

Job Creation in an Era of High Growth

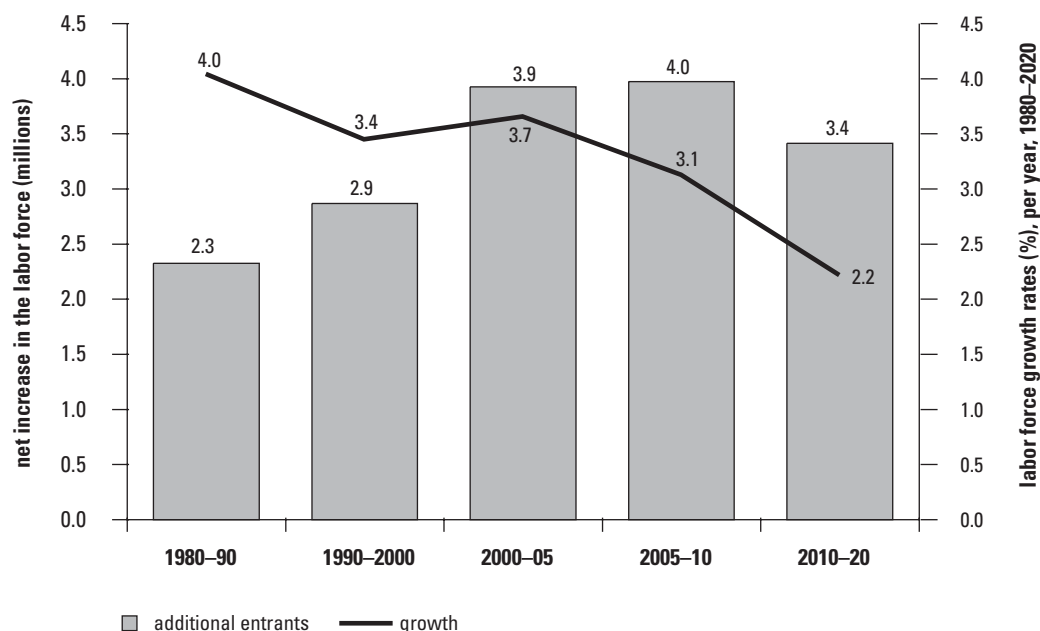
The Middle East and North Africa Region (MENA) is undergoing a remarkable era of strong growth performance, driven to a large degree by the oil boom of the past four years. During this time the region has seen job creation accelerate, unemployment decline, and women increase their active participation in the labor force. While there are many positive results to highlight, at the regional level, aggregates mask uneven results. Some countries have benefited from this growth momentum much more than others, resulting in regional variations in employment trends. Women are more active in the labor force, but are much less successful in finding jobs than their male counterparts, and youth are barely keeping in line with the advances of other age groups.

At the same time as the region is experiencing its strongest economic boom in three decades, it is also facing an unprecedented challenge in labor markets. MENA's demographic bulge, the result of high population growth in the 1970s and 1980s, is now coming of age. Nearly 40 million additional people are estimated to be joining MENA's labor force between 2000 and 2010—an astounding 40 percent increase. While labor force growth will start to decline as the demographic bulge advances, the greatest pressures on the labor market are taking place between 2005 and 2010, when the labor force is expected to increase by about 4 million per year on a net basis (see figure 2.1).

There is no doubt that job creation remains the key to raising income levels and reducing poverty in the region. The rapid expansion of the labor force relative to the number of dependents provides a potential source of higher savings, investments, and future income growth. In the past, however, MENA's economies fell short of creating enough jobs for its growing labor force. The result was high and rising unemployment rates, especially for youth, which in turn carry high social and economic costs.

Three years ago, the World Bank presented *Unlocking the Employment Potential in the Middle East and North Africa: Towards a New Social Contract*. The report described the job creation challenges facing the region, took stock of labor market developments from the 1990s through the early 2000s, and outlined the reforms needed to address those challenges. The report showed that around 100 million additional jobs would have to be created between 2000 and 2020 to employ all additional entrants to the labor market and eliminate unemployment. To achieve these results, the MENA region would have to maintain average annual economic growth rates of 6 to 8 percent per year, far higher than the average 3.6 percent growth witnessed over the 1990s. Such rapid growth would require policy makers to move more decisively on reforms aimed at opening the region to foreign trade, reducing dependency on oil through diversification, improving governance,

Figure 2.1: Labor force growth through 2020



Source: World Bank staff estimates based on ILO 2005.

and reducing the dominant role of the public sector in employment creation.

Much has changed, however, in the MENA region in recent years. Oil prices (World Bank average) rose from \$18 a barrel during the late 1990s to \$26 in the early 2000s, and reached \$64 a barrel in 2006. The rise in oil prices had dramatic implications for regional budgets and stimulated economic growth. Furthermore, it is encouraging to note that several countries have made significant headway on their structural reform agenda (chapter 3). Finally, estimates and projections of the regional labor supply have been revised downward by the International Labour Organization (ILO), as women’s labor force participation rates (LFPRs) turned out to be smaller than originally predicted.

Against this backdrop, this chapter seeks to answer the following questions. First, how has MENA’s labor force changed in the past few years, and what implications does this have for employment and unemployment? Second, how has higher growth affected job creation and unemployment rates? Third, where and for whom are these jobs created? And, fourth, what kinds of jobs are being created in the high-growth environment? High employment numbers are not a final long-term goal for the region. The jobs created also need to be good jobs, sustainable over the long term, with prospects

for rising incomes. The interdependence between output growth and job growth forms an additional challenge for a region where natural-resource-driven and capital-intensive output growth has been largely disconnected from job creation in agriculture, government, or low-productivity sectors.

2.1 The Region’s Changing Labor Force¹

2.1.1 Rapid expansion

Data from the ILO indicate that, at the end of 2005, the labor force in MENA was close to 120 million people, accounting for 56 percent of the working-age population (ages 15–64) and about 35 percent of the total population. Annual growth rates for the regional labor force averaged 3.7 percent between 2000 and 2005—higher than in any

¹ This section draws partly on Dyer (2006a). For consistency and to facilitate comparison between countries, the labor force data presented in this section are based on participation rates from the ILO Economically Active Population Estimates and Projections database (ILO 2005). They refer to members of the population aged 15–64.

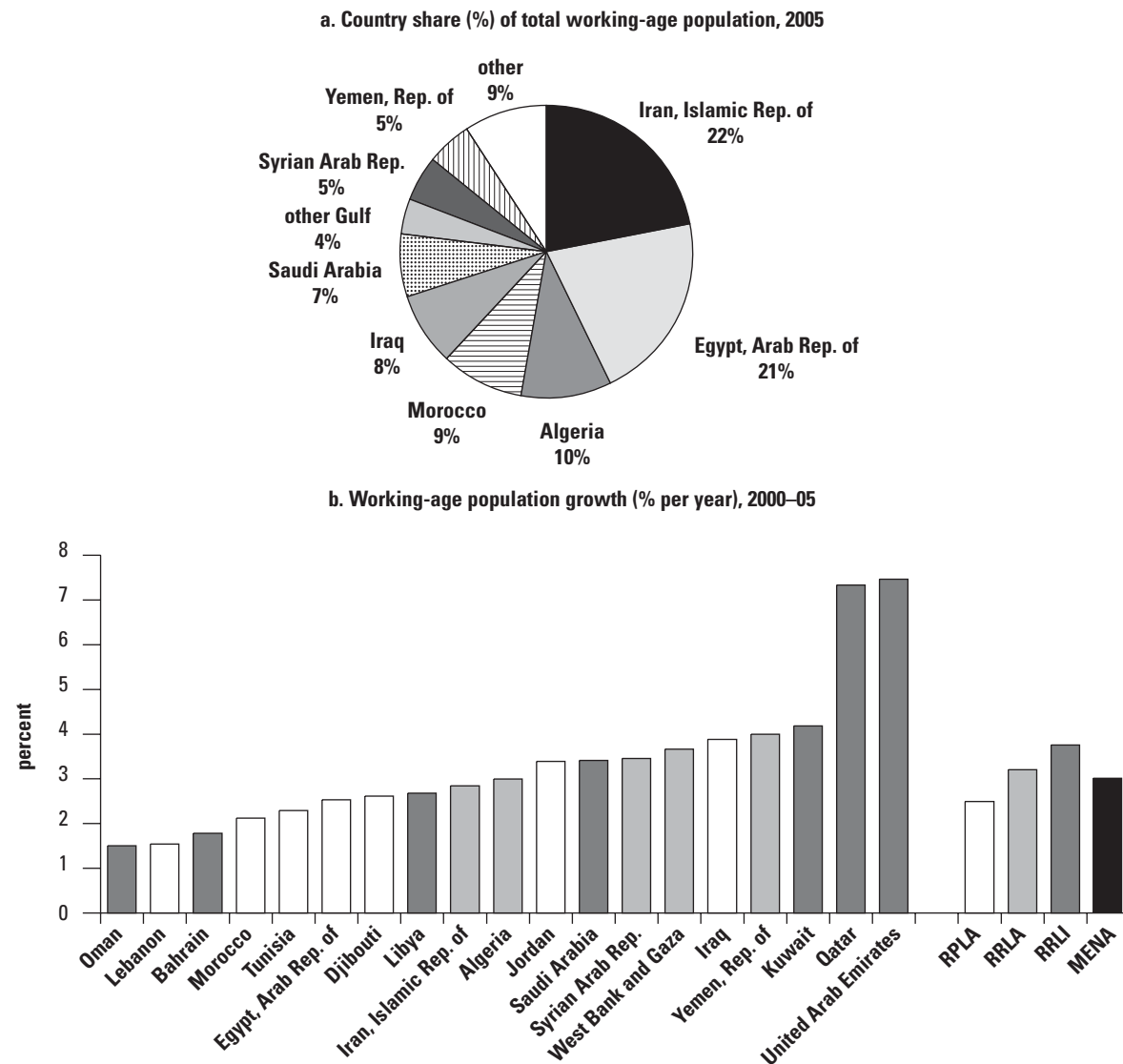
other developing region. This implied about 20 million net additional workers coming to the labor market between 2000 and 2005. The labor force continues to expand rapidly as a result of the demographic transition—driven somewhat more by increasing LFPRs, as the growth in the working-age population is slowing down.

Working-age population growth is slowing. MENA’s exceptional labor force growth springs from a combination of a rapidly growing working-age population and rising LFPRs. A rapid fall in fertility rates in the 1980s, however, is now translating into slower working-age population growth. Between 2000 and 2005, the working-age population

in MENA increased by about 3.0 percent per year, compared to 3.2 percent in the 1990s, and no country in MENA saw faster growth in its working-age population in the past five years than in the 1990s. Yet these growth rates imply that the working-age population increased by a record high 6 million people per year.

A majority of MENA’s population belongs to a few large countries, which strongly influence regional average trends. Iran and Egypt are each home to more than one-fifth of the total working-age population while Morocco and Algeria together account for another 20 percent (see figure 2.2). Among these larger countries, the working-age

Figure 2.2: Economic growth and the working-age population in large labor-abundant countries



Source: World Bank staff estimates based on ILO 2005.

Note: RPLA = resource-poor, labor-abundant; RRLA = resource-rich, labor-abundant; RRLI = resource-rich, labor-importing. MENA country groups as in table 2.1.

population expanded relatively fast in Iran and Algeria, and slower in Egypt and Morocco. Three Gulf countries—the United Arab Emirates, Qatar, and Kuwait—saw the highest growth rates, followed by the Republic of Yemen, West Bank and Gaza (WBG), Syria, Iraq, and Jordan. The exceptionally high growth rates in the Gulf countries, as well as in Jordan, reflect high inflows of migrant workers rather than fertility-driven changes.

The MENA Region's LFPRs are increasing rapidly. Accelerated growth in LFPRs has also countered the reduction in working-age population growth. LFPRs increased from 54.1 percent in 2000 to 55.9 percent in 2005, representing a growth rate three times as fast as that of the 1990s.

Within the region, resource-poor and resource-rich countries are diverging. As seen in table 2.1, participation rates are generally higher in resource-rich than in resource-poor countries. In the labor-importing countries, as the name suggests, high

participation rates bear witness to the important role of migrant workers: an estimated two-thirds of the Gulf workforce is made up of foreigners, of which almost all are employed, while nationals generally have lower participation rates. Now, however, participation rates are also increasing the fastest in resource-rich, labor-abundant countries (RRLA). In Iran, LFPRs increased from 54 to 58 percent in five years; in Algeria, from 58 to 61 percent; and, in Syria, from 62 to 65 percent. Among resource-poor countries—where participation rates are generally lower—trends differ significantly. Participation rates stagnated in Morocco and Egypt, but increased relatively fast in Tunisia, Lebanon, and Jordan. Since 1990, participation rates in Jordan and Tunisia have almost caught up with those in Morocco.

Labor force growth is accelerating. The combination of continued high working-age population growth and rising participation rates resulted in an increase in labor force growth between 2000 and

Table 2.1: Participation rates in labor-abundant countries: high and rising

	Labor force-participation rate			Annual % change in labor force participation rate	
	1990	2000	2005	1990–2000	2000–05
Resource-poor, labor-abundant	52	51	52	–0.2	0.2
West Bank and Gaza	39	41	41	0.5	–0.2
Egypt, Arab Republic of	52	49	49	–0.7	0.2
Tunisia	51	53	55	0.4	0.8
Jordan	46	54	56	1.5	0.7
Morocco	54	56	56	0.3	0.0
Lebanon	57	57	59	0.1	0.6
Djibouti	71	70	69	–0.1	–0.2
Resource-rich, labor-abundant	52	55	58	0.5	1.0
Iraq	47	50	50	0.5	0.3
Yemen, Republic of	52	54	54	0.3	0.3
Iran, Islamic Republic of	53	54	58	0.2	1.3
Algeria	52	58	61	1.0	1.1
Syrian Arab Republic	57	62	65	0.8	1.0
Resource-rich, labor-importing	58	59	60	0.2	0.3
Saudi Arabia	55	53	53	–0.3	–0.1
Oman	57	60	59	0.6	–0.6
Libya	53	55	59	0.5	1.3
Bahrain	66	66	66	0.0	–0.2
Kuwait	64	72	73	1.1	0.4
Qatar	76	72	75	–0.6	0.7
United Arab Emirates	74	77	78	0.5	0.1
MENA	53	54	56	0.2	0.6

Source: World Bank staff estimates based on ILO 2005.

2005, at around 3.7 percent per year, compared to 3.4 percent in the 1990s. Aside from migrant-driven growth in labor-importing countries, RRLA countries with high population growth and growing participation rates saw an exceptional expansion, with labor force growth rates around or exceeding 4 percent per year. With the exception of West Bank and Gaza and Jordan, labor force growth was considerably slower in resource-poor countries.

The main determinant behind high labor force growth was continued high working-age population growth. However, in Algeria, Iran, and Syria in particular—and also in Lebanon, Libya, and Tunisia—rising participation rates pushed labor force growth much above working-age population growth (see figure 2.3).

2.1.2 Aging

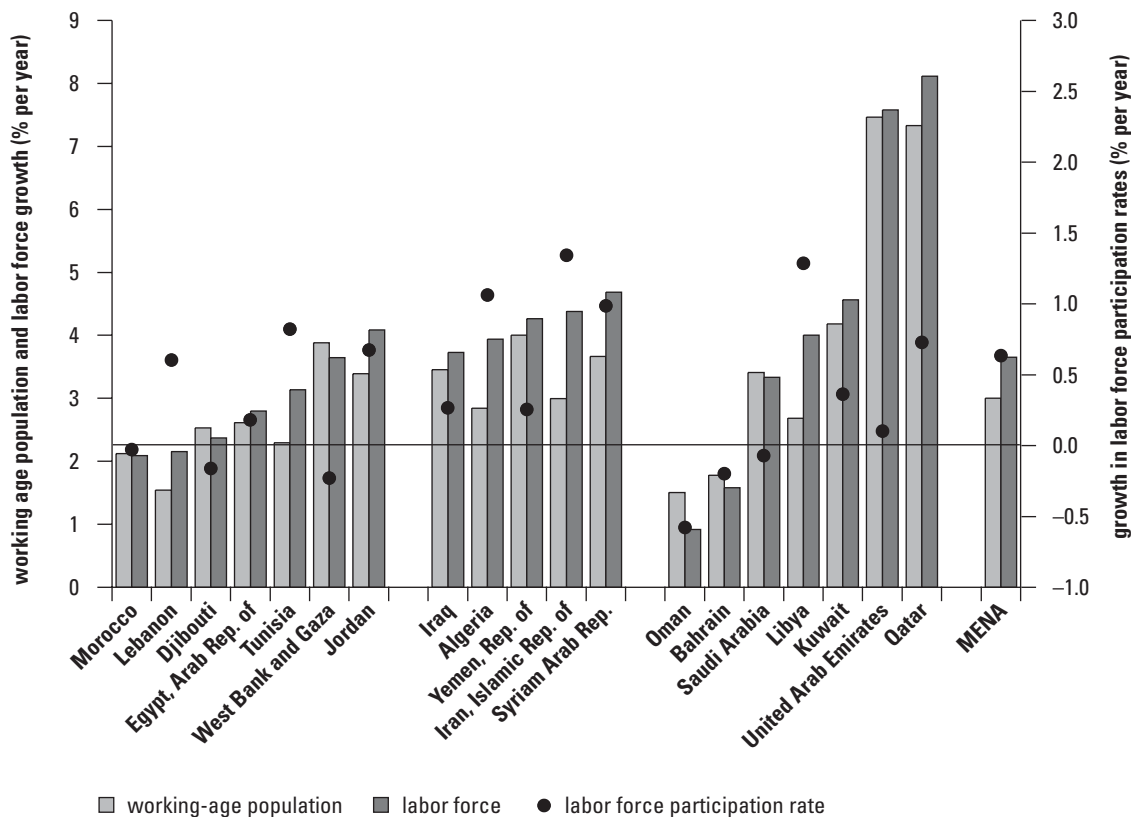
The Share of youth is slowly decreasing. A young age profile has long been the key feature of MENA's working-age population and labor force. As MENA's working-age population is aging and the

demographic transition maturing, the share of youth is slowly changing. In 1990, 36 percent of the working-age population and 27 percent of the labor force consisted of people between 15 and 24 years of age. By 2005, the youth share had fallen marginally, to 35 and 25 percent respectively. At the same time, overall participation rates have remained flat, at around 40 percent (see figure 2.4).

New entrants arrive with higher education levels. The educational attainment level of the labor force continues to grow. This is largely due to the arrival of first-time entrants with higher levels of education.² Little recent data on labor force education levels are available, but enrollment rates at higher levels of education have continued to grow in the past few years (see figure 2.5). On average, enrollment rates increased by two-thirds between 1990

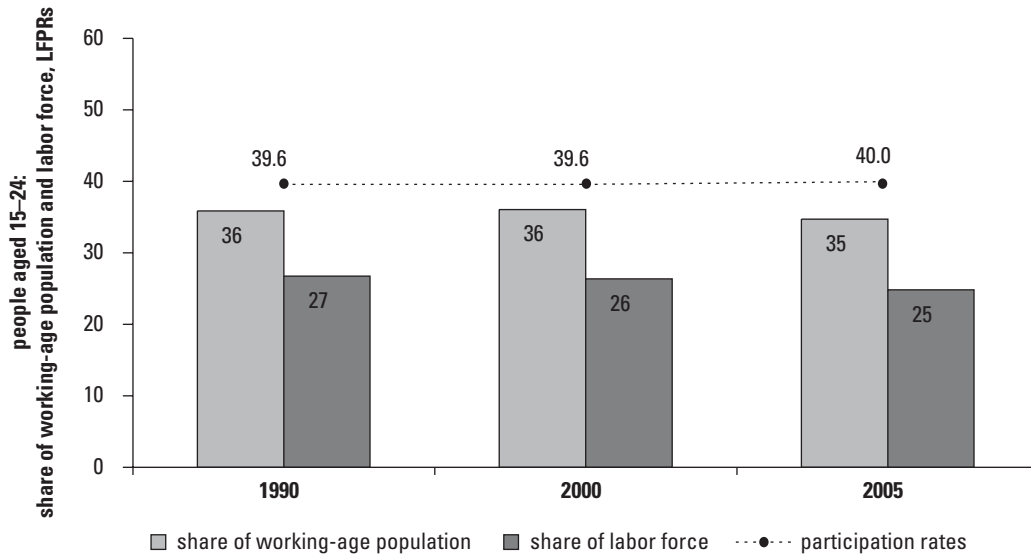
² For example, the Arab Republic of Egypt survey data from 1998 shows that people aged 60–65 had received, on average, three years of education; those aged 45–49 had received five to six years of education; and people aged 30–35 had received nearly eight years of education (World Bank 2004a).

Figure 2.3: Effect on labor force of growth in working-age population and rising labor force participation



Source: World Bank staff estimates based on ILO 2005.

