



Key Characteristics of Employment Regulation in the Middle East and North Africa

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This note provides a general background of the main features of Labor Regulation in the Middle East and North Africa (MENA) and benchmarks them against international best practices. The note compiles information on available labor laws and other legal acts concerning employment protection regulation. Within the broader scope of labor regulation, and in order to assure regional comparability, information collected focuses on key issues in the labor law associated with commencing or terminating employment and during the period of employment (including maternity benefits). The main sources the data are the World Bank Doing Business 2010 and ILO databank. This note is a tool to provide policymakers and international organizations with a regional diagnose of how labor regulation affects labor market outcomes in MENA and inform client governments about strategic approaches to employment creation through labor policy and reform. This activity comes as a response to regional priorities in the context of the Arab World Initiative (AWI). One of the six strategic themes of the AWI focuses explicitly on employment creation as a top priority. Part of the World Bank's mandate under the AWI is to inform client governments about strategic approaches to employment creation through labor policy and reform.

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Key Characteristics of Employment Regulation In The Middle East and North Africa

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Executive Summary

This note provides a general background of the main features of Labor Regulation in the Middle East and North Africa (MENA) Region.

As part of an effort to understand employability constraints in the MENA, a World Bank team compiled information on available labor laws and other legal acts concerning labor regulation in the region. Within the broader scope of labor regulation, and in order to assure regional comparability, information collected focuses on key issues in the labor law associated with commencing or terminating employment and during the period of employment (including maternity benefits). The main sources the data are the World Bank Doing Business 2010 and ILO databank. This note is a tool to provide policymakers and international organizations with a regional diagnose of how labor regulation affects labor market outcomes in MENA and inform client governments about strategic approaches to employment creation through labor policy and reform. This activity comes as a response to regional priorities in the context of the Arab World Initiative (AWI). One of the six strategic themes of the AWI focuses explicitly on employment creation as a top priority. Part of the World Bank's mandate under the AWI is to inform client governments about strategic approaches to employment creation through labor policy and reform.

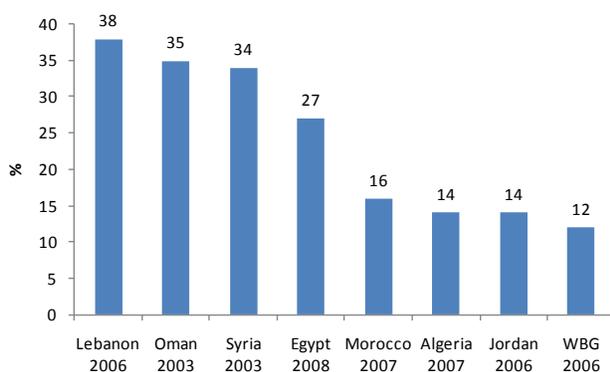
Labor market indicators in the Middle East and North Africa (MENA) region are lagging by international benchmarks. Labor market outcomes are a primary concern to policy makers in the MENA region. Employment rates in MENA are low by international benchmarks (at 46 percent vs. a world average of 60.3 percent in 2008), mainly due very low employment and participation rates among women. Unemployment rates are high (at 10 percent vs. a World Average of 6 percent in 2008) mainly due to high rates of unemployment among youth (new – and often educated – entrants to the labor market) and

women. Arab Mediterranean Countries (AMCs) – which display very large youth bulk – will need to create more than 1,500,000 additional jobs per year over the next 10 years in order to provide employment opportunities for new labor market entrants and to keep the (already very high) number of unemployed unchanged. Doing so would require rates of economic growth surpassing those achieved in recent years (which is rather challenging given the current world and regional economic context). Gulf Corporation Council (GCC) countries, still highly dependent on oil-related revenues; face several challenges due to migration inflows, a public sector that cannot create at the pace of labor supply, and low quality job creation that is not attractive for nationals.

