal workers with high school education is low, but not negligible (12%). In Morocco, workers in the informal sector – which is concentrated in trade and repairs – are poorly educated (more than 46% of them have never been in school) (ETF, 2006).

One characteristic of the informal sector in the region, which is more pronounced than in other regions, is the unclear demarcation between the informal and the formal sector. A very large proportion of the enterprises are small or very small, with a large majority being family-owned and managed. Therefore, the size in terms of employment may not be a definitive criterion by which to identify ‘informal activities’. Legal status is the criterion that is more often used to distinguish formality from informality. Even so, the borderline to informality is not clear-cut. One can in fact distinguish between a ‘high end’ (i.e., with potential for growth and employment) and a ‘low-end’ (i.e., geared toward subsistence economy). The latter, the subsistence sector, is characterised by low productivity, obsolete technologies, and low incomes/skills. At the other end, there are efficient micro and small enterprises that are capable of expanding their markets. Studies show that access to modern management, new technologies and new skills can play a key role in the development of these businesses (European Training Foundation & World Bank, 2005).

The precarious nature of jobs in the informal sector – characterised as they are by lack of social safety, low wages and long working hours – is in strong contrast

with the high degree of job security and social safety linked to jobs in the public and the formal private sectors. In particular, jobs in the public sector may not be demanding enough and wages are not based on the productivity and efficiency of employees. It is therefore common for employees in many countries to combine public sector employment either with informal employment or with other positions in the formal sector. While the use of different types of employment contracts is extremely limited in formal sectors, an employment contract is out of the question in the informal sector. Likewise, minimum wages, working time and health and safety regulations do not exist in the informal sector. Contrary to the informal sector, the formal public and private sectors have a reputation of having 'over-regulated'. In fact, hiring and firing regulations for 'insiders' of the system are still considered rigid despite recent reforms of labour laws – for instance, in Egypt (in 2003) and in Tunisia (in 1994 and 1996) – aimed at improving flexibility (ETF, 2006). Taxes on labour in the registered economy are also high.

To summarise, labour markets are segmented between formal jobs (in the public and private sectors) and jobs in the informal economy. Mobility between the two types of jobs is very low. As a result, there is a sharp contrast between the 'insiders' of the registered economy and the 'outsiders' in large informal economy. Those workers who manage to get into the official system generally enjoy significant privileges, while those who have to work in the informal sector receive no protection. This scenario necessitates a reform of the institutional and regulatory framework so that both labour markets and the mobility between the different types of employment can function better.

Labour market policies

The state of employment policy development in the region varies considerably from one country to another. But while a comprehensive national employment strategy comparable to that of the EU is generally lacking, some countries (mostly from North Africa) have recently started a debate on employment and have put in place some active labour market policies. Others are still at earlier stages focusing on the implementation of some active employment measures without a comprehensive policy background. Passive labour market policies are often limited to retirement schemes, especially for workers in the public sector. But while these policies exclude significant numbers of informal workers, unemployment subsidies are rare. In the region, only Algeria has recently introduced an unemployment insurance scheme.

Employment services (or labour offices), although present in almost all countries, have very limited capacities in terms of staff resources and facilities to

provide relevant advice to job seekers. Furthermore, the relatively well-functioning public employment services – like the ones after the recent reforms in Tunisia (i.e., ANETI) and Morocco (i.e., ANAPEC) – are primarily concerned with graduate unemployment. There are no similar agencies that mediate at the interface for unqualified workers. Recruitment policies in the public and the formal private sectors are generally based on the qualifications held (i.e., the diploma) and the applicant's network of social contacts, rather than on competitive examinations that assess his or her competencies. Counselling and orientation services are also rare.

In a vast majority of countries, active labour market policies include a combination of the following: (i) employment services for job seekers; (ii) a variety of credit schemes for employment generation; and (iii) training/re-training schemes. The credit schemes either address the lower segment of the self-employed and micro enterprises (many of them administered by non-governmental organisations) or focus on the sector of the small and medium sized enterprises. Many of them also include training and counselling services. In particular, Tunisia has developed extensive Active Labour Market Programmes (ALMP) that are mainly donor-funded. But while these measures are successful in many cases, their main handicap is the large dependence on donor funding which casts doubts on their sustainability. Furthermore, while the more vulnerable and the less skilled workers get less attention in these relatively better performing environments, the coverage of such programmes is generally very limited. Even in the best case of Tunisia, the government spending on employment programmes was about 1.5% of GDP in 2002; covering only 5.3% of the potential labour force (World Bank, 2003).