Figure 2.4: Young people as a share of the working-age population and labor force



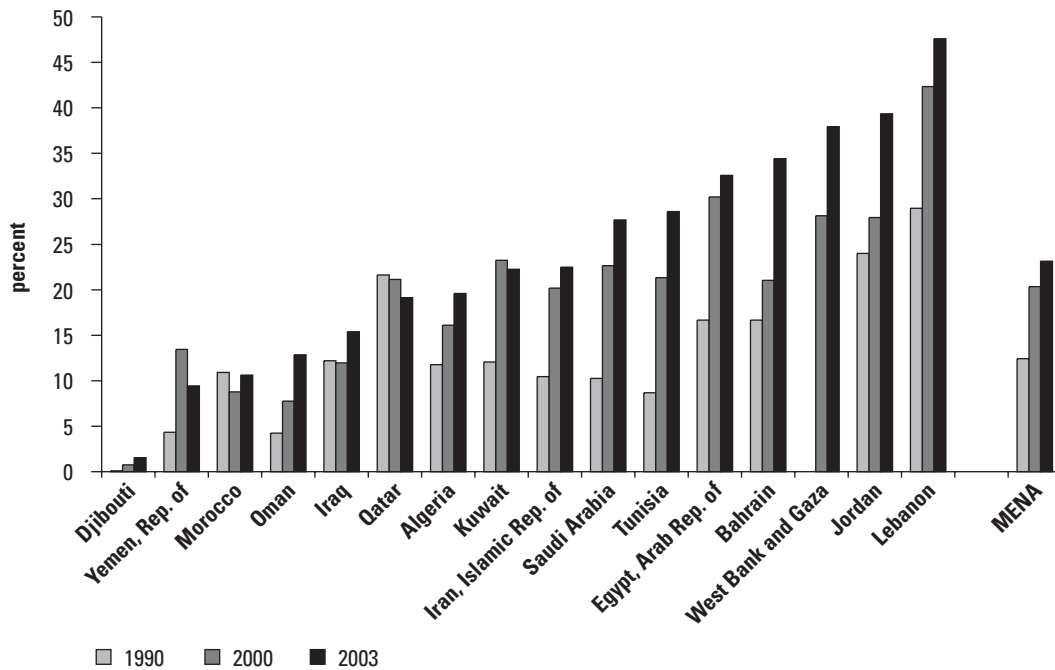
Source: World Bank staff estimates based on ILO 2005.

Note: LFPR = labor force participation rate.

and 2000, and continued to increase between 2000 and 2003 in all but three countries (Yemen, Qatar, and Kuwait). These higher enrollment rates are likely to result in: (a) higher average education levels in the labor force; (b) lower participation rates for the

youngest age groups (who remain in school) but higher participation rates for young graduates; and (c) higher participation of women, whose participation rates are more closely related to education levels than those of men (World Bank 2004a).

Figure 2.5: Enrollments in higher education, 1990, 2000, and 2003



Source: World Bank staff estimates based on World Bank 2007b, except Algeria; World Bank 2006a.

Note: MENA average weighted by working-age population.

2.1.3 Presence of women

The single most important transformation affecting MENA's labor markets in the past few years is the increasing presence of women workers. While not much growth could be reasonably expected from male participation rates—they hover around 80–90 percent in most countries—female participation rates continue to increase at a fast rate, albeit from traditionally low levels. In fact, the overall increase in participation rates since 2000 is due to a record growth in female participation rates. The RRLA countries are seeing the strongest dynamic. In the Islamic Republic of Iran, female participation rates increased from 33 to 41 percent in five years, representing a phenomenal catch-up. In 1990, participation rates for women in Iran were below the MENA average; by 2005, they were the third-highest in the region. Participation rates also increased substantially in Algeria and Syria (see table 2.2). We should note that participation rates in labor-importing countries are affected by an important presence of

migrant female workers with stronger labor force attachment than national workers. This may also be the case in Syria and Jordan, which have been strongly affected by the inflow of Iraqi workers.

Outcomes are more mixed for resource-poor countries. Essentially, differences in trends in total participation rates result from differences in trends in female participation rates. Thus, female participation rates increased rapidly in Jordan, Tunisia, and Lebanon; and stagnated in Morocco and Egypt, despite the fact that participation rates for Egyptian women are among the very lowest in the region.³

Women account for the acceleration in labor force growth. In net terms, the upturn in labor force growth since 2000 was entirely due to the arrival of women in MENA labor markets (see figure 2.6).

³ Note that participation rates from ILO data differ from recent survey data for the Arab Republic of Egypt, which indicate an increase in female labor force participation between 1998 and 2006 (see box 2.6).

Table 2.2: Women's participation in the labor force: rising rapidly

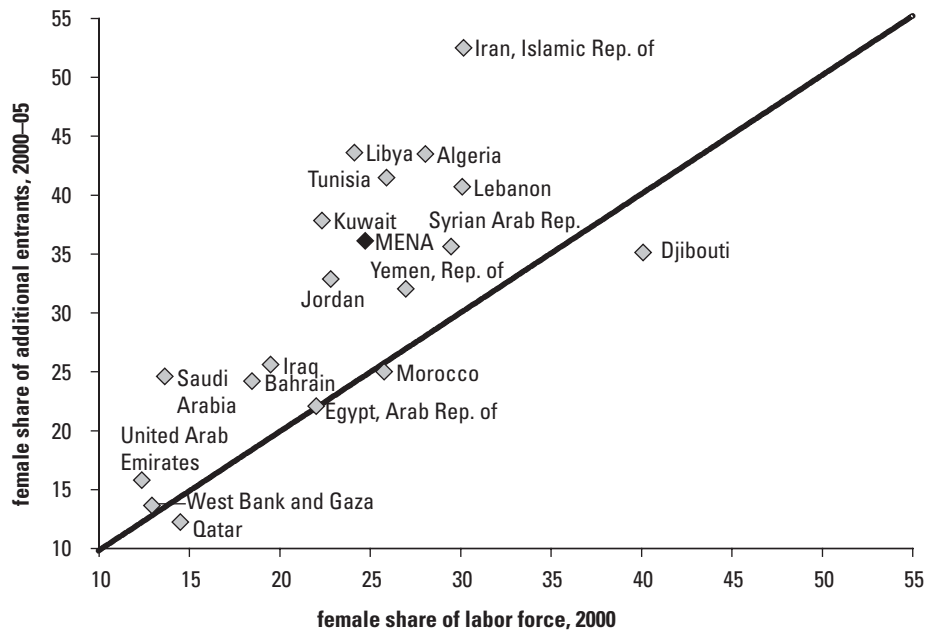
	Labor force participation rate for women			Annual % change in labor force participation rate		
	1990	2000	2005	Women		Men
				1990–2000	2000–05	2000–05
Resource-poor, labor-abundant	26	24	25	-0.8	0.4	0.1
West Bank and Gaza	10	11	11	1.3	0.0	-0.3
Egypt, Arab Republic of	28	21	22	-2.5	0.1	0.2
Morocco	26	29	29	1.1	0.0	-0.1
Jordan	19	26	29	3.4	2.1	0.3
Tunisia	22	27	31	2.2	2.6	0.1
Lebanon	34	33	36	-0.3	1.4	0.2
Djibouti	58	56	55	-0.3	-0.4	0.0
Resource-rich, labor-abundant	23	31	36	3.0	3.0	0.1
Iraq	16	20	21	1.9	1.3	0.0
Yemen, Republic of	29	29	31	0.3	0.9	0.0
Algeria	24	33	38	3.3	3.0	0.2
Syrian Arab Republic	30	36	40	2.0	1.9	0.6
Iran, Islamic Republic of	22	33	41	4.0	4.1	0.0
Resource-rich, labor-importing	19	23	26	1.8	2.5	0.0
Saudi Arabia	16	17	18	0.8	1.8	-0.1
Oman	16	21	24	2.7	2.8	-0.3
Bahrain	29	31	31	0.6	-0.2	0.0
Libya	20	28	34	3.5	3.8	0.5
Qatar	30	34	37	1.1	1.9	0.0
United Arab Emirates	26	36	39	3.3	1.8	-0.2
Kuwait	36	45	50	2.4	2.3	0.0
MENA	24	28	31	1.4	2.1	0.1

Source: World Bank staff estimates based on ILO 2005.

Figure 2.6: Women as a share of the labor force, 1990–2005



b. Women as share of labor force in 2000 vs. women's share of additional entrants to labor force in 2000–05



Source: World Bank staff estimates based on ILO 2005.

Between 2000 and 2005, the female labor force grew by 5.2 percent compared to 4.7 during the 1990s, with a labor force share that increased from 25 to 27 percent. Women's share of additional entrants in the labor force increased from 32 percent to 36 percent in 2005.

Because of different trends in labor force participation, there is a divergence in the female labor force

presence across the region. Countries where the female share of the labor force was comparatively high in 2000—Iran, Algeria, Tunisia, and Lebanon—also experienced more rapid increases between 2000 and 2005. In Iran, women made up a majority of all additional entrants to the labor market.

Rising education levels may explain the increase in female labor force participation. Is the important

increase in female LFPRs a result of cyclical or long-term structural factors? While the former implies that women joined the labor force because economic growth has been creating job opportunities, the latter suggests that women wanted and will continue to want to make the most out of their increasing education levels.

As mentioned, recent data on education levels of the labor force and working-age population are not available, but three factors suggest that continuously rising education levels among women play an important role. First, fertility rates have continued to fall, from 3.2 average births per woman in 2000 to 3.0 in 2004. The region's falling fertility is linked to higher education levels and the rising age of women at marriage—and all three factors are linked to higher LFPRs (World Bank 2006a).

Second, the highest levels and strongest increase in LFPRs are among women aged 25–29, the age when people graduate from university (see figure 2.5). While their share of the total labor force remained very small at 5 percent, this age group expanded by nearly 7 percent per year in 2000–05. In Iran, this section of the female labor force expanded by over 10 percent annually; in Egypt, by nearly 7 percent; and in Algeria, by 6 percent. With the exception of Bahrain, growth in female labor force aged 25–29 was particularly high in the Gulf countries. Rapid growth, however, reflected a generally high growth rate for all age groups more than changes in sex or age composition, and is very likely due to immigration. In contrast, participation rates are increasing the slowest for women aged 15–24, probably because they are still in school. Finally, male participation rates stagnated for all age groups.

Third, higher enrollment rates also show a shift in the gender parity in schooling. In 1990, gross enrollment rates at the tertiary level were higher for men than for women in all countries except Jordan, Kuwait, and Qatar. By 2002, however, the situation was the reverse. In 11 out of 18 countries, women had higher enrollment rates,⁴ and in all countries except Jordan and Iraq, women's enrollment rates increased faster than those of males (see figure 2.7).

Yet, a key feature of the female labor force is also more stable rates among older workers, meaning that women appear to not automatically drop out of the labor market after marriage. Indeed, by 2005,

most of the female labor force consisted of workers aged 30 and above, and this group also grew at considerable speed, around 5.6 percent per year.

2.1.4 *More changes on the way*

The MENA Regional Employment Report provided estimates of MENA's labor force growth and composition into the next decade, using the most recent ILO data on participation rates and UN population data at the time, that is, version 4 of the *ILO Economically Active Population Estimates and Projections* (EAPEP). New revisions of the EAPEP (version 5) have changed the labor force data significantly. Below, we provide an updated set of projections based on the updated version. While the main conclusions from the MENA Regional Employment Report stand, the magnitude and timing of dynamics change because of revisions to both historical estimates and projections. Most importantly, labor force growth is somewhat lower because of a slower increase in female participation rates than earlier projected (see box 2.1).

Labor force growth will slow down over time. Since labor force growth continues to be high between 2005 and 2010, MENA's job markets are estimated to be receiving the highest number of entrants in the immediate future (see figure 2.8, panel a). After that, the number of additional entrants in the labor force, as well as labor force growth rates, will drop more markedly to 3.5 million people and 2.2 percent per year, respectively. Women will continue to increase their share in the labor force, but at a slower pace than before, because the increase in participation rates is expected to slow down. By the end of the next decade, the female share will have reached 30 percent. The maturing of the working-age population will show through more decisively, and the share of young people will have fallen to below one-third of the labor force.

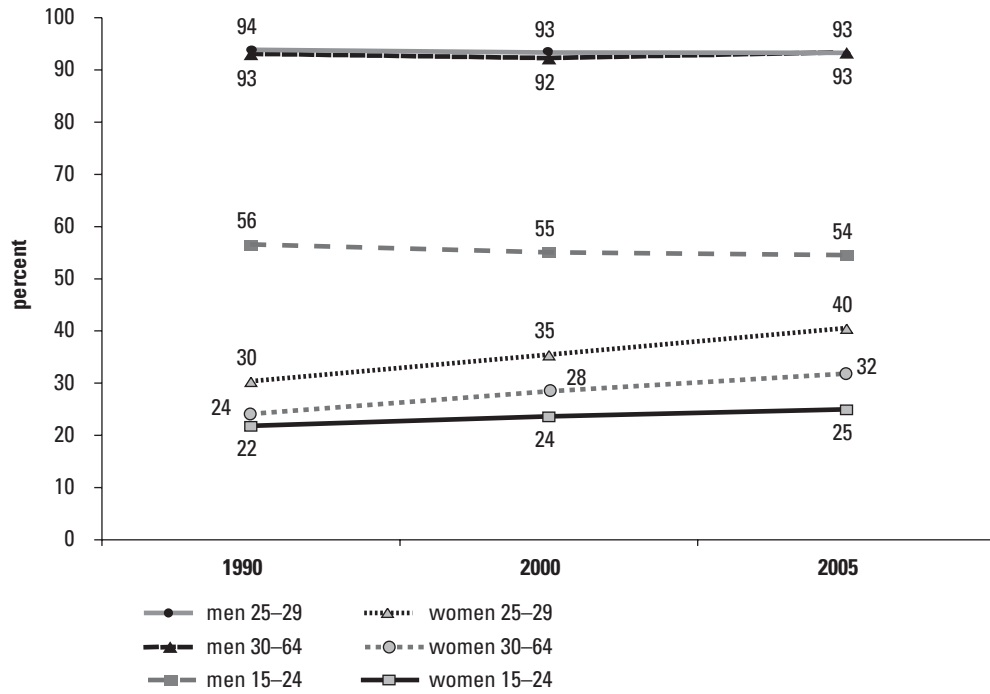
No country in the region will see higher labor force growth in the coming years, though growth will remain more or less the same in Saudi Arabia and Egypt (see figure 2.8, panel b). Several countries, however, continue to face a massive number of entrants on the labor market, with labor force growth exceeding 3 percent. Among these are the Republic of Yemen, Iraq, Syria, and Saudi Arabia, as

⁴ The MENA average gender parity rate remains below 1 but is influenced by the Arab Republic of Egypt, for which the latest year for enrollment data is 1995. Excluding the Arab Republic of Egypt, the gender parity rate for MENA is 0.98. ELMPS survey

data suggests that the share of highly educated women in the working-age population has increased much faster than for men in the period 1998–2006, however, and the 1995 numbers are probably underestimating current enrollment rates considerably.

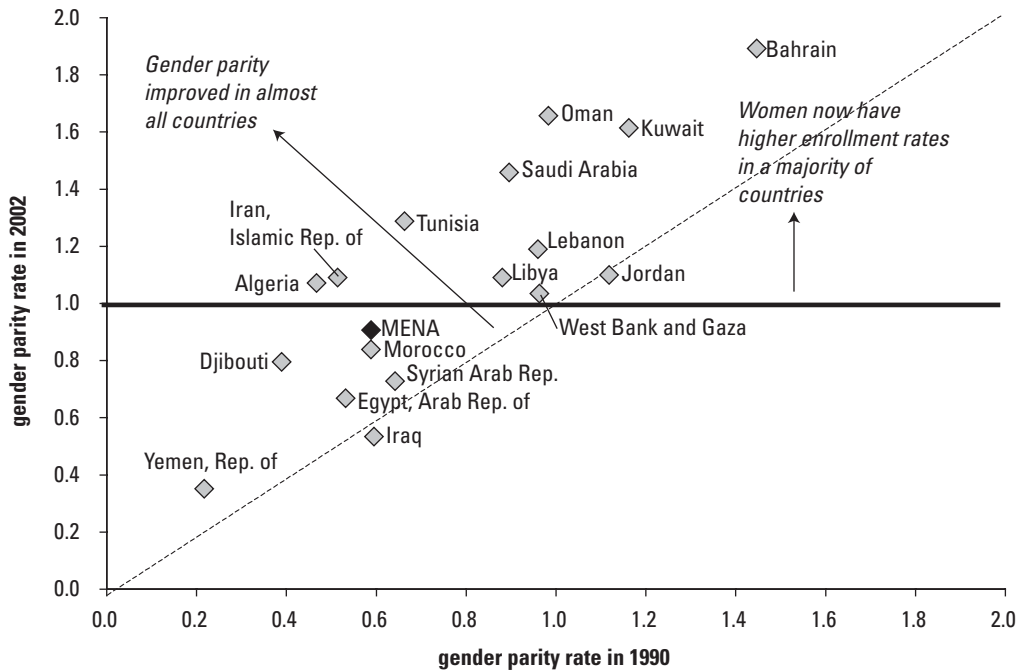
Figure 2.7: Young women, higher education, and labor force participation

a. Labor force participation rates, men and women, by age groups, 1990, 2000, 2005



Source: World Bank staff estimates based on ILO 2005.

b. Changes in gender parity rate, 1990 and 2002



Source: World Bank staff estimates based on World Bank 2007b, except Algeria; World Bank 2006a.

Note: Gender parity rate is female gross tertiary enrollment rate divided by male gross tertiary enrollment rate. Years are 1990 and 2002 except for: Algeria (1990, 2004), Egypt (1990, 1995), Iraq (1985, 2000), Oman (1990, 2001), Syria (1990, 1995), and WBG (2000, 2002).

Table 2.3: The maturation of the female labor force

	1990	2000	2005	1990–2000	2000–05
	Share of total labor force, 15–64			Growth in labor force (% per year)	
All women	22.0	24.8	26.6	4.7	5.2
15–24	7.2	7.7	7.6	4.2	3.4
25–29	4.0	4.3	5.0	4.2	6.8
30–64	10.9	12.8	14.1	5.1	5.6
	Labor force participation rate			Change in LFPR (% per year)	
All women	24.1	27.5	30.6	1.4	2.1
15–24	21.7	23.5	24.9	0.8	1.1
25–29	30.3	35.4	40.5	1.6	2.7
30–64	24.0	28.3	31.7	1.7	2.3

Source: World Bank staff estimates based on ILO 2005.

Box 2.1

Revised ILO estimates of labor force participation rates in the region

The MENA Regional Employment Report applied the LFPRs reported in ILO EAPAP (version 4) from 1996 to more recent UN Population Prospects data (2002) to get actual labor force numbers. In 2005, ILO issued a set of revised projections, EAPAP version 5, for 1980 to 2020. The new estimates and projections contain important revisions to the data. Most importantly, female LFPRs were estimated to increase at a significantly slower pace.

Primarily, differences resulted from the fact that version 4 was based on country-reported data up until 1989, while version 5 was based on data up until 2001. In version 4, the rising participation rates of the 1980s were thus extrapolated into the 1990s. These ended up as overestimations, especially for women, and especially

for Egypt. As a result, the aggregate MENA labor force is smaller in version 5 than in version 4 by nearly 5 million people in 2000, and by more than 7 million people in 2010, or some 5 percent of the labor force. The comparative reduction in estimates and projections of Egypt's female labor force, in particular older workers, accounts for two-thirds of all the net difference between version 5 and version 4 in 2000, and as much as four-fifths in 2010. In total, Egypt's labor force is some 20 percent lower in the revised version of EAPAP.

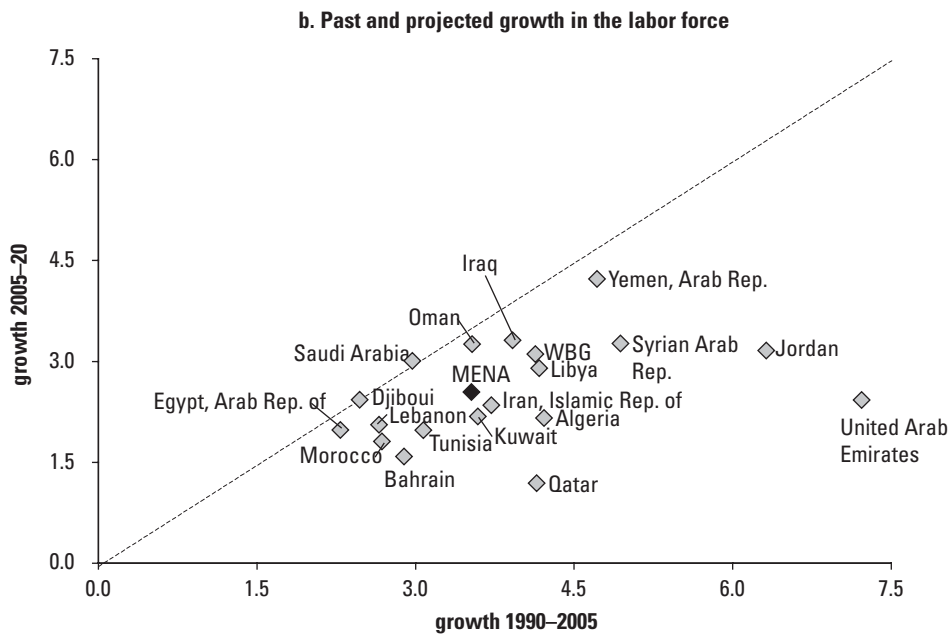
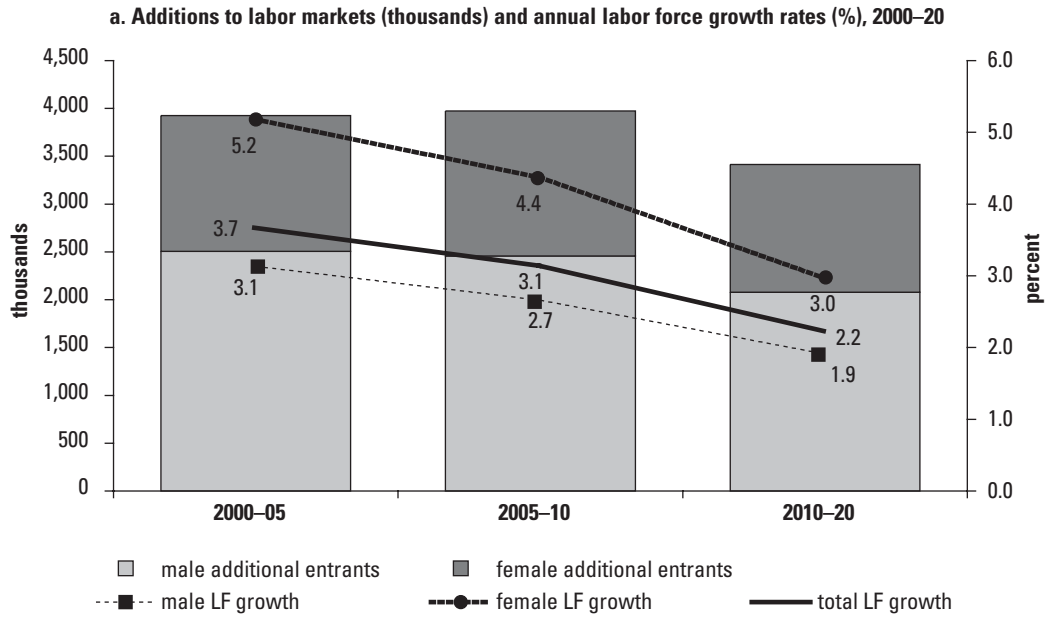
Compared to the Regional Employment Report, the numbers used in this report implicate (a) lower female participation rates; (b) lower labor force growth; and (c) a lower number of jobs needed to relieve the smaller labor market pressures.