Labor regulation, among other factors, introduces restrictions to employability in MENA. Labor market outcomes are influenced by a series of demand and supply side factors such as macroeconomic performance, investment climate, labor market policies and institutions, education and skills, labor regulation, and safety nets for workers (see World Bank, 2007 for a discussion on the MILES framework). Within this broader framework, this note this policy note focuses on the role of labor regulation in labor market integration in MENA within other existing institutional and macroeconomic constraints (such as labor insufficient labor demand, and lagging investment, among others). Data from enterprise surveys indicates that in some MENA countries labor regulation is perceived as an important constraint to business environment (and thus, to employment creation). In some countries (mainly Lebanon, Oman, Syria, and Egypt), labor regulation is perceived by firms as a major constraint, while in other countries like Jordan, Algeria, Morocco, and West Bank and Gaza this is true to a lesser extent (Figure ES.1). In Egypt for example, according to the 2008 Investment Climate Assessment (ICA) survey, labor regulations and mandatory contributions continue to constrain many enterprises from expanding formal employment. Manufacturing

firms, service firms, and hotels in Egypt report they would hire a net of 21 percent, 9 percent, and 15 percent more workers respectively if there were no restrictions to hiring and firing workers (Angel-Urdinola et al 2010). In the Lebanon 2009 ICA, almost all firms indicate that they would hire more workers (by an average of more than one third of their current workforce) in the absence of existing regulations and restrictions. On the other side of the spectrum, labor regulation in GCC countries is very flexible and thus not perceived as an important constraint to business climate or employment creation.

Figure ES.1: Share of Firms Identifying Labor Regulations as a Major Constraint to Doing Business



Source: World Bank 2010 at: www.enterprisesurveys.org

Labor regulation not only protects workers' rights, but also determines to some extent the flexibility in the labor market. Labor law – broadly speaking – regulates interactions between employers, employees, and between their representative organizations: unions and employers' associations. Besides regulating employment relationships between employers and employees, labor law serves as a mechanism to establish a more conducive environment for the creation of productive employment opportunities and enhancement of social dialogue. International experience confirms that, among many other factors, labor regulation constitutes an important cornerstone for a favorable investment climate, which in turn is a key determinant of foreign

direct investment flows and employment creation in the labor market (affecting particularly youth and women). Despite a considerable stock of literature on labor regulation and its effect on labor market outcomes, there is little systematic analysis on these topics in the MENA region.

In many MENA countries, labor legislation is shaped by specific features of the social contract established in the post independence era. Each of the MENA countries has its own history of labor law development, with differing labor market conditions and contrasting legal and social security systems. Specific core attributes of the social contract in MENA traditionally include a preference for redistribution and equity in economic and social policy; a preference for states over markets in managing national economies; reliance on state planning in determining economic priorities; and an encompassing vision of the role of the state in the provision of welfare and social services. In several MENA countries, the main labor law dates back in the 1970s (Bahrain 1976), or even 1960s (Kuwait 1964, Lebanon 1964). Increased exposure to international market forces has had an impact on labor relations in MENA region and some countries (such as Egypt, Syria, Morocco, Jordan, Oman, Saudi Arabia, and West Bank Gaza) have recently revised their labor codes to better adapt to international trade, to enhance labor mobility, and to attract foreign direct investment.

In most MENA countries, labor regulation constitutes a main mechanism to protect worker's rights as collective bargaining is not widespread. Depending on the country, trade unions in MENA are either state-controlled or independent, but they rarely represent many workers effectively (although there are exceptions, like in Tunisia where unions are influential social partners). Unionized MENA countries generally have a single, often compulsory, trade-union structure. In many countries in the region, strikes remain illegal

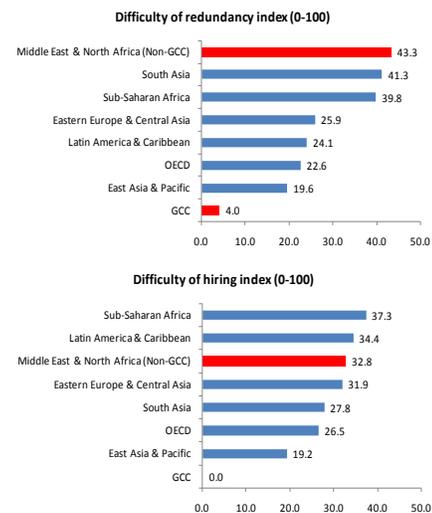
and workers have few ways of challenging the power of the state or private employers. In this context, the role of the main labor law as safeguard for workers is much more essential than, for example, in OECD countries where the majority of workers are somehow covered by collective arrangements. Countries with higher levels of collective bargaining generally rely on flexible employment protection legislation (EPL), thus providing a greater role for trade unions and employers associations to determine employment relations. Most MENA countries are far from this concept, which partly explains why labor codes tend to include an over-protective regulation, especially concerning firing workers.