Although training often absorbs a higher proportion of the resources in comparison to other ALMP, it may not be producing maximum outputs. There are possibly several reasons for this. For instance, the training offered has been restricted to formal training that is mainly supply-driven. This, however, may not be the most efficient way for skills development, especially in the context of high numbers of micro-enterprises. The access and suitability of the training in terms of activities and technology have also been a recurrent concern. The lack of resources allocated to formal training is another reason for the low quality of the outputs. Generally speaking, there is still some way to go in the integration of employment and training policies. For sure, training programmes need to be better tailored to company needs. Again, an increased role of the private sector in the definition of active labour market policies would make a qualitative difference. The situation is however already changing slowly. The private sector's increased involvement in training design and delivery via apprenticeship and on-the-job schemes evidences this.

Last but not least, the countries in the region have still to put in place proper information systems to monitor the evolution of labour markets and the effectiveness of employment policies. A first step in this direction would be the development of sound labour market information systems. Many countries in the region have already started, often with donor support, to move in this direction. In many cases, it is more a question of bringing together and complementing currently dispersed data and sources, rather than starting from scratch.

Notes

1. The Mediterranean countries included in this paper are Algeria, Egypt, Jordan, Morocco, Lebanon, Syria, Tunisia, and the West Bank and Gaza Strip (WBGS).
2. The MEDA programme is the principal financial instrument of the EU for the implementation of the Euro-Mediterranean Partnership. The programme offers technical and financial support measures to accompany the reform of economic and social structures in the Mediterranean partner countries.
3. The tests were administered to 8th grade level students of both sexes, with indicators of the quality of achievement in elementary education. The TIMSS defined four international benchmarks for the scores of mathematics and science: low (400 points), intermediate (475 points), high (550 points) and advanced (625 points). The results of the 2003 TIMSS may be viewed at <http://timss.bc.edu>
4. All decisions regarding curricula and financial and personnel management are taken solely by ministries with very little involvement of the social partners.
5. Some researchers in the UNDP (2003) report state that the curricula taught in Arab countries seem to encourage submission, obedience, subordination and compliance, rather than free critical thinking. While the content of science is not usually a controversial matter (excluding religious beliefs and social taboos), humanities and social sciences that have direct relevance to people's ideas and convictions are supervised and 'protected' by the authorities, which generally result in both self-praise and blame of others with the aim of instilling loyalty. This is further strengthened by authoritarian and over-protective parenthood, which is a common style of child rearing within Arab families.
6. MANFORME (Mise à Niveau de la Formation Professionnelle et de l' Emploi) is the name of a large-scale donor-funded programme to rehabilitate vocational training and employment in Tunisia. It was implemented during the period 1996-2002 in collaboration with vocational education and training centres and the Ministry of Vocational Training and Employment. The main objective was to reinforce the quality, effectiveness and capacity of the public and private vocational training systems and consequently to improve the competitiveness of Tunisian companies.
7. Mainly national agencies such as USAID, JICA, CIDA, AFD, SIDA, FSP, BEI, GTZ, DFID, KFW, etc.
8. Egypt is a significant example of a country where a high number of donor-funded reform initiatives were implemented without sufficient coordination.
9. When talented people become entrepreneurs, they improve the technology in the line of the business they pursue, and as a result productivity and income growth. In contrast, when they become rent seekers, most of their private returns come from redistribution of wealth from other owners and not from wealth creation. Such misallocation may occur when distortions in the institutional framework make rent seeking activities more profitable than productive ones, thus providing incentives for skilled workers to turn to the former (Boudarbat, 2004).

10. Chemingui & Ayadi (2003) state that 'the resulting corruption constitutes a special case of rent seeking behaviour, that can be defined in a narrowly line as an illegal use of a position in the public administration to personal profit. The border between corruption and rent seeking behaviours is essentially juridical. In economies where the rules of playing ground are not well defined, this distinction between rent seeking and corruption is very limited and it results in negative impact on attracting FDI and waste of resources in non-competitive activities' (p. 16).
11. Jobs in the informal sector can be defined as unprotected by a legal employment contract or social security arrangements.

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