Net difference in labor force estimates between version 5 and version 4 (in millions)

	Net difference in labor force (millions)			% of total net difference	
	1990	2000	2010	2000	2010
Total labor force	-1.9	-4.8	-7.8	100	100
Egypt	-1.4	-4.1	-6.7	85	92
Other	-0.5	-0.7	-0.6	15	8
Female	-1.4	-4.3	-7.6	89	103
Egypt	-0.6	-3.2	-5.7	67	77
Other	-0.8	-1.0	-1.9	21	26
Young females	-0.7	-1.5	-3.0	31	41
Egypt	-0.1	-0.9	-1.6	19	22
Other	-0.5	-0.6	-1.4	13	19
Older females	-0.7	-2.7	-4.6	57	62
Egypt	-0.5	-2.3	-4.0	49	55
Other	-0.2	-0.4	-0.6	8	8

Source: World Bank staff estimates based on Dyer 2006a.

Figure 2.8: The passing bubble in labor force growth



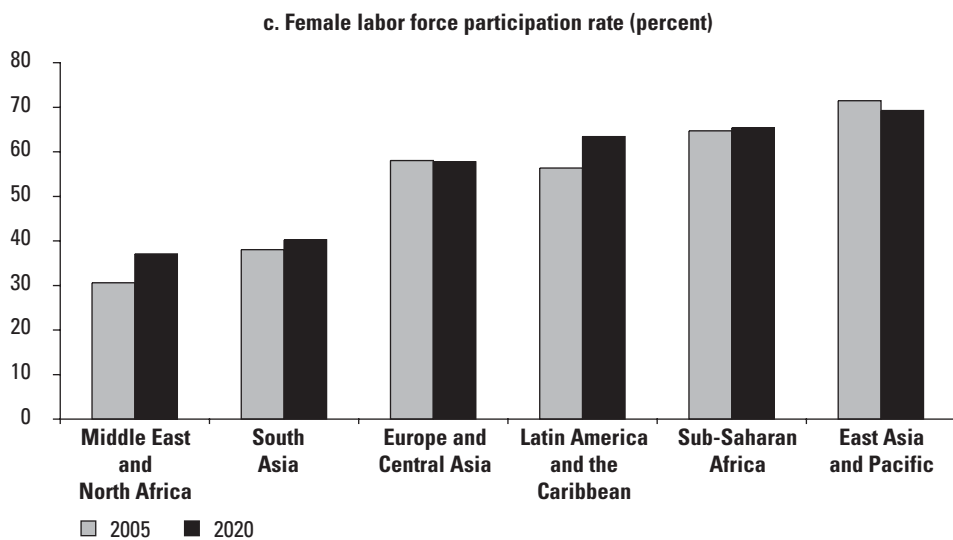
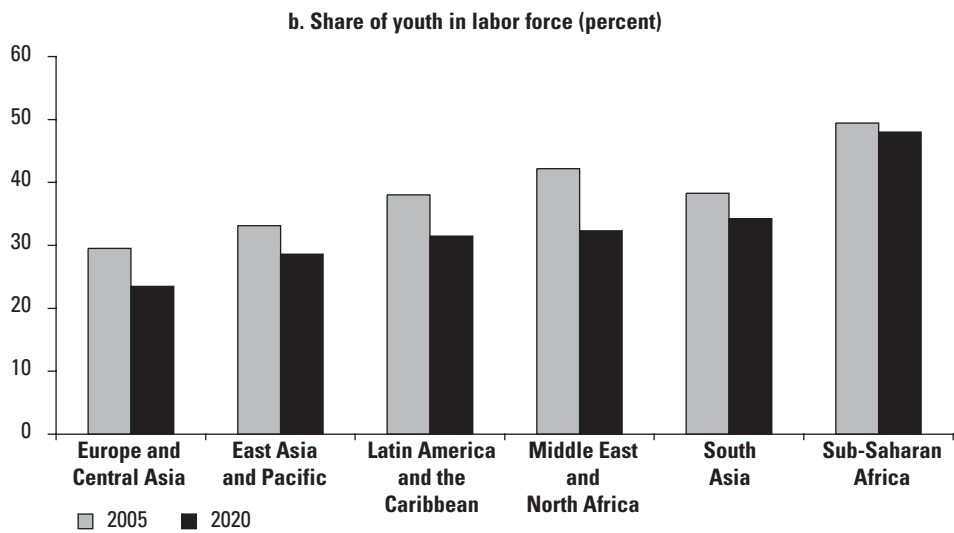
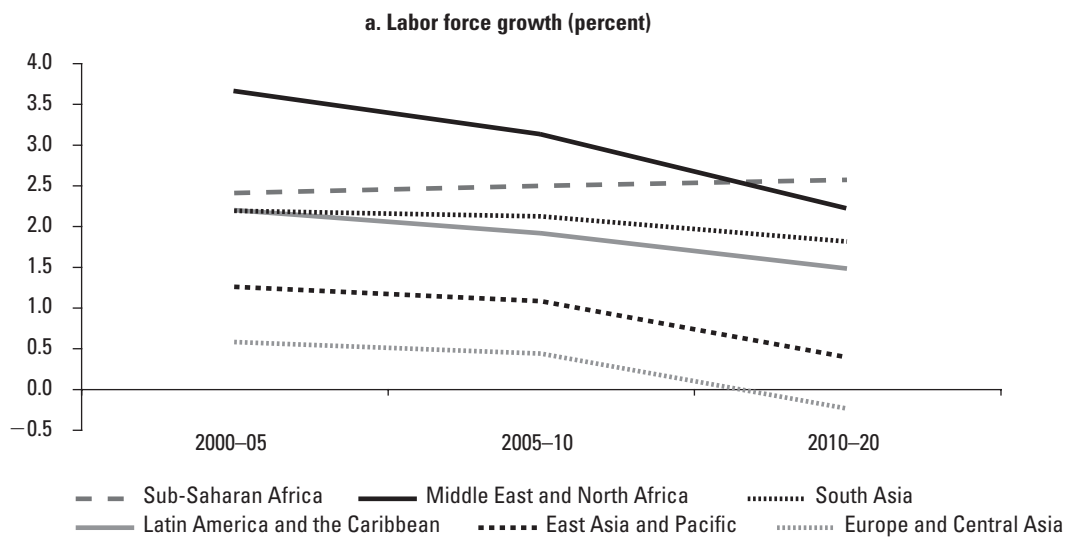
Source: World Bank staff estimates based on ILO 2005.

well as West Bank and Gaza and Jordan. Other resource-poor countries generally face much lower growth rates, especially Morocco.

MENA's labor force profile is slowly approaching other developing regions. MENA's labor force dynamics need to be seen in the light of how MENA's characteristics and trends compare to other developing regions. Currently, the MENA region's labor markets are at the extreme: the region has the highest levels of labor force growth, the lowest levels of female participation rates, and only Sub-Saharan

Africa has a younger labor force. The region is now rapidly moving toward an age profile closer to that of South Asia and Latin America. However, MENA will continue to face greater job creation challenges than any other region except sub-Saharan Africa—challenges that are exacerbated by the higher educational achievements of new entrants and their ensuing expectations. Moreover, by the end of the next decade, women's participation rates will have approached those of South Asia, but will still be the lowest of all developing regions (see figure 2.9). As

Figure 2.9: The region in international perspective, 2000–20



Source: World Bank staff estimates based on ILO 2005.

a result of the current state and these dynamics, MENA's total LFPRs will remain lower than those of any other developing region in the world.

2.2 Recent Employment and Unemployment Trends

The past few years have been characterized by record pressures in MENA's labor markets, including unprecedented increases in the labor force, a rapidly growing share of women, and a young labor force with higher education levels than in the past. Pressures have been particularly high in the larger labor-abundant countries. At the same time, the region is experiencing strong real output growth accompanied by high employment growth and declining unemployment. This section looks at changes in employment and unemployment in recent years and how they relate to MENA's labor force dynamics and patterns of economic growth.

2.2.1 Falling unemployment

Figure 2.10 provides an overview of developments in the MENA region based on labor market data for 12 countries: Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Morocco, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, and the West Bank and Gaza.⁵ The aggregates mostly present good news about MENA: between 2000 and 2005, *employment growth has exceeded both labor force and working-age population growth by a considerable amount*. It follows from these data that the regional unemployment rate has decreased while the employment rate—the proportion of the working-age population with a job—has in-

⁵ These are the 12 countries for which there is some trend data available for the period 2000–05. However, for some point estimates of unemployment, Iraq, Lebanon, and the Republic of Yemen are also included for comparative purposes. While the labor force data originates in a coherent ILO data set, employment and unemployment data are generally drawn from national official sources and the coverage of countries is smaller because of data insufficiencies.

Box 2.2

Getting the numbers right: employment and unemployment data issues

Unlike the labor force data used in the previous section, there is no one consistent comprehensive source of employment and unemployment data. The story has therefore to be pieced together from different indicators, according to their availability. This, in turn, raises issues about comparability across countries and time, and of consistency among different indicators and sources.

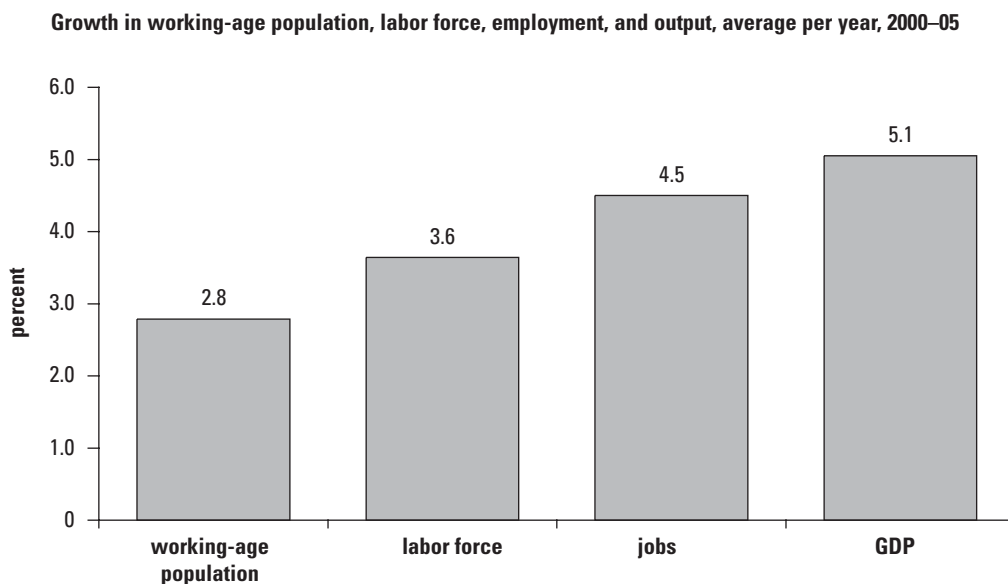
The labor force section of this chapter is based on data from ILO, for the purpose of consistent comparisons across time and countries as well as for projections. These series are often not fully compatible with national data for employment and unemployment. Moreover, to maintain consistency within the employment analysis, regional aggregates in the employment section cover only the 12 countries for which employment trend data exists or could be calculated, namely Algeria, Bahrain, Egypt, the Islamic Republic of Iran, Jordan, Kuwait, Morocco, Qatar, Saudi Arabia, Tunisia, United Arab Emirates, and WBG. As a result, total MENA labor force and working-age population growth estimates, discussed in relation to employment and unemployment analysis,

will differ slightly from those presented in the labor force section.

The employment section, further, is based on a mix of national sources and ILO data, depending on availability. Time-series and sometimes even single-point estimates of employment and unemployment data are surprisingly scarce, especially at a disaggregated level and for the recent high-growth period. Consistency problems arise over time and across categories in many countries, both between ILO numbers and government statistics, and within the data sets produced by the government and the ILO respectively. The analysis of Gulf countries' labor markets is marred by lack of data on the respective labor market status of nationals and nonnationals.

Differences in survey design across countries, and over time within countries, can also affect employment and unemployment numbers significantly. The risk of swings in numbers because of changes in measurement may be higher for women than for male workers: women are more prone to work part time and/or at home, and surveys will differ in whether these women are counted as unemployed, inactive, or employed.

Figure 2.10: The region's labor market story, 2000–05



Source: World Bank staff estimates based on ILO (2005, 2006a); and national sources.

Note: Countries and years included in regional aggregate: Algeria (2000, 2005), Bahrain (2000, 2004), Arab Republic of Egypt (1998, 2006), Islamic Republic of Iran (2000, 2005), Jordan (2001, 2005), Kuwait (2000, 2004), Morocco (2000, 2005), Qatar (2000, 2004), Saudi Arabia (2000, 2005), Tunisia (2000, 2005), United Arab Emirates (2000, 2004), and West Bank and Gaza (2000, 2005).

Box 2.3

Some useful definitions of labor market indicators

The *unemployment rate* is the share of unemployed in the labor force. The standard definition includes only those that are actively looking for a job. The extended definition includes the unemployed as well as discouraged workers—those who would like a job but who are not looking because they feel no hope of finding one, and are therefore counted as inactive.

The *employment rate* or the *employment-to-population ratio* is the proportion of the working-age population that holds a job, that is, those who actually are employed compared to those who potentially could be working. An advantage of the employment rate as a labor market indicator is that it is independent of changes in the labor force. While working-age population changes generally follow slower demographic changes (labor-importing countries being an exception), the labor force is an endogenous variable that can shift from year to year, as workers are encouraged or discouraged to join by the state of the economy and current unemployment rates. As discouraged workers drop out of the labor force, unemployment rates could

fall, which erroneously would suggest an improvement in labor market conditions. Employment rates would remain unchanged under these circumstances.

Of course, employment rates say nothing about important qualitative aspects: whether workers are productively employed, have acceptable working conditions, and receive decent wages.

Labor productivity measures value added produced per unit of labor—in this case per worker (rather than per hours worked).

The *employment elasticity* or *employment intensity of growth* is the percentage change in job creation, given a percentage change in output. Employment elasticities are by definition inversely related to labor productivity growth. Indeed, employment elasticities exceeding 1—jobs growing at a faster rate than value added—imply negative productivity growth.

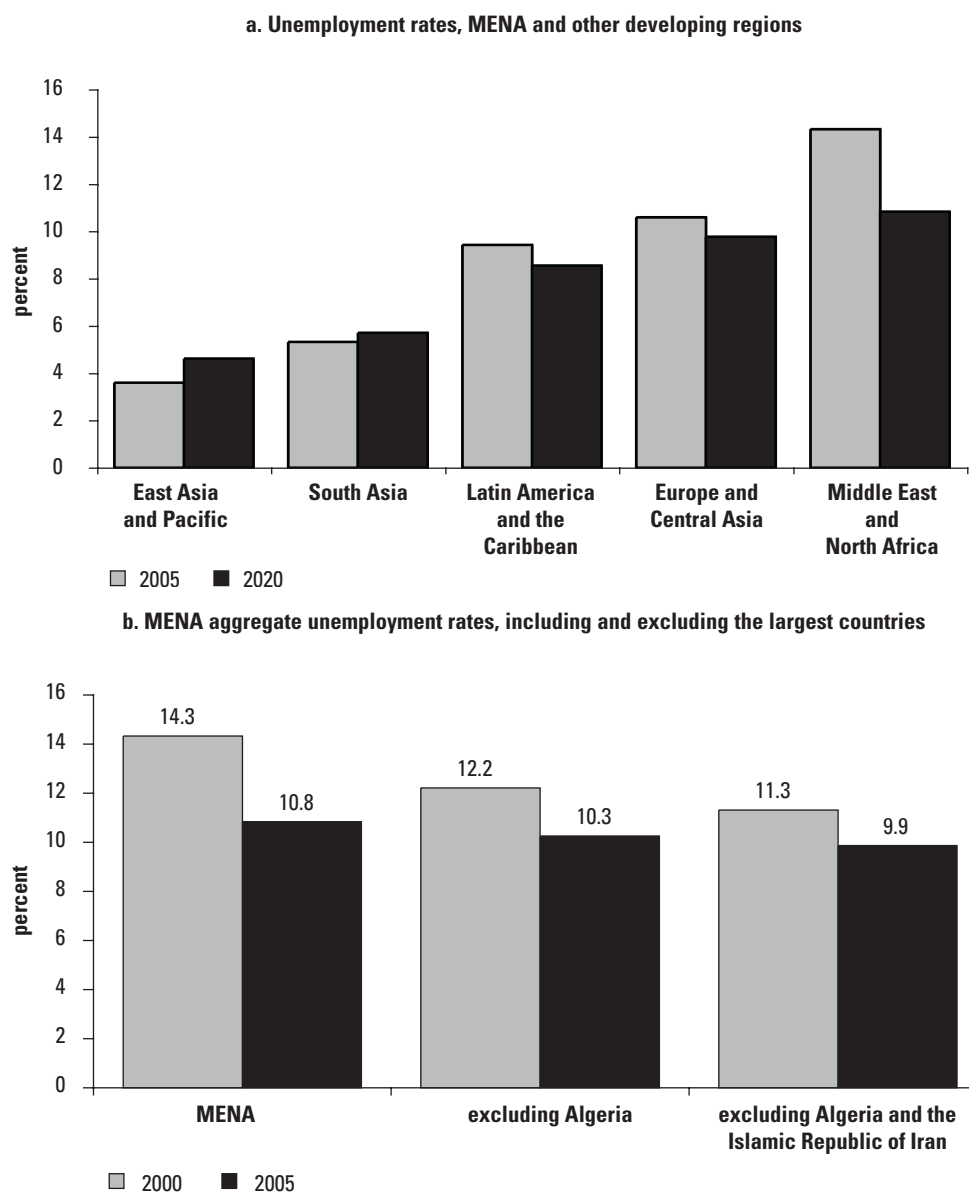
Unit labor costs are the labor costs associated with the production of one unit of output. Rising unit labor costs at the sector, industry, or firm level means falling competitiveness.

creased. Finally, the capacity of growth to generate jobs has been high: employment growth has tracked output growth closely. The reverse side of this coin is that labor productivity growth, while positive, has been slow. Beyond these aggregates, moreover, there is great heterogeneity, and some countries, as well as some groups of workers, are not benefiting as much from the renewed job growth.

Aggregate unemployment rates are falling in MENA. Between 2000 and 2005, the region's aggregate unemployment rate fell from 14.3 to 10.8

percent of the labor force, narrowing the gap with other developing regions (see figure 2.11, panel a). In view of the massive labor force expansion, this is a remarkable feat over a short period. Half of the drop in the regional unemployment rate is due to a dramatic reduction in official unemployment rates in Algeria, followed by important declines in Iran and Egypt. When the three largest countries are excluded, total unemployment rates were lower in both 2000 and 2005, but fell less significantly, from 11.3 to 9.9 percent (see figure 2.11, panel b).

Figure 2.11: Falling unemployment rates in the region, 2000–05



Source: World Bank staff estimates based on ILO (2005, 2006a); national sources.

Note: Regional unemployment rate is weighted by labor force. In panel b, data refer to the original 12 countries plus Iraq, 2004; Lebanon, 2004; and Yemen, 2005. Bahrain: registered unemployment only. Regional aggregates based on countries available. South Asia excludes India. If the largest countries for remaining regions are excluded (China, Brazil, Mexico, and Russia), MENA's unemployment rate is on par with Europe and Central Asia and Latin America and the Caribbean.

Unemployment rates have come down in eight of the twelve countries for which there are data to calculate labor market trends. In addition, Algeria, Qatar, Egypt, Morocco, Saudi Arabia (nationals only), and Iran have all seen large drops in unemployment rates in this period (see figure 2.12).⁶

The case of Algeria requires further explanation as unemployment rates were cut by half between 2000 and 2005. On closer inspection, the drastic cut in the number of unemployed largely reflects expansion of employment in “work at home,” including military draft and household work, as well as temporary employment programs (see box 2.4).