Hiring and Firing

Hiring regulation in MENA is overall aligned to international standards. MENA countries in general do not display strict hiring regulations as compared to international standards, although some of them do. Most MENA countries have quite flexible arrangements in their labor laws as far as fixed term labor contracts are concerned. Many workers in MENA work overtime to earn extra income, but overtime arrangements are often abused by employers as legal arrangements and provisions (such as payments of wage premiums for night work and overtime) are often bypassed to the benefit of the employer. In terms of annual leave, regulation in most MENA countries is rather generous for international benchmark, which is partly explained by the benefit packages offered to public servants. Most MENA countries offer some form of maternity protection; but benefits are not generous by international standards. An important aspect of maternity leave provisions is who bears the costs. In most MENA countries, it is the employer who has to cover direct and indirect costs. Due to direct and indirect costs to employers, an extensive usage of such entitlements may lead to restrictions in the hiring of potential mothers. In some countries

in the region, such as in Algeria, Iraq, and Morocco, the cost of maternity benefits is covered by the social security system. Although in such situations the employer does not bear direct costs for maternity leave, it also does cause inconveniences associated with the need to find a replacement for the female worker, or to secure a workplace upon the worker's return.

Figure ES.2: Difficult of Firing and Hiring [MENA vs. Other World Regions]



Source: Doing Business 2010 databank

Compared to international benchmarks, firing regulations in MENA are rather strict. Firing regulations in MENA (and especially in non GCC countries) remain quite strict and firing costs remain high (Figure ES.2). While the termination of workers due to redundancy is legally authorized in all MENA countries, most countries have complex regulations that require notification, justification, and approval for dismissals. In some countries, employers are even required to comply with stipulated obligations to reassign and/or retrain workers after termination. Furthermore, firing costs involving notice requirements, severance payments, and penalties due when terminating a redundant worker, are rather high in most countries in the region. Protective firing regulation is partially explained by the lack of unemployment insurance schemes in most MENA countries.

Compliance

Despite protective regulation, most workers in MENA remain largely unprotected against unemployment risks. Even though labor legislation in MENA might be rigid de jure, de facto it is widely evaded. Employment protection in many MENA countries only applies to elite of workers in the public and private sectors. As such, despite the existence of rigid/protective labor laws, labor markets in MENA remain largely unregulated (and thus quite flexible in nature). There are two important factors contributing to this:

(a) *Labor legislation primarily affects hired employment in the formal sector:* The typical country in MENA produces about 27 percent of its GDP and employs 67 percent of its labor force informally (Loayza and Wada, 2009). As such, the application of the labor law in many cases is limited to civil service, public service and a small number of private formal sector firms, many of which are multinationals. Especially in oil rich countries, the share of foreign labor – often informal and thus less protected - is especially high.

(b) *Law enforcement remains weak in most countries:* While laws may be applied and enforced differently in different countries, in many MENA countries, law provisions are often not complied. Regulations designed to protect workers, such as the establishment of minimum wages and regulation for overnight work, are often bypassed in the benefit of the employer. Compliance of firing regulations (such as severance payments) is limited outside the public sector as employers use various practices to avoid payments (including forcing workers to sign undated “voluntary” resignations when starting a job).

Achieving greater labor market flexibility through non-enforcement of laws is not an optimal choice because it undermines the rule of law, exposes firms to costly uncertainty,

impedes decent formal employment growth and leaves workers without adequate protection (Rutkowski and Scarpetta, 2005). Many MENA countries need to develop modern Labor Inspectorates to effectively enforce core worker rights, to supervise the implementation of labor regulations and to provide technical assistance and advisory services to enterprises. Furthermore, lack of public awareness on legal rights associated with employment may also impair the enforcement of the law in a number of MENA countries. Workers should know their legal rights and how to enforce them.