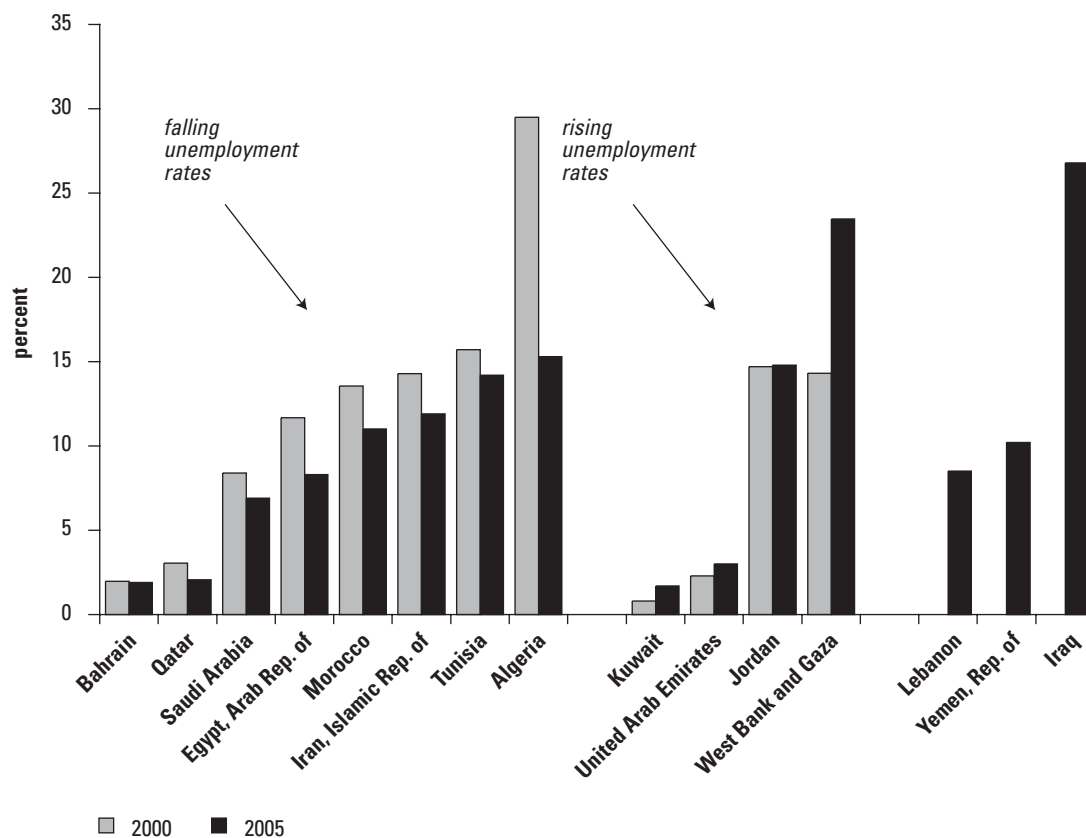
But unemployment rates are on the rise in some countries. Unemployment rates are also stagnating or even increasing in some MENA countries, even those displaying strong growth performance. Un-

employment has stagnated in Jordan. Unemployment rates are coming up in Kuwait and the United Arab Emirates, although from very low levels. Low overall unemployment rates for Gulf countries tend to mask higher unemployment rates for the minority of national workers. Finally, the West Bank and Gaza is the extreme case: unemployment increased by two-thirds over five years. Indeed, two conflict-ridden areas, Iraq and the West Bank and Gaza, have the highest unemployment rates of all countries in the region (see box 2.5).

And female unemployment rates are increasing. The MENA region now has more active women than ever, but more of them also end up unemployed, and the differences between men and women are becoming even more pronounced (see table 2.4). Female unemployment rates have increased in seven out of ten countries, and women’s unemployment situation has deteriorated relative to men in all countries, except Algeria and the United Arab Emirates. In Bahrain, the Iran, Jordan, and Tunisia, female unemployment rates have even increased, while those of men have fallen. As

⁶ The data for Saudi Arabia here refers to nationals only. The labor force growth rate was higher for nationals than for nonnationals—the national labor force grew by 3.6 percent compared to 3.3 percent for the total labor force according to EAPAP estimates.

Figure 2.12: Unemployment rates in the larger countries, 2000 and 2005



Source: World Bank staff estimates based on ILO (2005, 2006a); national sources.

Note: Earliest and most recent available in the period.

Box 2.4

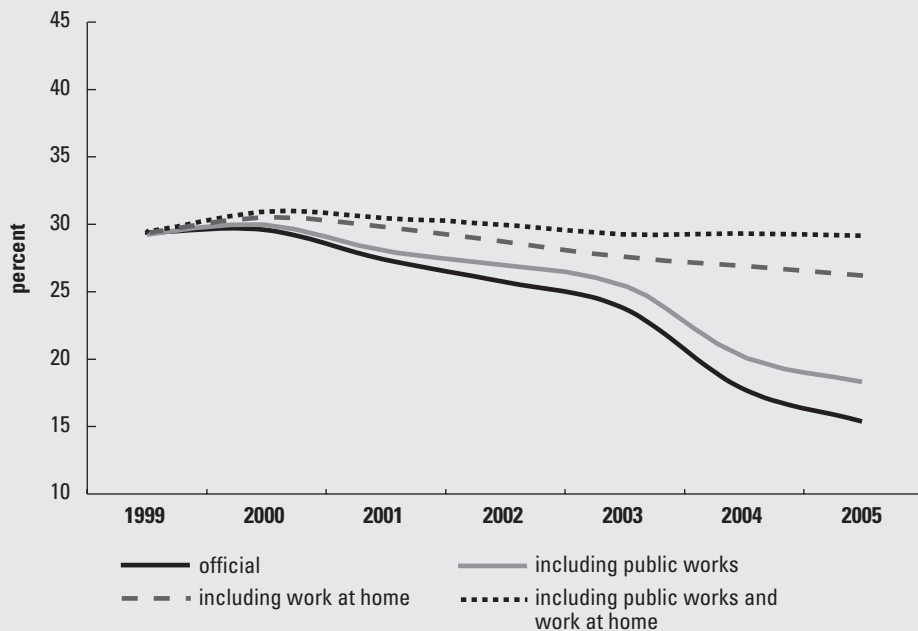
Algeria’s unemployment/employment puzzle

In Algeria, nearly half of all additional jobs between 2000 and 2005 were in a sector labeled “work at home,” which encompasses military draft, informal, and unpaid activities; another 10 percent were in public works and construction, reflecting temporary employment measures. If job creation in the “work-at-home” and public works sectors since the year 2000 is instead counted as unemployment, unemployment rates in Algeria would have been nearly 30 percent in 2005.

There are also sizeable discrepancies in labor force numbers. ILO labor force data exceeds national labor force data by about one-third. The labor force derived

from official employment-by-sector data and unemployment rates is between 5 and 10 percent larger than official numbers for the labor force. Official estimates for the population aged 16 and above (for 1997 only) are higher than ILO numbers for the same year. To maximize consistency, the labor force data here are based on employment-by-sector and unemployment data, while the working-age population has been calculated applying ILO LFPRs to the labor force numbers. If working-age population data from ILO were used, employment rates would instead be considerably lower (around 37 percent compared to 49 percent).

The fall in Algeria’s unemployment rates is based on “work-at-home” sector work and public works employment
Alternative unemployment rates in Algeria



Source: Staff estimates based on national sources and ILO 2005, IMF 2007, and World Bank 2007c.

a result, female unemployment rates in Iran and Jordan are now about twice as high as male unemployment rates. In Egypt, unemployment rates for women have come down at par with male unemployment rates, but remain four times higher than for men—the largest discrepancy in the region. In Morocco, they have fallen, but less than for men. In Algeria, female unemployment rates have come down even faster than males, reflecting the impact

of job creation in the “work at home” sector (see table 2.4).

Increasing unemployment rates for women are partly the result of rising participation rates, as women are shifting from inactive status to becoming openly unemployed. The increasing gender segregation in the active population is still worrisome, not least because women in MENA already suffer from much higher unemployment rates than in oth-

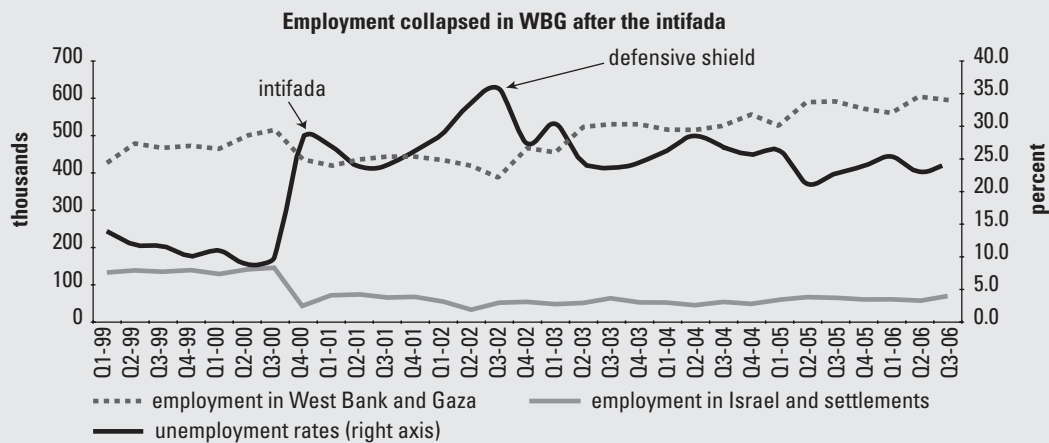
Box 2.5

Job creation, unemployment, and conflict: West Bank and Gaza and Iraq

Conflicts have strong negative effects on labor markets. They restrict the day-to-day mobility of people, encourage brain drain, propel massive population movements that are not related to job opportunities, block production of goods and services, and deter investment. Unsurprisingly, the WBG and Iraq have the worst unemployment rates and lowest participation rates in the MENA region. (No data are available to gauge the impact of the recent war in Lebanon.)

Although unemployment rates were high from the

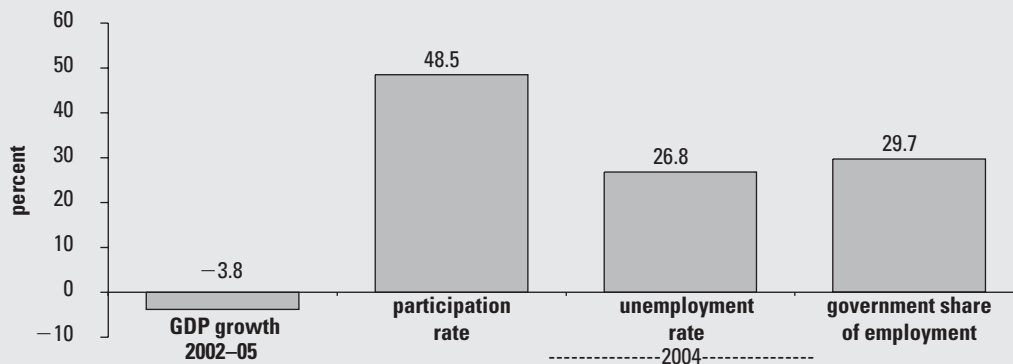
outset, the WBG also saw the steepest increase of all MENA countries between 2000 and 2005. Work opportunities fell drastically at the onset of the intifada at the end of the year 2000. After 2002, there has been some job growth in the Palestinian territories, but none in Israel, and unemployment rates have stagnated around 25 percent. Female unemployment rates increased less than male unemployment rates, because predominantly men were affected by the collapse of the construction sector jobs in Israel.



For lack of prewar data, a similar evaluation of the effects of war cannot be made for Iraq. Survey data from 2003 and 2004 suggest that, right after the war, unemployment rates were high (27 percent), coupled with large-scale underemployment, informality, and inactivity. As elsewhere in the region, women suffered

from both higher unemployment rates and significantly lower participation rates, and the young and well educated were also less successful. The state accounted for some 30 percent of all jobs while the formal private sector accounted for only a small fraction of total employment.

Economic and labor market conditions in Iraq



(Box continues on the following page.)

Box 2.5

Job creation, unemployment, and conflict: West Bank and Gaza and Iraq (continued)

Given the economic collapse in 2003 (output is estimated to have fallen by some 40 percent), unemployment rates were perhaps surprisingly low. The survey data may underrepresent inactivity and unemployment because of limited coverage of more unstable areas, but, overall, job losses appear to have been limited in the immediate aftermath of the war.

Out of those employed in 2004, 88 percent of public sector employees and 94 percent of private sector employees held the same job as prior to the war. The extent of under- and unproductive employment has, however, swelled. Although state enterprises are operating at low capacity, employees remain on the payroll, and are not looking for a job they are unlikely to find.

Source: ILO 2006b; estimates based on national sources.

Problems of overstaffing, unemployment, and labor market tensions are not new to Iraq, but were prominent already during the economic sanctions of the 1990s. The war and the recent escalation of violence against civilians have changed matters for the worse, however, and the 2003 and 2004 numbers are most likely a misrepresentation of the current state of affairs.

Apart from the paralyzing effects of violence, the state sector—previously a guarantor of employment—is set to be further scaled down. At the same time, private investment is nonexistent while the lifting of sanctions and opening of the economy has resulted in imports replacing locally produced goods. Some sources now put unemployment rates as high as 70 percent.

er regions in spite of their low LFPRs (ILO 2004). And, for women, medium and higher levels of education are consistently associated with higher unemployment in the region (see below).

The unemployed are aging. Unemployment rates of youth (aged 15–24) in MENA tend to be at least twice as high as the overall unemployment rate, and far higher than in the rest of the world (ILO 2004). As the share of youth in the labor force is receding, their share of the unemployed is also

coming down. In sum, youth unemployment rates have fallen quite significantly, and in several countries at par or even faster than the fall in overall unemployment rates (see figure 2.13). In Jordan, youth unemployment has been only marginally affected, however, and two-thirds of active youth are still unemployed. In Algeria and Iran, youth unemployment is increasing. Indeed, people between 15 and 24 years of age still account for half or more of all unemployed in Jordan, Egypt, Iran, and Alge-

Table 2.4: Unemployment among men and women, 2000–06

Unemployment rates by gender, 2000–06^a

	Female unemployment rates			Male unemployment rates			Gender parity rate ^b	
	2000	2006	Annual growth	2000	2006	Annual growth	2000	2006
Algeria	31.4	21.3	-12.1	26.6	19.8	-9.4	1.2	1.1
Bahrain	2.0	3.2	13.0	4.2	3.1	-7.4	0.5	1.0
Egypt, Arab Republic of	27.6	18.6	-4.8	7.0	4.7	-4.9	3.9	4.0
Iran, Islamic Republic of	16.8	18.0	1.4	13.8	10.3	-5.7	1.2	1.7
Jordan	20.6	25.9	5.9	13.6	12.8	-1.5	1.5	2.0
Morocco ^c	26.7	24.8	-1.5	19.8	16.3	-3.8	1.3	1.5
Syrian Arab Republic	15.2	28.3	16.8	6.0	9.0	10.7	2.5	3.1
Tunisia	15.9	17.2	4.0	15.1	12.9	-7.6	1.1	1.3
United Arab Emirates	2.2	2.7	5.8	3.2	4.5	9.2	0.7	0.6
West Bank and Gaza	12.3	22.3	12.5	14.7	23.7	10.1	0.8	0.9

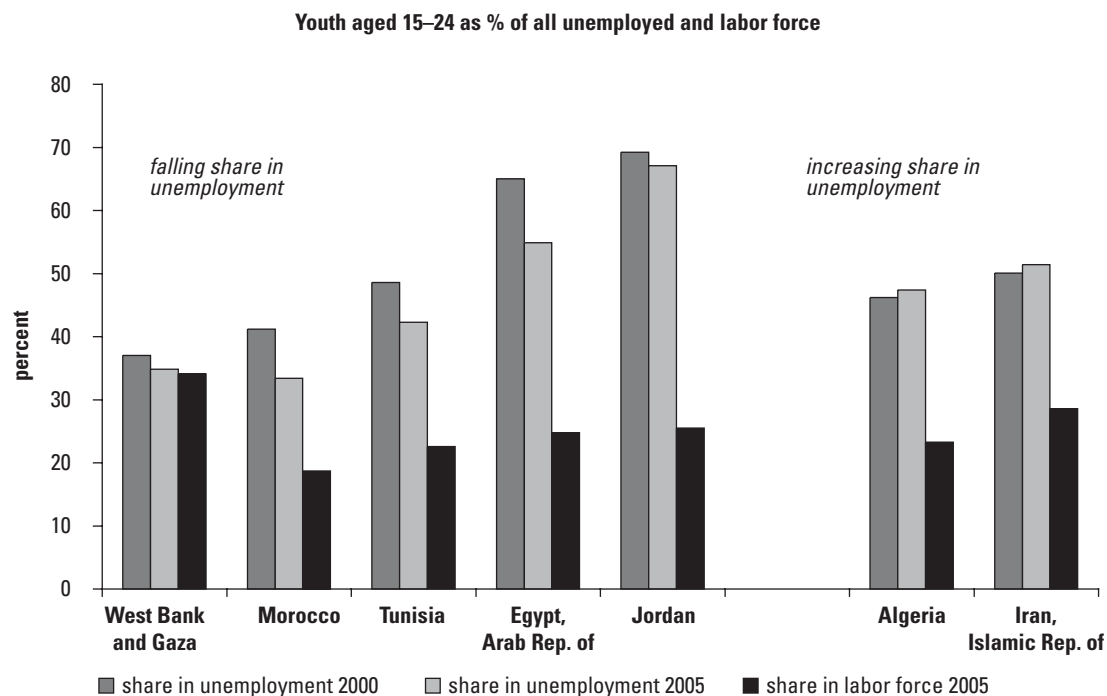
Source: World Bank staff estimates based on ILO (2005, 2006a); and national sources.

a. Earliest and most recent available for the period.

b. Gender parity rate is defined as the ratio of female to male unemployment rates. In the case of West Bank and Gaza and the United Arab Emirates only, male workers have higher unemployment rates (gender parity less than one).

c. Morocco: urban areas only.

Figure 2.13: Youth's share of unemployment, 2000 and 2005



Source: World Bank staff estimates based on ILO (2005, 2006a); and national sources.

ria, while their respective shares in the labor force hover between 20 and 30 percent. Labor market insertion clearly continues to be a tremendous challenge in the region.

The situation of educated female workers has improved the least. Younger cohorts continue to arrive with successively higher levels of education to the labor market, but the payoff of such investments is less clear. Previous studies have showed that (a) returns to schooling have been lower in MENA than in comparable low- and middle-income regions; (b) returns to schooling have been falling over time; and (c) generally, unemployment rates have been higher among educated than low-skill workers (World Bank 2004a, World Bank 2007b, Pissarides and Veganzones-Varoudakis 2005).

Higher education is no guarantee for success in the labor market, especially for women. Table 2.5 presents data available for Algeria, Egypt, Iran, Jordan, and Morocco. As seen, unemployment rates are highest for those with higher education. Over time, unemployment rates have increased most (Jordan, Egypt) or fallen least (Morocco) for this group. Finally, the differences between men and women are generally higher at higher education levels—women with higher education have at least twice, and up to three times, the unemployment

rates of their male counterparts—and the differences have been increasing over time.⁷ The low elasticity of unemployment to employment growth in Egypt is particularly striking for educated females: women with higher levels of education are the only workers in Egypt that are facing significantly higher unemployment rates than in 1998. At the same time, their LFPRs have dropped significantly, from 69 to 56 percent, hinting at a large pool of discouraged workers (Assad 2006).

2.2.2 New jobs from higher growth

More jobs than labor force entrants. Falling unemployment rates in the context of rapidly growing labor forces are evidence of high and sustained job creation in the region. Between 2000 and 2005, annual employment growth reached 4.5 percent per year. In total, the 12 MENA countries in our sample have generated 3 million jobs per year, compared to a labor force increase of 2.8 million people per year. While little comparable data on employ-

⁷ Note that lower differences between male and female unemployment rates at lower levels of education may simply indicate larger gaps in LFPRs—female LFPRs tend to increase rapidly with education.

Table 2.5: Unemployment and higher education, 2000 and 2006

Unemployment rates by education level and gender

	2000			2006			2000	2006
	Males	Females	Total	Males	Females	Total	Gender parity rate	
Jordan								
Less than secondary	15.6	17.3	15.3	14.2	19.2	14.2	1.1	1.4
Secondary and intermediary	11.2	22.9	13.8	9.5	22.9	12.1	2.0	2.4
Higher	9.7	18.6	12.2	12	29.5	17.7	1.9	2.5
Egypt, Arab Republic of								
Less than secondary	3.8	8.4	4.4	1.5	1.1	1.4	2.2	0.7
Secondary	13.7	47.7	24.4	6.5	33.8	13.5	3.5	5.2
Higher	7.4	20.2	11.6	8.5	24.6	13.7	2.7	2.9
Morocco								
No diploma	—	—	7.1	—	—	5.2	—	—
Intermediate	—	—	26.8	—	—	20.5	—	—
Higher	—	—	29.0	—	—	26.8	—	—
Algeria								
None	—	—	—	7.8	2.9	6.6	—	0.4
Primary	—	—	—	16.5	9.5	15.7	—	0.6
Secondary	—	—	—	18.4	22.8	19.3	—	1.2
Higher	—	—	—	14.5	27.5	19.3	—	1.9
Iran, Islamic Republic of								
Less than secondary	—	—	—	6.1	2.7	5.7	—	0.4
Secondary and intermediary	—	—	—	14.3	31.9	16.4	—	2.2
Higher	—	—	—	10.5	31.3	17.1	—	3.0

Source: Staff estimates based on national sources.

Note: Earliest and most recent years available: Jordan: 2001, 2005; Egypt: 1998, 2006; Algeria: 2004; Iran: 2006; Morocco: 2004; urban areas only. Gender parity rate is defined as the ratio of female to male unemployment rates.

— = data not available.

ment in the 1990s are available, the combination of continued labor force growth and falling unemployment suggest a much faster rate of job creation than in the 1990s, when unemployment increased more rapidly than the labor force (World Bank 2004a). Recent employment growth has also been very high compared to other developing regions. MENA's employment growth has been 50 percent higher than Latin America's, and more than twice that of other developing regions (see figure 2.14).

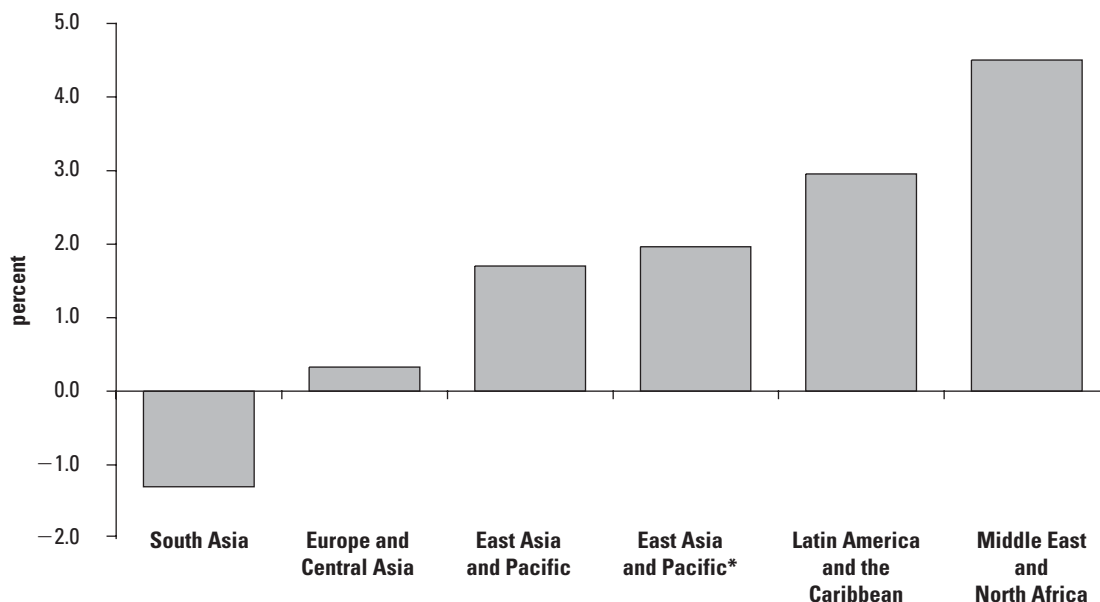
Employment has increased everywhere in the region, but to varying degrees. Aggregates mask great heterogeneity in job creation capacity within the region. Resource-poor countries are at the lower end of the job growth, resource-rich countries at the higher end. All MENA countries in the sample have seen job growth in recent years, and most of them have seen employment increase at considerable rates (see figure 2.15). Essentially, three groups of countries can be discerned. Three Gulf countries, no-

tably the United Arab Emirates, Bahrain, and Qatar have seen exceptionally high employment growth—exceeding 9 percent. Six countries, including the three largest ones in the region, have seen high to very high employment growth, ranging from 3.9 percent in Saudi Arabia to 6.3 percent in Algeria. Finally, three resource-poor countries have seen growth rates below 3 percent—Tunisia, Morocco, and the West Bank and Gaza. In the case of Egypt, the relatively high employment growth emanates from a special labor market survey, while conventional labor market statistics imply less favorable labor market trends (see box 2.6).

Extraordinary factors account for high growth rates. In the Gulf countries, as well as in Jordan, expatriate workers absorb a majority of new jobs. In Algeria, the growth in the “work at home” sector drives up annual employment growth rates above 6 percent, but even without this sector, employment growth would have reached 4.6 percent per year.

Figure 2.14: Job creation in MENA and other developing regions

Annual growth in employment, 2000–05

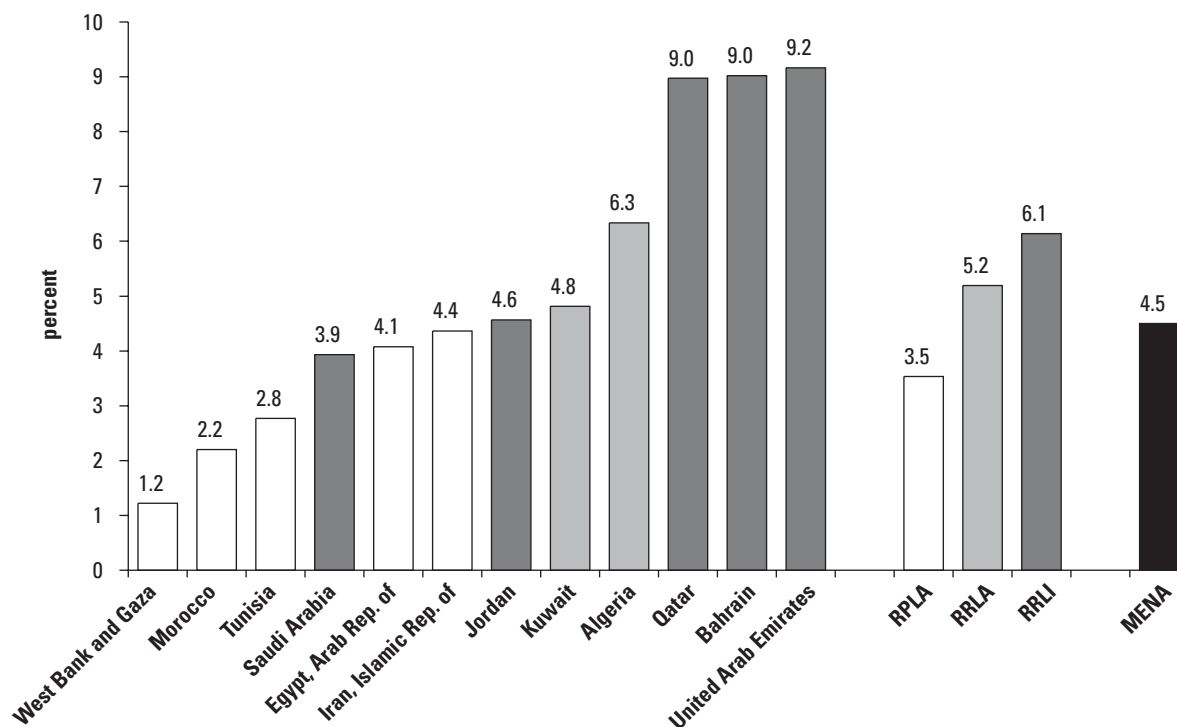


Source: World Bank staff estimates based on ILO 2006a and national sources.

Note: For all regions and national sources for MENA only. Regional weighted aggregates based on available countries. The fall in South Asia is due to a drop in employment in Bangladesh. *Excl. China.

Figure 2.15: Large variations in job growth among countries

Annual employment growth (percent), 2000–05



Source: World Bank staff estimates based on ILO (2005, 2006a); and national sources.

Note: RPLA = resource-poor, labor-abundant; RRLA = resource-rich, labor-abundant; RRLI = resource-rich, labor-importing. MENA country groups as in table 2.1.

Notwithstanding the West Bank and Gaza and its very special circumstances, Morocco has seen the slowest job creation—at 2.2 percent per year.

Employment rates also rose significantly. The employment rate—the share of employed in the working-age population—is a key indicator to understanding labor markets because it answers a fundamental question: how many of those that are

old enough to be working actually hold a job and can therefore provide for the rest of the population? It is a particularly important factor in MENA, where women’s low participation rates imply a large pool of untapped labor resources.

Because job growth increased at a significantly higher pace than the number of potential workers, the regional employment rate increased quite re-

Box 2.6

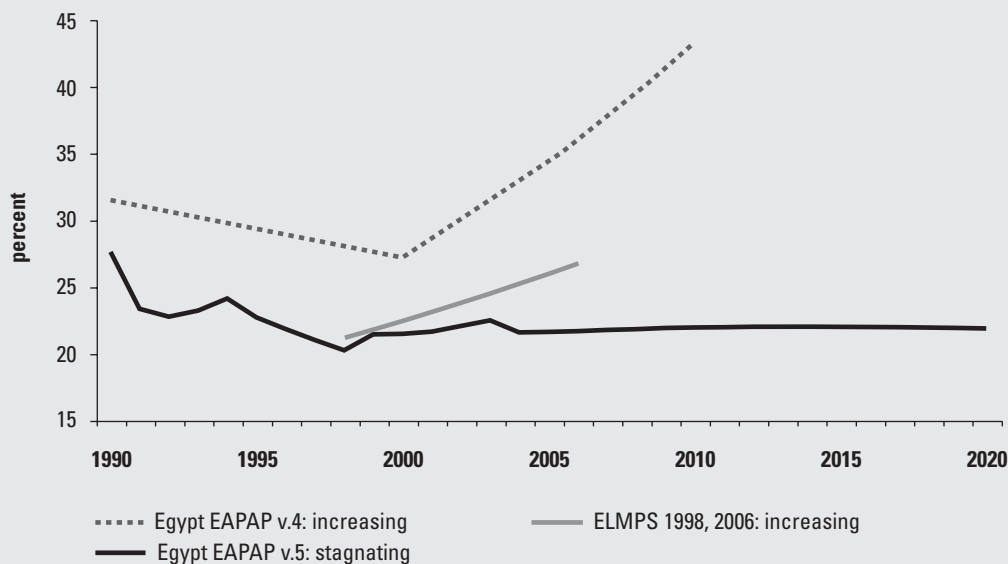
Egypt: labor market data issues

Egypt has several and conflicting sources of employment and labor force data. One draws on unemployment numbers from labor force surveys (LFS), undertaken and published by CAPMAS, a statistical agency. The other is a set of panel data from the Egypt Labor Market Panel Survey (ELMPS), undertaken in 1988, 1998, and 2006, also by CAPMAS. Unemployment and employment trends, however, differ significantly between these two sources. LFS statistics show stagnation in unemployment in recent years (which would imply lower employment growth), while the ELMPS data point to significant employment growth across the board and a fall in unemployment rates. The standard labor force survey methods are considered weak, especially for capturing female employment, and the

ELMPS survey data are more reliable. For this reason, and given the richer detail in the survey data, this report uses predominantly ELMPS data.

Apart from inconsistencies with other national sources, trends from ELMPS data are also markedly different from ILO estimates. ELMPS data suggest rapidly increasing labor force participation among women between 1998 and 2006, and therefore agree more with the earlier version 4 of EAPAP projections of labor force trends in Egypt. Given the size of Egypt’s labor force, this has implications for overall labor force projections for MENA. If female labor force participation trends will continue to rise as suggested by ELMPS, labor force growth in MENA will be higher than currently projected.

Female participation rates in Egypt: what to expect in the future?

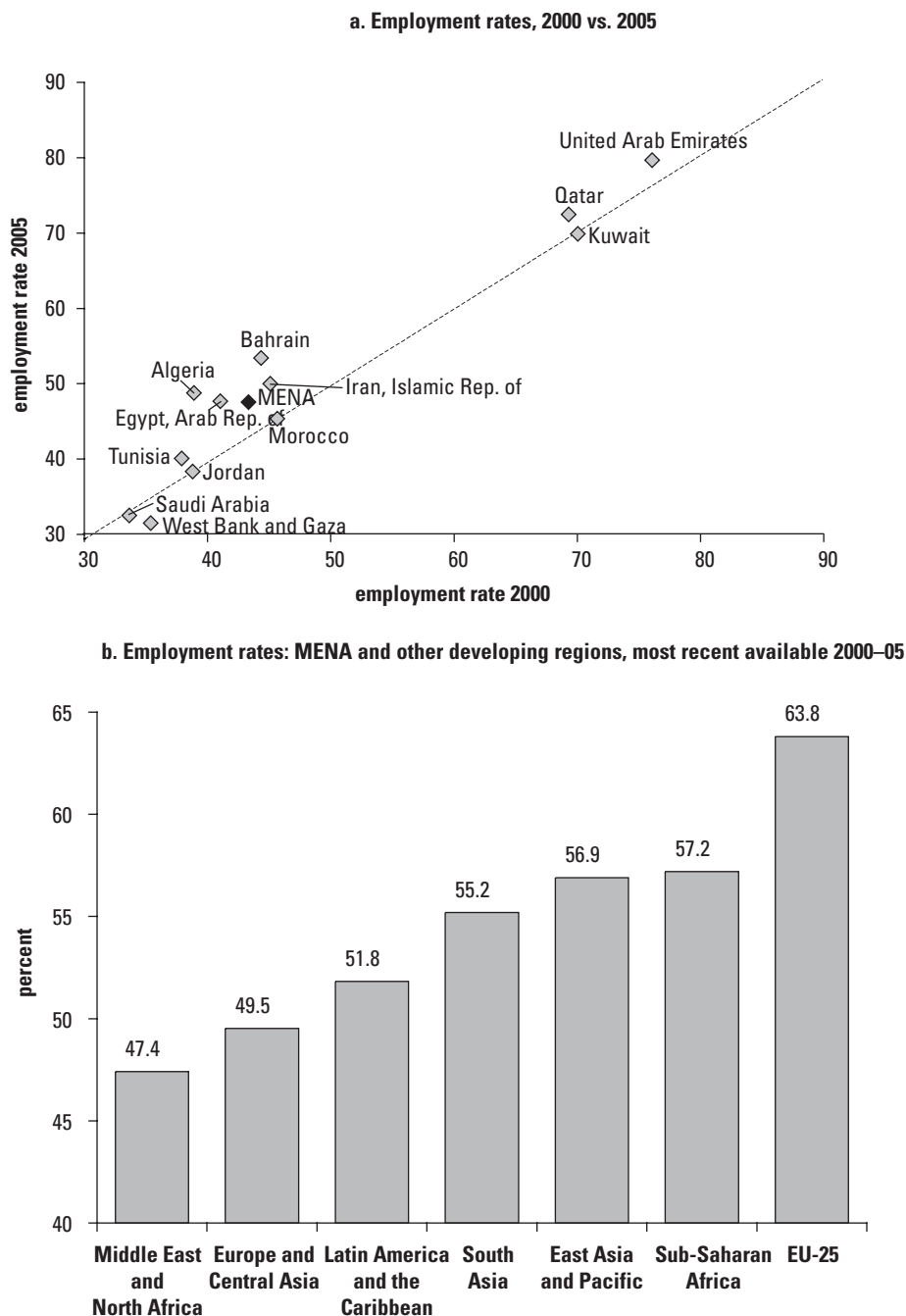


Source: World Bank staff estimates based on ILO 2005, 2006a; Assad 2006.

markably, from 44 percent in 2000 to 47 percent in 2005 (see figure 2.16, panel a). In Gulf countries, again, employment rates are pushed up because of the high share of migrants: most of the migrant working-age population is employed, while employment rates most likely are lower among nationals (Saudi Arabia is an exception, because the numbers used here refer to nationals only). Overall, the

regional average was pulled up because the three largest countries, in particular Algeria and Iran, saw the most rapid increases in employment rates. Egypt was the only resource-poor country where employment rates improved significantly. In West Bank and Gaza and Jordan, employment rates fell; in Morocco, they stagnated; and in Tunisia, they increased only marginally.

Figure 2.16: Employment in MENA and other regions



Source: World Bank staff estimates based on ILO (2005, 2006a); Eurostat, and national authorities. Regional aggregates based on countries available.

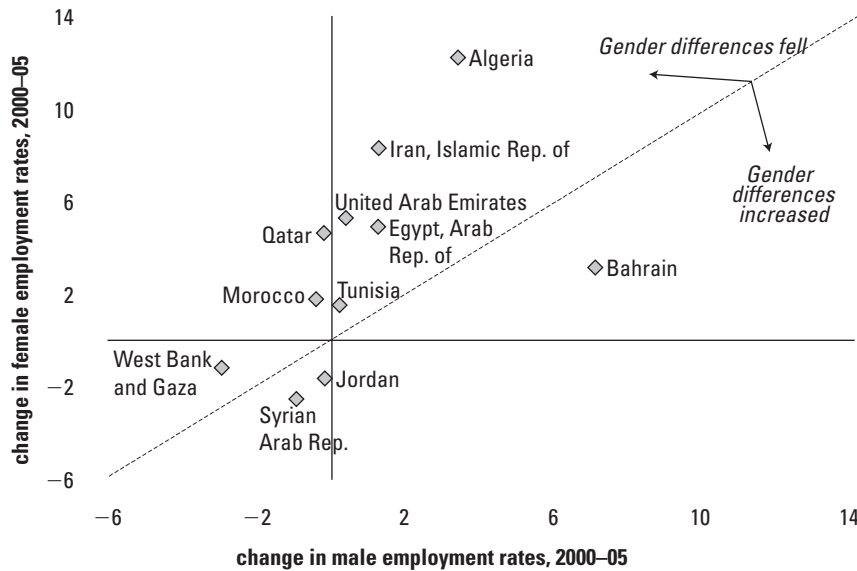
But MENA still employs a small share of its potential workforce. Employment rates in the region now range from below 40 percent in West Bank and Gaza, Iraq, and Jordan to between 40 and 50 percent in the Republic of Yemen, Morocco, Egypt, Lebanon, Algeria, and the Islamic Republic of Iran, and above 65 percent in the Gulf countries. Although employment rates have come up significantly, the MENA region still has lower employment rates than those prevailing in other developing and

developed regions (see figure 2.16, panel b). These low employment rates continue to impose a heavy burden on those who have to provide for many dependents, and demonstrate that MENA still has a large amount of idle labor resources.

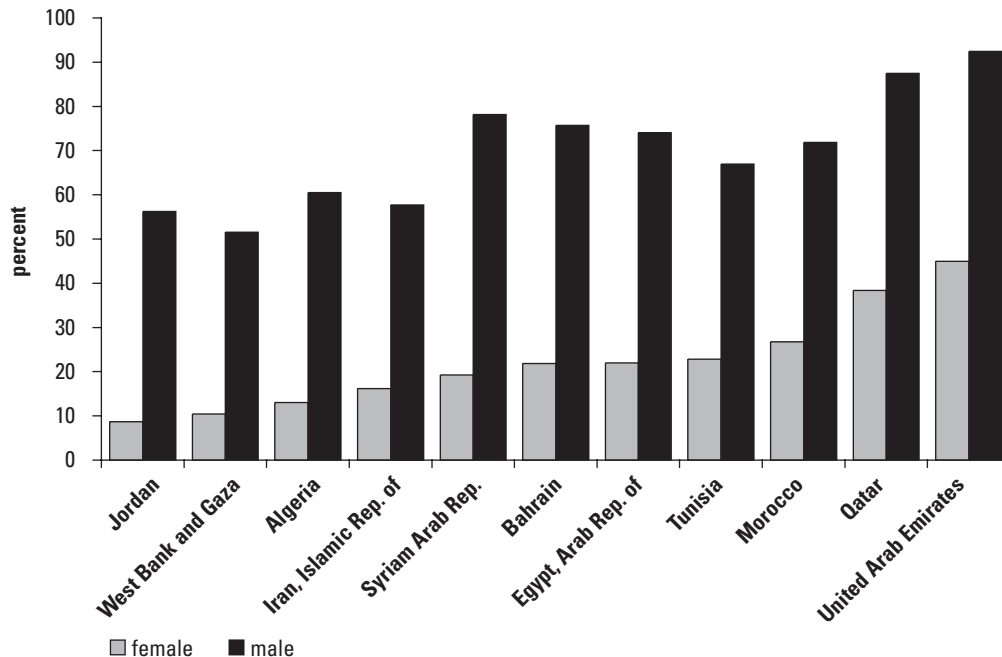
Women have gained jobs in the more dynamic labor markets. In countries with high employment growth, female employment has been a main feature (see figure 2.17, panel a). First and foremost, this has been the case in Iran and Algeria, but also

Figure 2.17: Gender differences in employment rates: falling, but still high

a. Annual change in male vs. female employment rates, earliest and most recent year in the 2000–05 period



b. Female and male employment rates, most recent year 2003–06



Source: World Bank staff estimates based on ILO 2005, 2006a, and national sources.

to some extent in Egypt, the United Arab Emirates, and Qatar, and to a smaller extent, Tunisia. In Iran, female employment rates increased by more than half, from 10 to 16 percent between 2000 and 2005; in Egypt, by half, from 15 to 22 percent in the period 1998–2006; and in Algeria, by one-third, from 9 to 12 percent between 2001 and 2004. Admittedly, these are countries where the differences between men and women were very large at the outset, and where female employment rates still remain among the lowest in the region (and consequently, in the world). However, the gap in employment rates between men and women has declined for many MENA countries during this period of growth.

At the same time as employment for women is growing, unemployment for women is increasing. How do increasing female employment rates square with higher female unemployment rates? The answer lies in the increased feminization of the labor force and the fact that while female unemployment has been growing, female employment has been growing even more rapidly.

In spite of these advances, female employment rates remained very low in the MENA region, generally hovering between 10 and 20 percent of the working-age population (see figure 2.17, panel b), and explain why MENA's overall employment rates remain low. A mix of very low participation rates and high unemployment rates account for these low levels. The distance to more developed regions is large: as a comparison, the aggregate female employment rate in the European Union (EU) reached 57 percent, and the lowest female employment rates in the EU reached 33 and 45 percent (Malta and Italy).

2.2.3 Migration

Labor force growth in the MENA region is driven by three factors: historically high fertility rates, increasing LFPRs, and significant migration. The MENA region is an important sender of migrant workers from Maghreb and Mashreq, and a major receiver of migrant workers in the Gulf. Since labor markets in MENA are quite porous, there is also significant intraregional migration in other parts of MENA. These migration flows influence employment trends. For example, massive return migration to Egypt and Jordan after the onset of the 1991 Gulf war contributed to worsening labor market conditions in the 1990s (World Bank 2004a).

Migration flows within, to, and from the region are motivated by both economic incentives and political instability. In the past, work opportunities in oil countries and northern Europe boosted large flows of legal economic migration from within the region. MENA worker migrants have come to face more obstacles over time. In the Gulf countries, employment nationalization policies on the high-skill end, competition from South Asia on the low-skill end, as well as the 1991 war, affected the flow of Arab workers. In Europe, a tightening of migration policies has transformed legal migration into large-scale illegal flows, especially to Italy and Spain (Johansson de Silva and Silva-Jauregui 2007).