At the same time, protective labor regulation in MENA (especially concerning worker’s dismissal) is hindering employment creation in the private sector, as indicated above (Figure ES.1). International evidence suggests that stricter employment protection legislation (i.e. requirements/cost of hiring and firing) is associated with higher levels of informality and youth/female unemployment, lower productivity, and slow labor market adjustment after economic shocks. Also, Strict EPL for workers in the “formal” sector has generally been shown to restrict employment growth. Many economists argue that stricter EPL leads to segmentation in the labor market between the so-called insiders (i.e. the workers with a protected job) and the outsiders (i.e. people who are either unemployed or employed with fixed-term, part-time or temporary contracts). In the case of MENA, on top of high firing cost and strict dismissal requirements, regulation in many countries (mainly non-GCC) include provisions in the regulation that may make it more expensive (or constrained) for employers to hire women, such as generous maternity protection benefits and annual leave, especially if paid directly by the employer. Annual leave in most MENA countries is rather generous for international benchmarks, which is partly explained by the benefit packages offered to public servants.

Policy Implications

Economic efficiency and worker protection could be achieved if governments set as an overarching goal “to protect the income of workers as opposed to protect particular jobs” through, for instance, the expansion of unemployment insurance schemes. An appropriately designed unemployment insurance scheme can provide adequate protection to workers in the context of a more flexible labor market. At the same time, only a few countries in MENA region have unemployment insurance (UI) systems, namely, Algeria, Egypt, Iran, and Kuwait. Even in countries with UI systems in place – like Egypt – the system hardly exists. The factors contributing to the low utilization are lack of public awareness about UI benefits among plan members, restrictive eligibility conditions, the difficulty of (and the stigma attached to) documenting a “just-cause” firing decision, and low overall lay-off risk among covered open-ended contract employees.

A reform in labor regulation in MENA must go hand in hand with a reform in the social protection system. Adopting a lifecycle approach to work may require shifting from the concern to protect particular jobs to a framework of support for employment security including social support, unemployment insurance, and active measures to assist workers during periods of transition. As such, any reform to EPL should be adopted in parallel to reforms of other social protection policies that support laid-off workers and workers in transition between jobs and other vulnerable groups – in order to preserve social cohesion and stability. Finally, any reform in EPL should also consider the specificities of the political economy in each country, institutional capacity, fiscal constraints, and policy preferences as set in the social contract. Unions in MENA – some of which still have strong political leverage) continue to favor the status-quo as defined by the post-independence social contract, making labor reform a rather complex and far-reaching political process.

CHAPTER I. Labor Regulation in MENA: An Overview

This chapter provides a brief overview of the main features of the labor law in MENA and discusses its importance as a mechanism to regulate employment relationships between employers and employees, protect workers, and establish a more conducive environment for the creation of productive employment opportunities. Labor laws in MENA are of especial importance in regulating labor markets as collective bargaining is not very widespread and collective agreements are relatively weak. While labor law in many MENA countries (especially in non-GCC countries) seems rather strict for international standards (especially concerning employment protection, hiring, and termination), in practice, employment laws are often ineffective because of evasion, weak enforcement and failure to reach the informal sector.

Background

1. Labor law – broadly speaking – regulates interactions between employers, employees, and between their representative organizations: unions and employers’ associations. The main labor law (generally found in the National Labor Code) provides only a set of minimum legislative requirements that employers and employees must comply with for commencing or terminating employment and during the period of employment. However, labor law is only one in a set of other labor market regulations and institutions (such as labor taxation, other legislative acts, internal regulations, and/or collective agreements) that provide supplementary guarantees to workers. Labor laws are, inter alia, designed to equalize the bargaining power between employers and employees. They prohibit employers and unions from engaging in specified "unfair labor practices" and establish obligations for both parties to engage in good faith collective bargaining. Labor laws aim to protect workers from arbitrary, unfair, or discriminatory actions by their employers while addressing potential market failures stemming from insufficient information and inadequate insurance against risk. Labor law, which governs subordinate employment, is based on the need to protect the worker, who is regarded – legally and socially – as being in the weaker bargaining position.

2. Labor law aims to balance the need to protect workers’ rights with the need to increase flexibility in the labor market. Besides regulating employment relationships between employers and employees, labor law serves as a mechanism to establish a conducive environment for the creation of productive employment opportunities and enhancement of social dialogue. International experience confirms that, among many other factors, labor regulation constitutes an important cornerstone for a favorable investment climate, which in turn is a key determinant of employment creation in the labor market (and of foreign direct investment flows) (World Bank 2009) (Box I.1). In the last two decades, labor law (especially on employment protection, hiring, and termination) has been hotly debated in OECD countries because of its potentially important implications for economic and labor market performance (see OECD 1999 and 2004 for an overview).