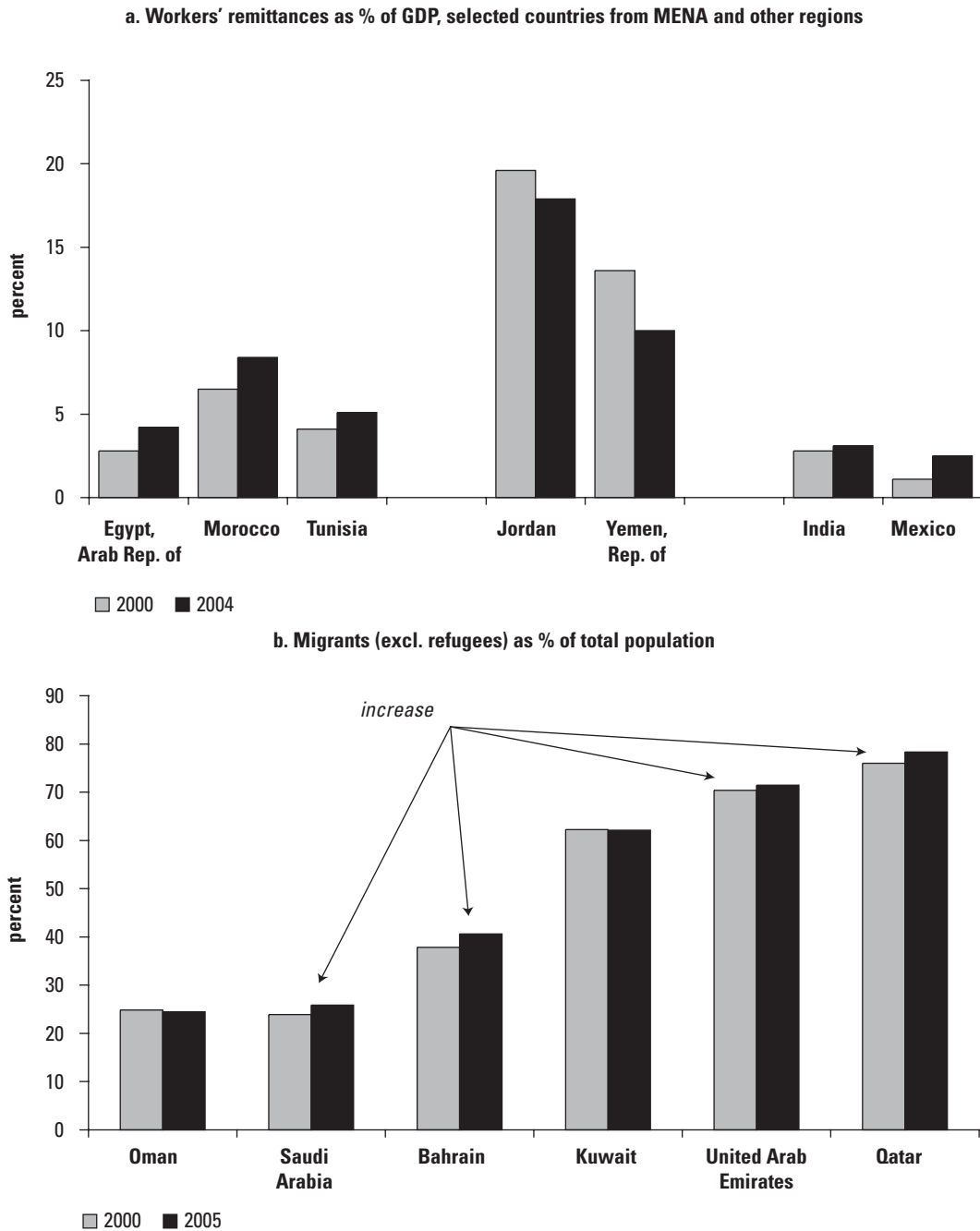
However, MENA is also host to significant refugee flows because of the high political instability within the region and in its vicinity, especially Africa's horn. According to the United Nations (UN), in the past few years, as a result of the war in Iraq, an estimated 2 million Iraqis have fled to Jordan, Syria, and Lebanon, and an additional 1.7 million have relocated to safer areas within Iraq. These flows have put high pressure on Jordan and Syria, where the share of illegal migrants is increasing, and controls are being tightened (Washington Post 2007, UNHCR 2007).

Data on workers' remittances suggest that economically motivated out-migration continues to constitute a key component in the region's economies.⁸ Remittances have increased in importance in some MENA countries that are sending workers to Europe (see figure 2.18). The importance of migrant income in these economies is now higher than in India or Mexico—two major sources of migrants in the world.

MENA also continues to be a major recipient of economic migration, however. In spite of employment nationalization policies, the recent economic boom in the Gulf countries appears to have accelerated immigration even further. UN estimates put the migrant share of the total population in the United Arab Emirates and Qatar at close to 80 percent, and it has continued to increase in the past few years. If the 1990s trends are indicative, an overwhelming share of these workers are likely to origi-

⁸ Given lack of recent data, remittances are the best but still an imperfect measure of physical migration flows. Remittance flows are influenced by many other factors than the number of workers, including economic conditions in host and home countries, transparency, ease of international payments transfers, and so on.

Figure 2.18: Migration of workers since 2000



Source: World Bank staff estimates based on World Bank 2006a, UN 2005.

nate from South Asia rather than MENA. Indeed, remittances from Jordanian and Republic of Yemen migrants, while exceptionally high, have continued to fall over time.

Labor markets are segmented, so migration may not affect unemployment rates much. Labor markets are also largely segmented—nationals in public sector jobs, foreigners in private sector jobs—which explains the coexistence of high job growth and ris-

ing unemployment rates for nationals in Jordan and the United Arab Emirates (see box 2.7). Because of this segmentation, it cannot be concluded that migrants from outside the region are crowding out national workers. In most of the Gulf region, migrants are contracted for a job before they are allowed into the country, and are predominantly employed in the private sector. A more likely explanation for higher unemployment rates among

Box 2.7

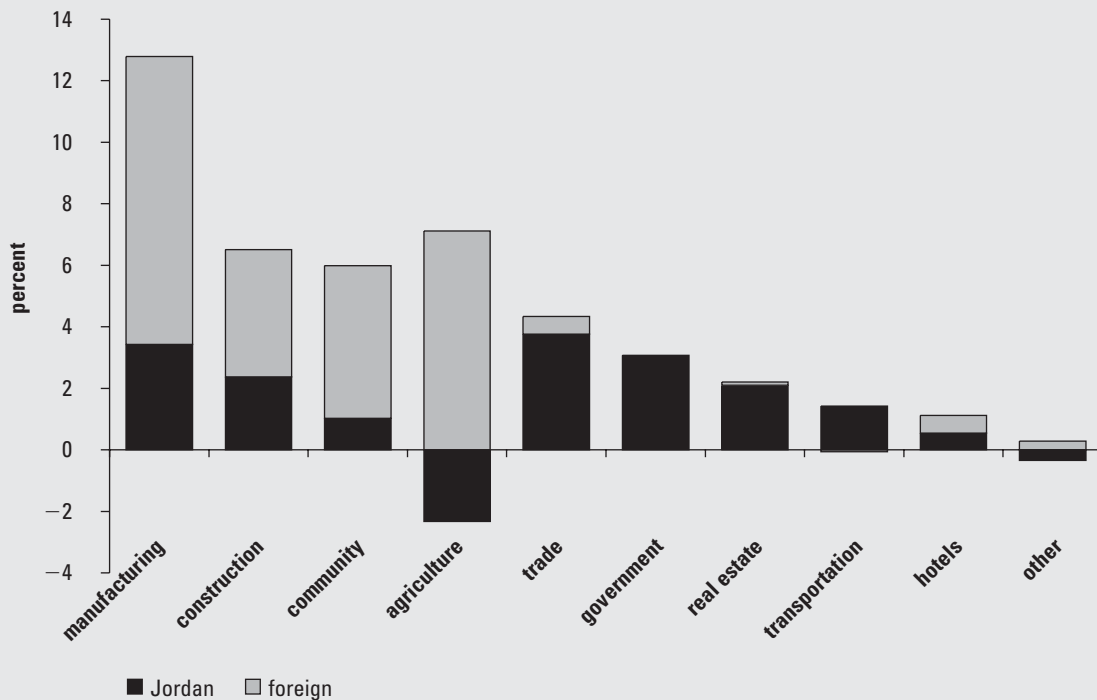
Job creation, segmentation, and immigration in Jordan and the United Arab Emirates

Jordan’s labor market outcomes are puzzling: employment and labor productivity are growing, but unemployment is increasing and employment rates are stagnating. These seemingly inconsistent features spring from the duality of the Jordanian labor market, where a large and increasing immigrant workforce is separated from the national labor force. Foreign workers are estimated to have accounted for the majority of all new jobs created between 2000 and 2005. Nationals have dominated public sector jobs, trade, real estate, and transport and communications. Foreigners, however, have completely dominated the rapidly expanding sectors, including manufacturing, construction, community and personal services, and agriculture.

From 2000 to 2005, Jordan created an average of 45,000 additional jobs per year, and in 2004 surpassed its annual goal by creating more than 100,000 jobs, driven by a high rate of GDP growth. But only 16,500 of the jobs were taken by Jordanians, while the rest went to foreign workers—many of them in

the qualified industrial zones (QIZs)—and the unemployment rate remained stubbornly high at around 14.4 percent. An analysis of the Jordanian experience reveals that geography, employability, and expectation mismatches were the cause of the paradox of high economic growth and stubbornly high unemployment.

In spite of continued efforts toward civil service reform, Jordan’s employment situation follows a familiar pattern for MENA: reservation wages differ between national and immigrant workers, and to relieve unemployment among nationals, the public sector fills a role as an employment guarantor. Immigrant workers, as well as national workers without education, are in the private sector. Meanwhile, national workers with some education prefer to queue up for better-paid jobs in the public sector. Without the continued expansion of public sector employment in recent years, unemployment rates for nationals would most likely have been even higher.



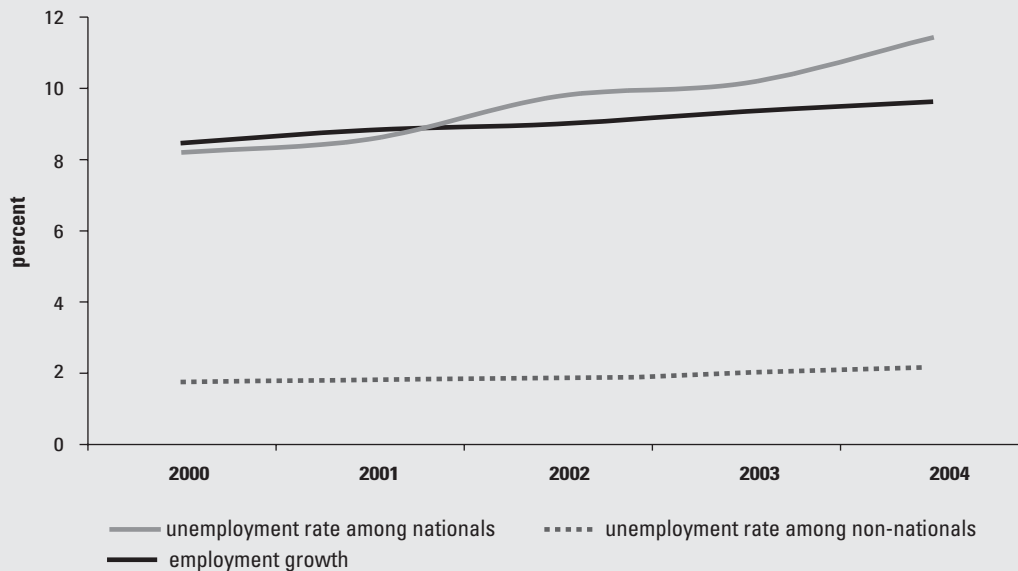
(Box continues on the following page.)

Box 2.7

Job creation, segmentation, and immigration in Jordan and the United Arab Emirates (continued)

The situation in the United Arab Emirates shows similarities to that of Jordan. Around 90 percent of the labor force in United Arab Emirates consists of migrants (2004), and 90 percent of the nationals are employed in the public sector (1995 data). As a result, ex-

ceptionally high rates of job growth (approaching 10 percent per year), coexist with high and rising unemployment for national workers (from 8 to 12 percent between 2000 and 2004), and virtually no unemployment among migrant workers.



Source: World Bank 2006b, IMF 2005.

nationals is that they have higher reservation wages (World Bank 2006b) and prefer to wait for “better” jobs. Similarly, migration flows out of the region are not likely to have contributed in a major way to lowering unemployment in sending countries. The mere size of the labor force increases—some 800,000 people per year in Maghreb, 1.4 million if Egypt is added—suggests that this has not been the case.

2.2.4 Types of new jobs

While the relatively high rates of job creation are good news, the sharp differences among countries and groups of individuals in employment outcomes, as well as the persistence in unemployment among the highly educated, raises questions regarding the kinds of jobs available in MENA.

Total labor productivity growth remains low. The job intensity of MENA’s economic growth has his-

torically been high. In the 1990s, the MENA region had among the highest employment elasticities in the world, which translated into low—and in the case of the Middle East region—even negative labor productivity growth (see table 2.6). This is consistent with the observation that total factor productivity growth was stagnant in MENA in the 1990s (Keller and Nabli 2006). In other words, the explanation for rising unemployment rates in the 1990s was not that MENA’s economic growth was not labor intensive enough, but that growth rates were not high enough for the millions of people coming to age and entering the job markets (World Bank 2004a, Pissarides and Vezanzones-Varoudakis 2005). Jobs were also predominantly coming up in agriculture (a low-skill, low-wage sector) or in the public sector (World Bank 2004a, Kapsos 2005).

What is the situation now? Between 2000 and 2005, the MENA region has created employment at a high rate, but slightly lower than the growth in

Table 2.6: Persistently high employment elasticities since the 1990s

Regional and global employment elasticities, 1991–2003

	1991–95	1995–99	1999–2003
Middle East	1.10	1.29	0.91
Sub-Saharan Africa	0.73	0.82	0.53
North Africa	0.30	0.74	0.51
Latin America	0.65	0.70	0.45
Southeast Asia and Pacific	0.39	0.20	0.42
South Asia	0.40	0.19	0.36
East Asia	0.14	0.14	0.18
Former Soviet Union	0.19	0.28	0.18
Central and Eastern Europe	0.24	0.01	−0.19
Global	0.34	0.38	0.30

Source: Kapsos 2005.

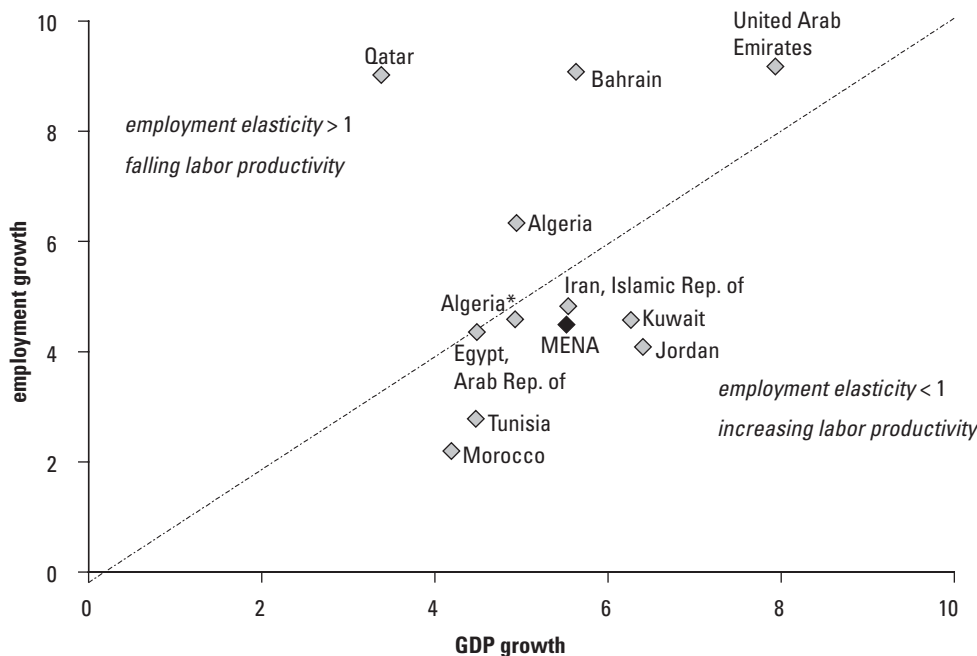
Note: Following ILO convention, the regional aggregate for North Africa here includes Sudan and Somalia, Middle East includes Israel.

value added. This implies that labor productivity growth was positive. It continues to be low, however (less than 1 percent per year), and the aggregate employment elasticity continues to be close to unity (see figure 2.19). There is now a productivity divide between high-job-growth and low-job-growth countries. The countries with high employment growth have seen labor productivity fall (Algeria

and some Gulf countries) or stagnate (Egypt, Iran, and Algeria if the “work at home” sector is excluded). In contrast, labor productivity growth has been positive in Morocco, Tunisia, Kuwait, and Jordan. As will be discussed in chapter 3, these are also the countries that have moved forward most decisively on economic reforms in recent years and have established relatively business-friendly environments.

Figure 2.19: Persistently high employment elasticities in the region

GDP growth vs. employment growth in selected countries, 2000–06



Source: World bank staff estimates based on ILO (2005, 2006a); and national sources.

Note: Weighted average for countries, as in figure 2.10, excludes West Bank and Gaza and Saudi Arabia.

*Excluding “work at home” sector.

Public sector employment growth is slowing down, leaving room for the private sector. The public sector in MENA used to fill a key role—as an employer of the first and last resort. In the absence of a dynamic private sector, high labor market pressures were met with more public sector jobs, especially for the rapidly increasing number of highly educated young people whose expectations for remuneration and career options could not be met elsewhere.⁹ As a result, government employment expanded rapidly, producing an unusually large, as well as costly public sector by international standards. The salary levels and benefit packages offered by the public sector may also indirectly have perpetuated its role as an employment agency, by raising reservation wages. Workers preferred being unemployed, and queued for a well-paid job in the public sector, leading to persistence in unemployment rates, and still higher pressures for the public sector to keep hiring. Finally, public sector labor demand may have distorted education incentives by encouraging investment in human capital, which was not compatible with private sector needs.

Because of spiraling public sector wage bills, downsizing public employment and its share in public expenditures has been part of the regional reform agenda. There are now signs that the dynamics are changing. Overall, job growth in the public sector is slowing down compared to the 1990s, especially in the region's largest countries (see figure 2.20, panel a). It continues to expand by over 5 percent per year in several countries, however, including Jordan. Success has also been varied in reducing the actual cost of government employment. In Egypt, Tunisia, Syria, and Morocco, the government wage bill has increased as a share of GDP (see figure 2.20, panel b).

In tandem with these changes, the private sector appears to have taken on a more important role in employment creation in recent years. In countries where employment data could be disaggregated by private sector and public services,¹⁰ the private sector has created a major share of new jobs. Jordan is an important exception, however. Of the nearly 200,000 new jobs created between 2001 and 2005 in Jordan, more than half were in government services (see figure 2.21). Moreover, in Morocco and

Algeria, construction and public works programs— included in the definition of private sector jobs in national statistics—accounted for around 20 percent of all net job creation. In general, this type of labor market program does not provide sustainable and high-quality jobs over the longer term, and, once terminated, participants are not likely to be more successful in joining the conventional labor market than before, thus risking a return to the pool of the unemployed (see box 2.8).

The falling importance of public employment is, in fact, a key explanation for the limited success of educated women in the job market in MENA, and the low elasticity of their unemployment rates to economic growth (Assad 2006). The public sector is seen as a preferable employment option for young women—in general, the public sector also offers more generous gender-specific benefits like maternity leave, childcare facilities, and flexible work hours. The wage premium for public sector jobs relative to private sector jobs tends to be higher for women than for men. And finally, the gender wage gap has been smaller in the public sector than in the private sector in Egypt (World Bank 2004a, 2004b). Because these benefits translate into higher reservation wages, educated women have been disproportionately affected as employment opportunities in the public sector have dried up.

The services sector is the main source of employment growth, but agriculture remains important. The services sector has accounted for a vast majority of new jobs in MENA in recent years (see figure 2.22). The agricultural sector, however, has played a surprisingly important role in the high-job-growth countries, as well as in Morocco. In Iran, the agricultural sector seems to have provided about half of the new jobs between 2000 and 2005; in Egypt and Morocco, two-fifths; and in Algeria, one-fifth. With the exception of Iran, the industrial sector's contribution to employment has been limited.

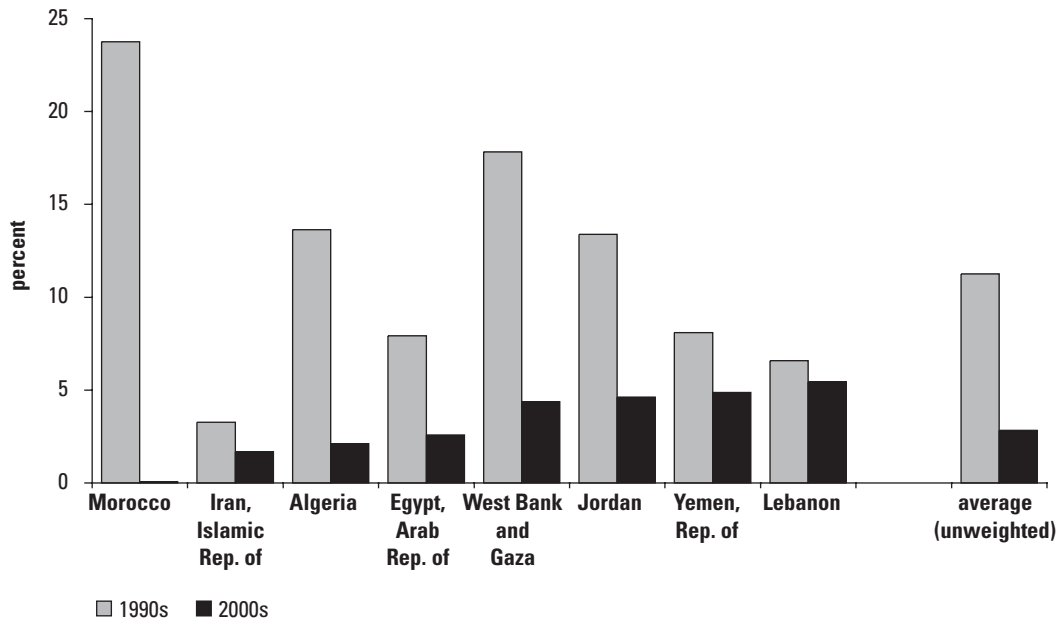
Are workers moving to sectors with higher productivity growth? Looking at employment and productivity growth from the sectoral perspective helps us to identify the characteristics and potential impact of the new jobs created in MENA. There is still a fairly clear negative relationship between productivity growth and employment creation in the region. The trade-off between employment and labor productivity growth may seem logical, but is not necessarily a given, especially if coupled with technology improvements in the services sector, as seen in developed countries (Annenkov 2005). In general,

⁹ In addition, there is evidence that public sector wages were higher than private sector wages in MENA, unlike in other regions (World Bank 2004).

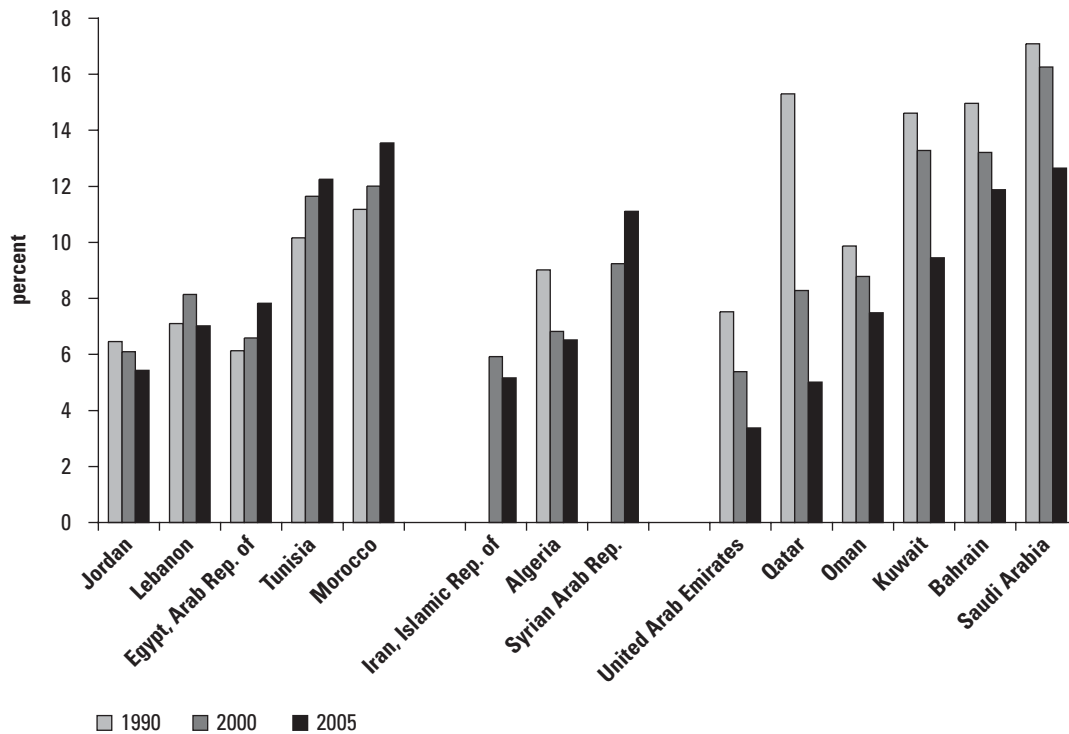
¹⁰ Government services include the public administration, health, and education sectors.

Figure 2.20: Slowing growth in public sector employment

a. General government, annual employment growth in the 1990s and after 2000



b. Government wage expenditure as % of GDP, 1990, 2000, and 2005

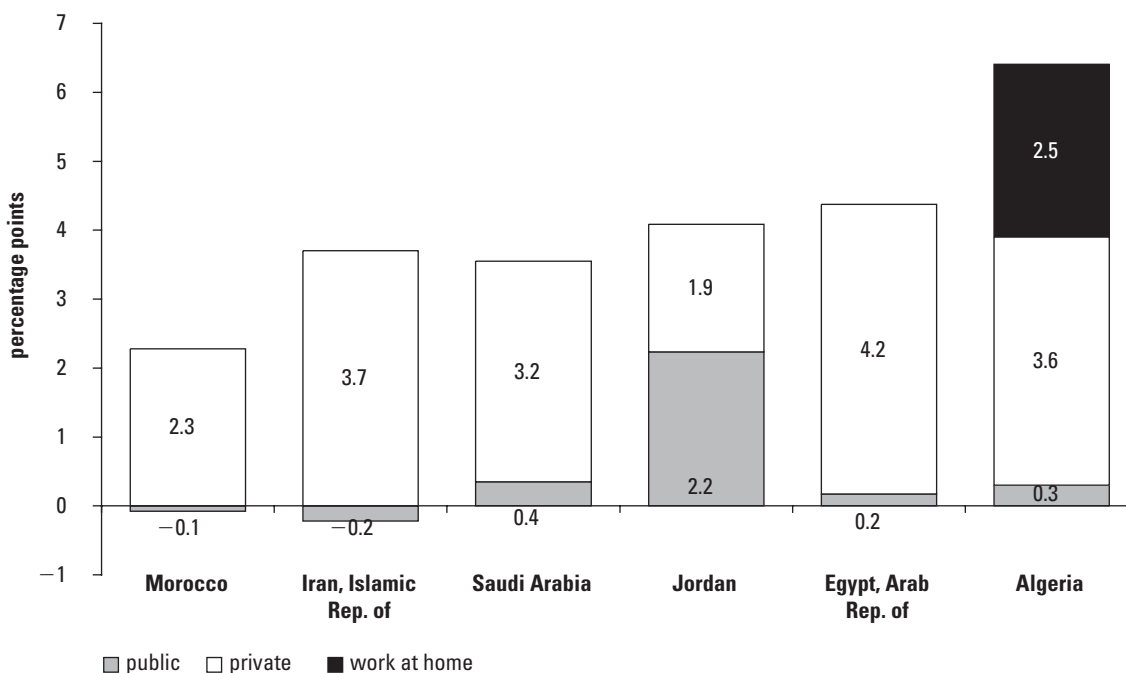


Source: World Bank staff estimates based on national sources, World Bank 2006a.

Note: General government includes central government, subnational governments, health and education, and where available, state-owned enterprises.

Figure 2.21: New jobs and the private sector

Contribution to total employment growth, public and private sectors, earliest and latest year available in the 2000–05 period



Source: World Bank staff estimates based on national sources.

Note: Public sector refers to public administration, health, and education. Sector A's contribution to growth in total employment in percentage points between periods t and $t+1$, and is calculated as the share of sector A in total employment in period t times the growth rate of employment in sector A, between t and $t+1$. Totals for Iran and Saudi Arabia differ from figure 2.15. Here, Iran is based on 2004–06 data, when job growth was lower than over the 2000–05 period (3.5% vs. 4.8%), while Saudi Arabia includes employment for nonnationals as well.

MENA countries do not display the dynamic shifts that occurred, for instance, in Ireland in the 1990s, where sectors with highest productivity gains also produced relatively more additional jobs, leading to rapid growth, declining unemployment, and the convergence of per capita incomes with the rest of Europe (see figure 2.23, panel a).

Recent developments in MENA are nonetheless interesting because, despite the overall negative relationship between employment and productivity growth, several countries are generating jobs in sectors where productivity is increasing. Output growth has been high enough to both sustain some (if limited) productivity improvements, and create new jobs at the same time (see figure 2.23, panel b). The expansion in jobs in the services sectors and, to a smaller degree, the industrial sectors, is in most countries being accompanied by some gains in productivity. Jordan is to be noted, as job growth in industry has been coupled with significant productivity growth.

There are also cases of job creation with declining productivity, most importantly among the

countries with high job growth. The agricultural sectors in Iran, Egypt, and Algeria have seen important drops in productivity as employment has increased. Agricultural labor absorption likely signifies a safety net for low-skill workers and, as such, an increase in underemployment. In the nonagricultural sectors with higher growth in employment, productivity growth has generally been low or negative. The extremely poor results for Algeria's services sector (declining productivity) is in part due to the expansion of the "work at home" sector, but even when we net this out, labor productivity stagnated in the Algerian services sector. Overall, these results present an important caveat to the improvements in female employment rates in the region, as such job growth may have been predominantly in low-skill sectors.

Labor demand and labor market flexibility. The fact that some sectors are recruiting people while productivity is growing is a likely indication of growing labor demand in the formal private sector, which is seeing higher demand for its products and

Box 2.8

Public works programs and government hiring in Morocco and Algeria

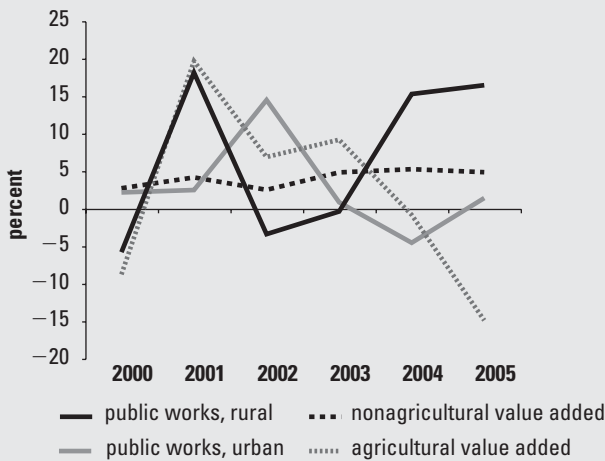
In Morocco, between 2000 and 2005, public works and construction jobs in rural and urban areas expanded by 9 and 3 percent, respectively, each year. In Algeria, employment in this sector grew by 6 percent per year. By 2005, these jobs accounted for 7 and 12 percent of total employment in Morocco and Algeria, respectively.

International experience shows that public works programs can fill an important role as a short-term safety net in economic downturns. In reality, however, they are often procyclical, and expand when government income is high. Public works programs are not a suitable instrument for labor market insertion—participants’ chances of getting a regular job afterwards do not improve (Dar and Tzannatos 1999). Arguably, these jobs should therefore be counted as hidden unemployment.

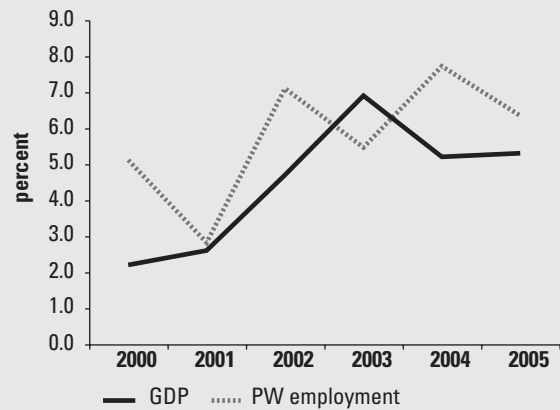
Looked at year by year, public works jobs in Algeria have been countercyclical after 2001—suggesting that the sector does fill a role as a safety net—but seen over the entire period, there is also a clear upward trend. Public works employment has in fact been fuelled by high and rising economic growth. In Morocco, public works programs in rural areas have increasingly been filling a role as a shock absorber, as attempts to reduce the income impact of agricultural output swings are failing. This escalation over time, in tandem with rising economic growth, gives cause for concern as there is little evidence that these programs will help solve a more permanent problem of creating viable jobs for the working population. The sustainability of these jobs, especially in the context of lower growth and higher fiscal pressures, is therefore highly questionable.

Public works programs are successively expanding

Morocco: growth in value added (agricultural and nonagricultural) and employment in construction and public works (rural and urban areas)



Algeria: growth in GDP and employment in construction and public works



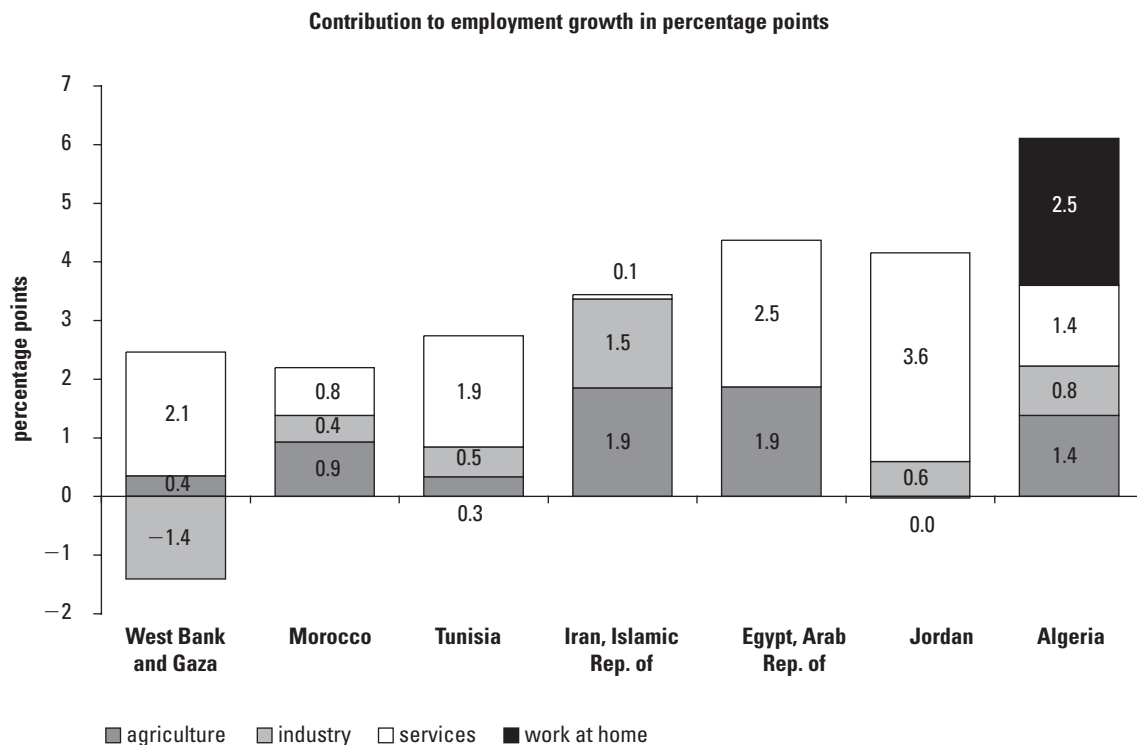
Source: Staff estimates based on national sources, ILO 2005, World Bank 2007c.

services. On the other hand, there appears to have been quite high growth in informal sector jobs (agriculture and low-productivity services), which essentially bypass regulatory frameworks and formal wage-setting mechanisms that tend to constrain job creation in the formal sector.

Labor demand is affected by labor costs and by how well the skills profile of the labor force fits the

needs of firms. Labor costs not only include wages, but also indirect costs associated with rigidities in hiring and firing workers, and labor taxes. Wage data are scarce (see box 2.9 below), but indicators of labor market conditions and regulations give some insights into the demand side of the labor market (see table 2.7). Overall, these indicators put the MENA region in the middle of the group of

Figure 2.22: Job creation and the service sector



Source: World Bank staff estimates based on national sources.

Note: Sector A's contribution to growth in total employment in percentage points between periods t and $t + 1$, is calculated as the share of sector A in total employment in period t times the growth rate of employment in sector A between t and $t + 1$. Iran, see fig. 2.21.

developing regions. However, the middle-of-the-road position appears to depend on the relatively favorable business climate in RRLI countries, while labor-abundant countries, in particular resource-poor countries, do worse than most developing regions. There are significant employment restrictions in Algeria, Morocco, and Tunisia, and various areas of rigidity throughout the region. But on the whole, employment policies constitute one of the less restrictive areas in terms of doing business in most countries. Notwithstanding MENA's relatively *good* position with respect to labor market flexibility and labor costs, RRLA countries have made progress in the past few years on reforming labor markets (especially the rigidity of employment). Surveys of firm managers' perceptions of business constraints give a more inconclusive picture.¹¹ Overall, labor issues, including regulatory framework and the skills level of the available workforce, do not generally rank as a very important

constraint to business compared to factors such as access to finance and tax levels.¹²

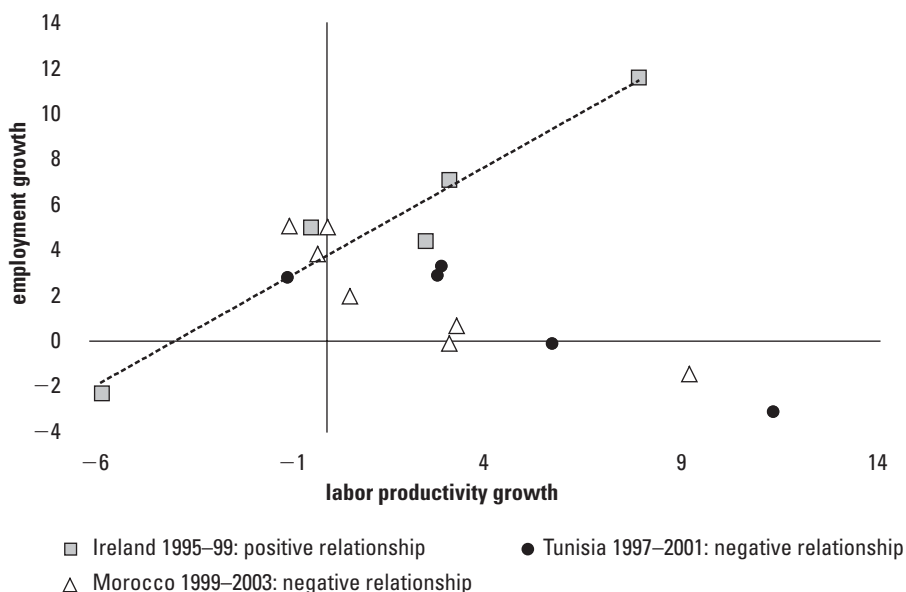
In sum, there are positive developments in MENA's labor markets, which seem to have become more dynamic in recent years. The private sector has taken over as the major source of job creation in MENA, and there may be even more dynamics at the firm level within economic sectors. However, employment elasticities have remained high and labor productivity growth slow because sectors with high value-added growth are not the ones creating the majority of the new jobs. Instead, the evidence is that most jobs are still low skill and low wage, and, especially in the case of agriculture, likely to represent underemployment and subsistence work. The sluggish levels of overall labor productivity growth and the fact that most jobs continue to be created at the expense of labor productivity hold back income in the present and jeopardize growth, employment, and income prospects for the future (see box 2.9).

¹¹ See Investment Climate Assessments for the Arab Republic of Egypt (2005), Lebanon (2006), Morocco (2005), Oman (2004), Saudi Arabia (2006), Syria (2005), and the Republic of Yemen (2006).

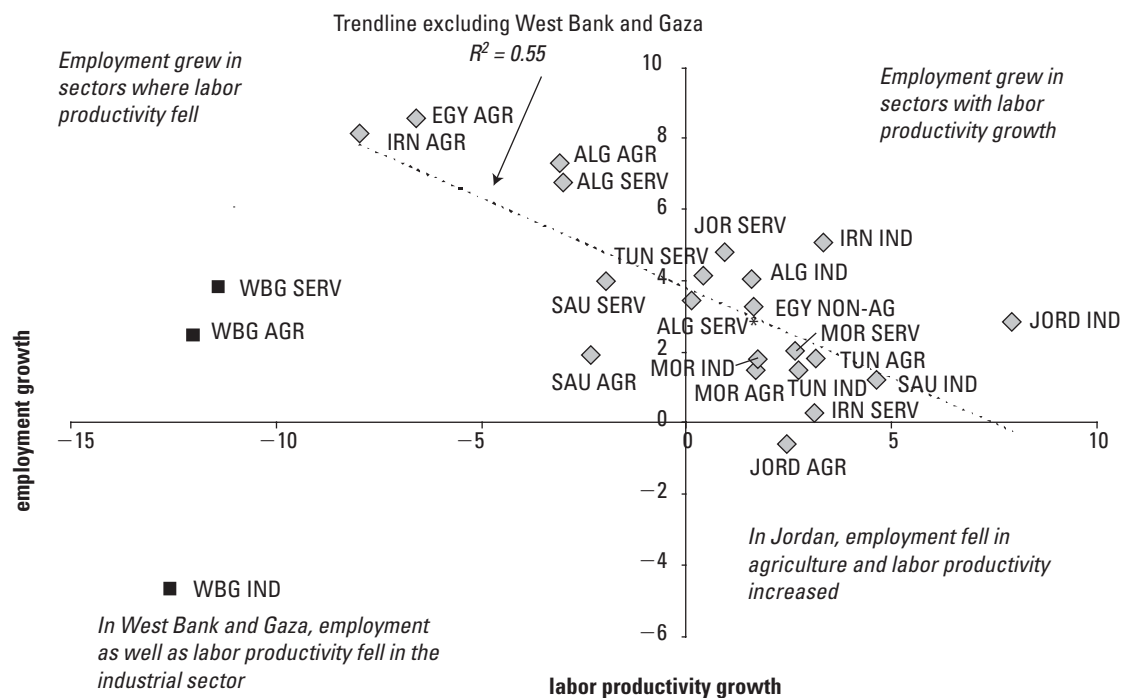
¹² Saudi Arabia is an exception. Fifty percent of firms list labor regulations and difficulties of finding adequately skilled personnel as a severe constraint to business operations.