Employment Protection Legislation

3. Within the broader legislative provisions of the labor Law, this policy note analyzes mainly Employment Protection Legislation (EPL). EPL refers to all types of measures concerning hiring (e.g. rules favoring disadvantaged groups, conditions for using temporary or fixed-term contracts, training requirements) and firing (e.g. redundancy procedures, mandated pre-notification periods and severance payments, special requirements for collective dismissals and short-time work schemes). A rigid EPL may also promote incentives for the creation of a two-tier labor market divided between so-called insiders (i.e. the workers with a protected job) and the outsiders (i.e. people who are either unemployed or employed with fixed-term, part-time, or temporary contracts) (EC 2003). This occurs because, in theory, strict EPL makes it harder for certain groups (including women and displaced older workers) to enter or re-enter the labor market, at least on an open-ended contract. As a result, stricter EPL increases long-term unemployment, and makes layoffs more lengthy; costly; and difficult for employers (Young, 2003). Lazear (1990) was the first to find a positive (negative) association between more protective EPL and unemployment (employment) rates. Grubb and Wells (1993) built the first composite EPL indicator by identifying several dimensions of EPL and assigning scores to them. The authors found that stricter EPL is associated with lower employment stocks. Since then, many other authors have studied the association on EPL and labor market outcomes, originating a debate that remains ongoing as it will be discussed in more detail below.

Box I.1: Main Factors that Promote a Favorable Investment Climate

Fundamental institutions of a market economy are in place to facilitate economic growth and job creation, including, inter alia, well defined and secure property rights; contract enforcement; effective judicial system; and reliable public goods, such as safety and order, necessary infrastructure, and good education system;
There is macroeconomic stability in the country, including low inflation, and sound monetary and fiscal policy;
Business environment is favorable, e.g., rules and regulations are transparent, coherent and stable; taxation levels are low, corruption and abuse of power is limited;
There exist a competitive product market especially for small private firms which drive employment growth;
Employment protection regulation is of limited scope, and labor relations are not be over-regulated.

Source: World Bank (2009)

4. The impact of EPL in labor market outcomes has been a matter of debate. Many empirical studies, most of which have been conducted in OECD countries, have investigated the association between EPL and employment outcomes. Results in this area remain largely inconclusive. While many studies fail to find an association between EPL and employment outcomes (Emerson, 1998; Bertola, 1990; OECD, 1998; Boeri, 1999), other studies find that a stricter EPL is associated with lower employment stocks (Lazear, 1990; Grubb and Wells, 1993; Di Tella and McCulloch, 1998) and flows (Emerson, 1988; Jeckman et al, 1996). In a recent attempt to provide more conclusive evidence, Lafontaine and Sivadasan (2008) built a cross-country dataset obtained from an international fast-food chain (2,500 outlets in 43 countries). The authors find that (within their sample) formal employment to population ratios were about 12 percent lower in countries with more rigid labor regulation.

Nevertheless, other studies have also found a positive association between stricter EPL and employment flows (Boeri, 1999).

5. Stricter EPL is associated with higher levels of informality and unemployment. Botero et al (2004) provides a cross-country study on labor regulation and its influence on unemployment outcomes. The report investigates the regulation of labor markets through employment, collective relations, and social security laws in 85 countries. The main finding is that heavier regulation of labor is associated with lower labor force participation and higher unemployment, especially of the young. Furthermore, stricter EPL has been found to be statistically associated with a lower turnover in the labor market, a greater prevalence of temporary jobs, and longer unemployment spells (Scarpetta 1996; Nickell, 1997; Elmeskov, Martin and Scarpetta, 1998; Bertola, Boeri and Cazes 1999; Blanchard and Wolfers, 2000; Nickell and Layard, 2000; Blanchard and Portugal, 2001; Young 2003; Di Tella and MacCulloch, 2005; Allard 2005; Bassanini and Duval 2006; Amable et al 2007). Empirical evidence has also documented the association between strict EPL and informality, especially in countries with limited enforcement capacity and with a higher share of self-employment (Grubb and Wells 1993; Djankov and Ramalho 2009).

6. Stricter EPL is also associated with lower productivity and slow labor market adjustment after economic shocks. By discouraging hiring and firing, EPL may slow adjustment to shocks and impede the reallocation of labor, with potentially negative implications for productivity growth and adaptation to technological change. Empirical results from OECD countries also suggest that more strict dismissal regulations have a negative impact on productivity growth in industries where layoff restrictions are more likely to be binding (Bassanini, Nunziata, and Venn 2009).