Figure 2.23: A persistent trade-off between jobs and productivity gains

a. Labor productivity growth and job growth in subsectors, Ireland, Tunisia, and Morocco



b. Annual employment growth vs. annual productivity growth, agricultural, industrial, and services sectors, 2000–05



Source: World Bank staff estimates based on ILO (2005, 2006a); national sources; World Bank 2004c.

Note: ALG SERV* excludes “work at home” sector. AGR = agriculture; SERV = services; IND = industry; NON-AG; nonagricultural.

Table 2.7: Labor market regulations in MENA and elsewhere

Indices for labor market regulations and employment reforms, 2003–06

Level of labor market regulations in 2006					Employment reform, 2003–06
Hiring	Hours of work	Firing	Nonwage labor costs	Firing costs	
MENA RRLI (76)	SA (68)	MENA RRLI (89)	SA (73)	ECA (68)	MENA RRLA (75)
EAP (63)	EAP (64)	EAP (67)	EAP (70)	OECD* (64)	MENA (56)
OECD* (57)	LAC (57)	LAC (59)	MENA RRLI (60)	MENA RRLA (58)	SSA (54)
MENA (55)	MENA RPLA (55)	OECD* (56)	SSA (57)	EAP (55)	ECA (52)
ECA (50)	MENA (50)	MENA (51)	LAC (57)	MENA (49)	OECD* (51)
LAC (49)	MENA RRLI (49)	MENA RRLA (48)	MENA (44)	MENA RRLI (45)	LAC (49)
MENA RPLA (48)	OECD* (47)	ECA (45)	MENA RRLA (41)	SSA (41)	MENA RPLA (46)
MENA RRLA (46)	ECA (43)	SA (43)	OECD* (40)	SA (40)	MENA RRLI (41)
SSA (41)	SSA (42)	SSA (37)	MENA RPLA (39)	MENA RPLA (40)	EAP (36)
SA (41)	MENA RRLA (38)	MENA RPLA (30)	ECA (20)	LAC (35)	SA (30)

Source: World Bank staff estimates based on Doing Business dataset.

Note: For each country, the percentage of countries that perform worse in the respective reform area has been calculated. A higher number—rank—thus indicates a better result. The numbers in parentheses in the table are the regional unweighted averages of individual country rankings. Employment reform is the weighted average of rankings for labor market regulations except non-wage labor costs. * High-income countries only. OECD = Organisation for Economic Co-operation and Development. EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; SA = South Asia; SSA = Sub-Saharan Africa; RPLA = resource-poor, labor-abundant; RRLA = resource-rich, labor-abundant; RRLI = resource-rich, labor-importing.

Box 2.9

Low labor productivity threatens competitiveness and real wage growth

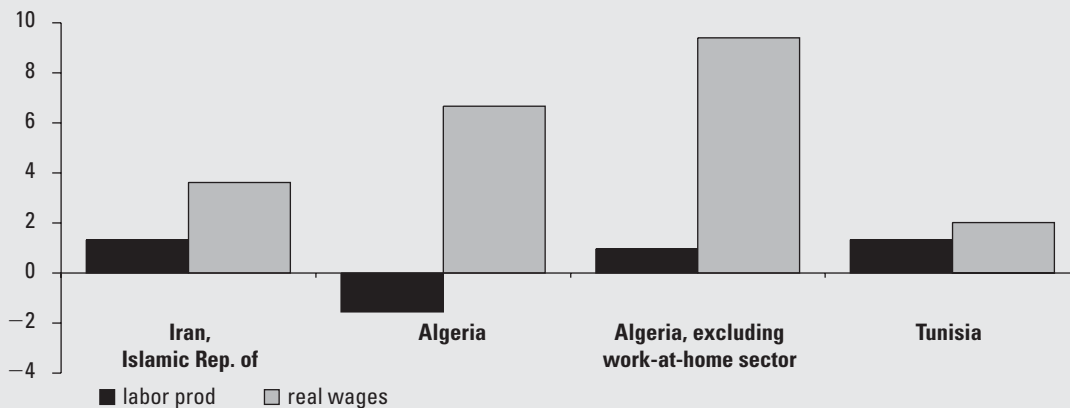
Low growth of labor productivity offers a choice between two ills: (a) low income growth in the present to maintain competitiveness, and (b) eroding competitiveness, which worsens prospects for future income growth. Growth in labor productivity is needed to sustain real wage increases over time. If wages increase more than labor productivity, unit labor costs (the labor cost of producing one unit of output) rise, since unit labor costs are the ratio of the average wage to labor productivity:

$$ULC = \frac{W}{Y} = \frac{L}{Y} \times \frac{W}{L} = \frac{W/L}{Y/L}$$

Increasing unit labor costs erodes competitiveness and puts at risk future growth and employment prospects.

How has the region faced this trade-off? The sketchiness of wage data and lack of information on the informal sector constrain the analysis. However, data for Iran, Algeria, and Tunisia suggest a rising competitiveness problem. In the nonagricultural sector, real wages increased considerably faster than labor productivity between 2000 and 2005, particularly in Algeria (see figure).

Labor productivity and real wage growth in the nonagricultural sector, 2000–05, Iran, Algeria, and Tunisia



Source: Staff estimates based on ILO 2005 and national sources.

2.3 Meeting the Employment Challenge

The changing age structure of the labor force and the maturing population in MENA now place the region in a unique position. Between 1990 and 2010, the growth of the working-age population will have exceeded that of the dependent population by a much greater magnitude than in any other region in the world. What is needed to transform this large pool of potential workers into actual workers?

2.3.1 How many new jobs will be needed?

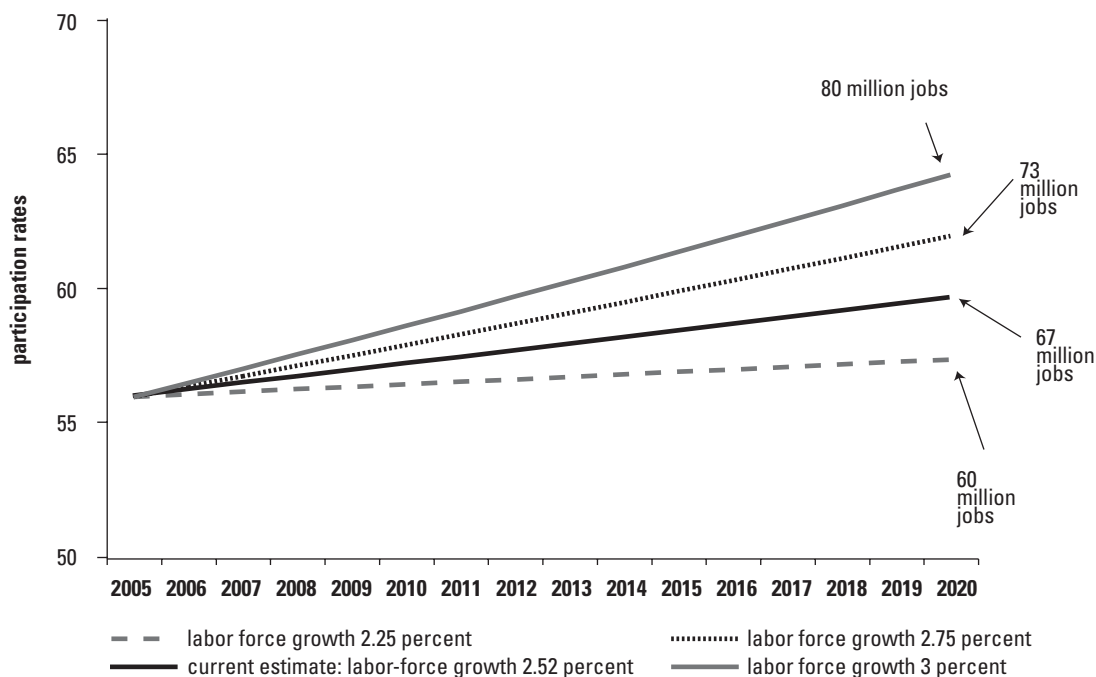
Adjusting to projected labor force growth. The MENA Regional Employment Report concluded that between 2000 and 2020, the region would have to create 80 million jobs to absorb new labor force entrants. To meet the greater challenge of absorbing new entrants and eliminating unemployment (estimated at the time at nearly 15 percent), the region would have to create nearly 100 million jobs in the period 2000–20, or 5 million jobs per year. Following this approach, but using the revised ILO estimates, MENA would need to create slightly fewer

jobs per year because of lower estimated labor force growth. By 2005, MENA’s labor force had expanded to nearly 120 million people, and is estimated to reach 174 million by 2020. The region will therefore need to create 54 million jobs over the next 15 years to merely cover new entrants to the labor force. With unemployment in the MENA region now estimated at just above 12 percent,¹³ the more ambitious goal of creating jobs for the unemployed, in addition to the new entrants, implies the need for 68 million new jobs by 2020, or 4.5 million jobs per year—a reduction of about 10 percent compared to previous estimates. Nonetheless, creating this number of jobs is still a daunting endeavor.

Labor force projections are uncertain and depend on economic circumstances. The difference in the estimated job creation needs for the region presented above and those used in the MENA Regional Employment Report highlight two important issues. The first is that even relatively small changes in actual compared to projected participation rates will have large implications for the estimates of the

¹³ Referring to the 12 MENA countries as well as Iraq, Lebanon, and the Republic of Yemen, for which there are point estimates.

Figure 2.24: Job creation requirements and changes in labor force participation rates



Source: World Bank staff estimates based on ILO 2005.

needed jobs for the region. Figure 2.24 presents a sensitivity analysis that shows that if participation rates were to rise from 56 to 64 percent by 2020, instead of the currently projected 60 percent, 80 million new jobs will be needed instead of 68 million. Should participation rates stagnate, only 60 million jobs will be needed. While the number of jobs is intimidating in either of these scenarios, the uncertainty surrounding the actual magnitude of the employment challenge is high.

The differences in ILO revised data also show that LFPRs are difficult to forecast because they do not follow more predictable population-driven patterns. LFPRs are endogenous to economic circumstances and are influenced by many factors including incentives, the probability of getting a job, wage levels, and economic and social policies.

Revisiting the 100 million jobs estimate. From this perspective, the employment challenge spans more than labor force participation and unemployment rates suggest. In reality, the inactive population may hide a large number of potential but discouraged workers who would like to work but have given up hope of finding a job. The challenge of job creation involves these workers as well. In this vein, the European Employment Strategy, agreed on by the Lisbon European Council in 2000, sets a different goal for the EU: that the overall employment rate should reach 70 percent by 2010, compared to its present level in Europe of 64 percent. Today, MENA's employment rate is below 50 percent, meaning that less than half of its potential workforce is employed. What would raising this employment rate—both by lowering unemployment and by raising participation rates—imply in terms of job creation?

Figure 2.25 translates the job creation numbers matched to ILO projections of labor force growth into employment rates, and also presents two additional scenarios. With the projected labor force growth around 2.5 percent per year between 2005 and 2020, and the corresponding job creation of 68 million jobs, MENA employment rates would increase to about 60 percent by 2020. While this represents a significant increase compared to the current employment rate, it falls short of the levels currently registered in the EU, and much short of the goal the EU has set itself for the end of this decade. For MENA to reach the current EU employment rate of 64 percent by 2020, about 79 million jobs will have to be created in the next 15 years. And, finally, to reach the more ambitious European goal of an employment rate of 70 percent, nearly

100 million jobs would be needed in the same time frame—that is, nearly 6.5 million jobs per year. This represents a sustained employment growth of around 4.4 percent per year.

2.3.2 *Quantity and quality of jobs: a dichotomy?*

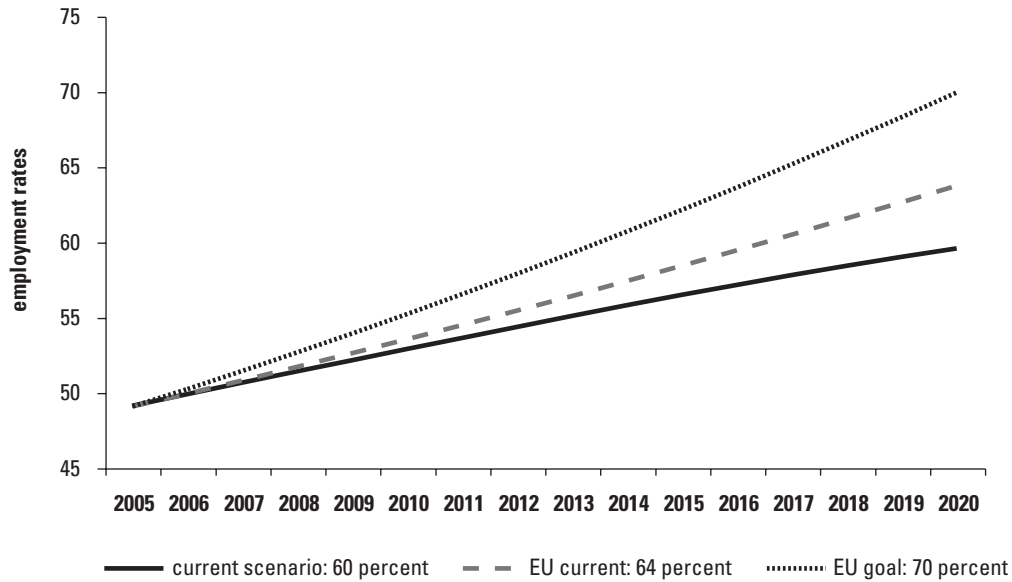
The population in MENA has been and continues to be one of the fastest growing in the world, but employment did not grow as fast as the region's labor force in the past decades. While employment growth was relatively strong in the 1970s, during the first oil booms, it failed to keep up with demographic pressures in the 1980s, when oil prices dropped and government-led growth strategies lost momentum. The 2000s are bringing some new perspectives to the employment challenges of MENA, as a new, and so far sustained, oil boom drives much of the action in the region. The recent economic boom seems to have altered prospects for addressing and resolving much of the region's employment challenges. But not all countries in the region are benefiting from the recent growth. At the same time, labor force growth will come down over time as the population in MENA ages, and its composition is also changing in favor of increased female participation.

Can the MENA employment challenge be met? The vast majority of jobs would need to come from within MENA's economies. Migration provides an important mechanism for risk diversification and income growth, but the mere size of the job challenge means that labor demand abroad cannot fill the employment gap. Thus, the region would need to maintain the exceptionally high rates of employment growth of recent years through 2020, and advance structural reforms to facilitate job creation, particularly by the private sector. At the same time, enhancing worker productivity remains a key challenge and will require strong efforts to build real skills and foster entrepreneurship and innovation in the private sector.

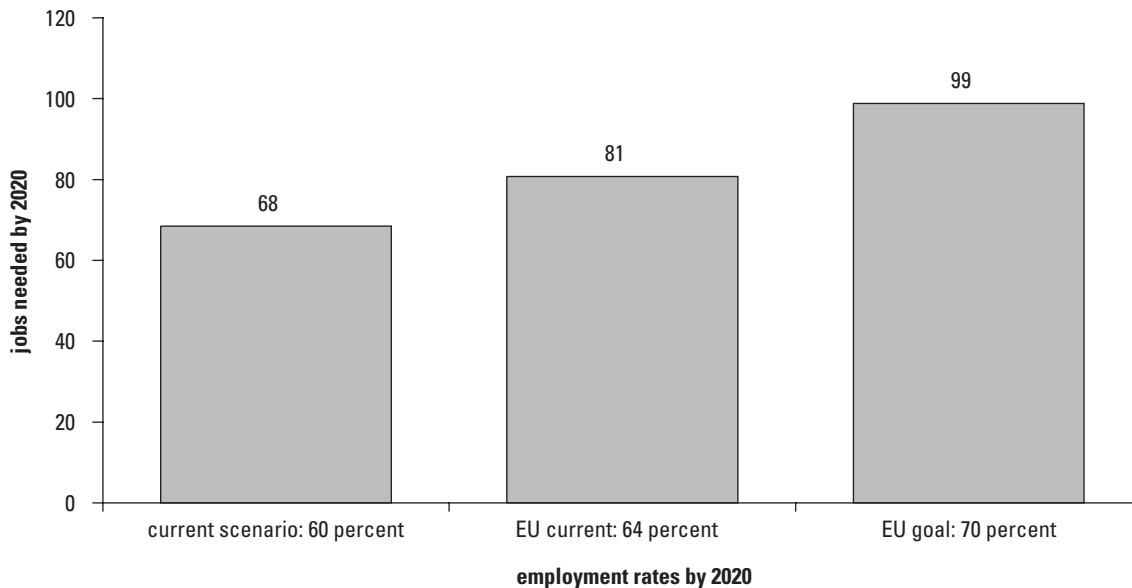
Indeed, the MENA region is facing a double employment challenge: the number and the kinds of jobs that need to be created. To shift to a higher-productivity/high job-growth scenario, economic growth rates need to remain strong and employment elasticities need to decline. Historically, MENA countries' high employment elasticity implied strong job creation at times of strong economic growth, but, as noted above, at the cost of

Figure 2.25: More jobs needed in the region

a. Employment rates, 2005–20, to reach different goals



b. Job creation needed to reach different goals for employment rates



Source: World Bank staff estimates based on ILO 2005.

low productivity. This highlights a dilemma of quantity versus quality of jobs created. Continued high demographic pressures will push for quantity rather than quality. For these jobs to last, especially beyond a fall in oil prices, there needs to be a focus on quality as well. Although the reform process has picked up speed in some countries (chapter 3), it is still moving slowly and unlikely to deliver growth

levels on par with East Asia, which could significantly raise productivity levels in tandem with strong job creation.

During the 1980s and early 1990s, there is no doubt that the dominance of public sector employment had lingering effects on productivity in the region. There is a large body of research that shows that human capital accumulation in the public sector,

especially within the administrative civil service, may not significantly contribute to economic growth, and, in fact, may actually reduce economic growth if government workers use some of their powers to generate rents for themselves (Pritchett 1999). The degree to which the region's exceptional public sector employment has lowered MENA's growth is not entirely clear, but a recent study estimated that the loss of GDP growth in the MENA region between 1985 and 1995, strictly due to public administration employment, was some 8.4 percent, or close to 1 percentage point per year (Pissarides 2000).

Although the region has been successful over the last few years in creating jobs, worker productivity growth has remained low—lower than most other regions of the world. Sectors with high value-added growth are not the ones creating the majority of new jobs. The evidence instead suggests that most of the region's jobs are still low skill and low wage, especially in agriculture, construction, the informal sector, and low-skills manufacturing. In the future, the sources of job growth need to become less dependent on such low-productivity activities and more dependent on high-productivity growth activities (driven by the private sector and world markets).

To move to a model of higher productivity growth, MENA will need to expand reforms in complementary areas. Better educational systems will be needed to prepare workers and entrepreneurs for a competitive global environment, and continued public administration reform will be needed to ensure that private sector labor demand is not distorted. Finally, low-productivity jobs are still providing income security for MENA's working poor. A more dynamic and open economic environment will imply higher job insecurity, and, possibly, higher income inequality. This calls for considerable strengthening of safety net mechanisms to minimize the impact of income volatility and address the needs of those that may be left behind in the transition.

This also raises the issue of developing nonwage sources of income, such as unemployment insurance, to allow for higher productivity growth. Unemployment insurance schemes remain undeveloped in MENA. The only country to introduce such a scheme is Algeria. Though many of the unemployed in MENA have been first-time job seekers, this pattern is changing as the MENA region works through the demographic transition. And as MENA's unemployed become workers with greater job experience, the need for unemployment insur-

ance heightens—not only to protect workers from lost wages, but to make sure that workers undertake efficient job searches. In economies without unemployment insurance, job search duration is significantly reduced, and workers often accept lower-productivity jobs to avoid the costs of unemployment. Lower-productivity jobs offer insurance from unemployment. These jobs are easier to get, but imply lower wages.

Labor policy needs to balance these two fundamental objectives—the goals of protecting workers from the risks of unemployment, lost income, or poor working conditions, and the goals of encouraging job creation and the allocation of labor to their most productive uses. The degree to which one goal is emphasized over another depends on the national context.

The shift toward private sector export-driven job growth, with higher productivity, would have the benefit of increasing the returns on education, and resolve one of the main weaknesses of the old development model in MENA. This shift will, over the long term, help to reduce the productivity gap between MENA and other regions. But it will require better educational systems to prepare workers for a competitive global environment, as well as better signals from the labor market to the education sector—otherwise educational reform will not be sustainable. Improving those signals will also necessitate reform of the public administration sector. However, the gains in terms of higher returns to education and skills may come at the cost of higher inequality. Unskilled labor may not see the benefits of economic growth in terms of increased earnings, but rather in terms of improved employment prospects.

This creates a challenge for policy makers. The policy response is certainly not to slow the pace of technical progress or the opening of markets. It lies in enhanced educational and skills development programs both for entrants into the labor markets and for those who have to retrain and return to the markets.

The overarching challenge of creating sufficient employment opportunities in MENA points to the continued need to create an environment in which private sector investment—and employment—can prosper. Even though the region has made progress along all areas of reform in the last few years, a broad range of issues continue to hinder the private sector from fully emerging in MENA.¹⁴ As the pri-

¹⁴ See chapter 3 of this report.

vate sector becomes the main player in labor markets, and as reforms in the business environment are undertaken, it faces the challenge of becoming less dependent on rents, whether directly from the state or through prevailing uncompetitive practices and state capture.

In the long term, to meet the employment challenge, RPLA economies in the region have to move forward on comprehensive structural reforms that will improve the competitiveness of their

economies, enhance public sector governance, and strengthen the role of the private sector. Resource-rich economies have the opportunity to use the current oil boom to speed up the transition to more diversified economic structures, where a larger role is played by private sector export-led growth. Both resource-poor and resource-rich economies will need to focus on creating good jobs that are sustainable and enhance the well-being of their populations.