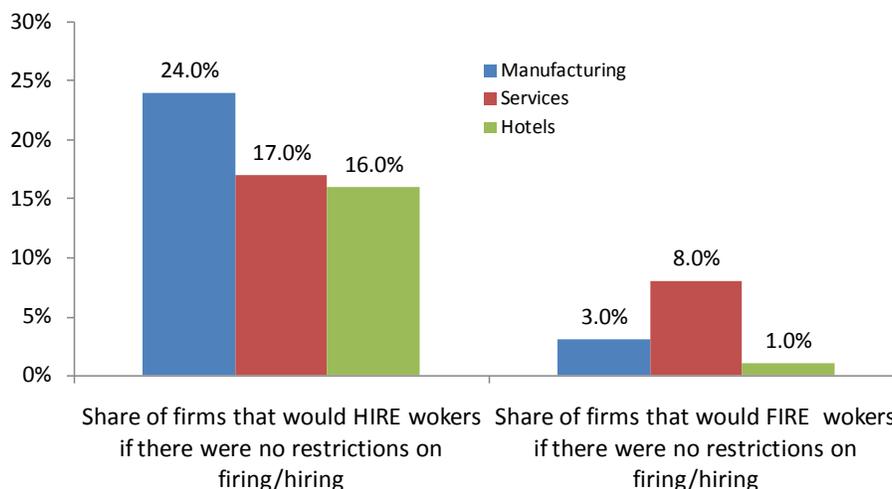
EPL in Developing Countries

7. While most of the available evidence comes for OECD countries, literature is emerging on the impact of EPL in developing countries. Heckman and Pages (2004) systematize the results of 11 studies on the effect of labor regulation on employment and growth in Latin America. The main result of the study suggests that mandated benefits reduce employment and that job security regulations have a substantial impact on the distribution of employment and on turnover rates. The most adverse impact of regulation is on employment outcomes of youth and unskilled workers. Insiders and entrenched workers gain from regulation but outsiders suffer (this promoting inequality among demographic groups). Pierre and Scarpetta (2004) look at employers' perceptions on the rigidity of labor regulation in 80 developing countries. They find that employers' concerns about labor regulations are closely matched by the relative stringency of labor laws. But not all firms are affected in the same way by onerous labor regulations. The authors find that labor demand in medium size firms, businesses with more prospects for growth, and more innovative firms is more likely to be negatively affected by rigid labor regulations. Saha (2006) compares labor regulation in China and India. China's labor reforms (which made wage setting, hiring, and firing more flexible to employers) were to some extent necessary for the boom in private sector employment, which then allowed fast industrial growth and rapid employment growth, although they also led to some adverse effects on income distribution and

industrial relations. In contrast, India’s reluctance to reform its rigid labor laws significantly depleted the favorable effects of industrial deregulation in the formal sector.

8. Recent analyses suggest that in developing countries rigid EPL retards firm growth and job creation (see for example, Boeri et al 2008; Kaplan 2008, and Djankov and Ramalho 2008, and Sanchez-Puerta 2010 for an overview of the literature). A recent study on the effects of labor-regulation reform using data for over 10,000 firms from 14 Latin American countries revealed that making labor regulations more flexible would lead to an average net increase of 2.1 percent in total employment. Firms with fewer than 20 employees would benefit the most, with average gains in net employment of 4.3 percent. Countries with more regulated labor markets would experience larger gains in total employment. These larger gains in total employment, however, would be achieved through higher rates of hiring and higher rates of termination (Kaplan 2008). Bosch et al (2007) find that reduced labor market flexibility in Brazil led to an increase in informality, primarily due to a reduction in the job finding rate in the formal sector. In Egypt for example, according to the 2008 Investment Climate Assessment (ICA) survey, labor regulations and mandatory contributions continue to constrain many enterprises from expanding formal employment. Manufacturing firms, service firms, and hotels in Egypt report they would hire a net of 21 percent, 9 percent, and 15 percent more workers respectively if there were no restrictions to hiring and firing workers (Angel-Urdinola et al 2010) (Figure I.1). In the Lebanon 2009 ICA, almost all firms indicate that they would hire more workers (by an average of more than one third of their current workforce)in the absence of existing regulations and restrictions.

Figure I.1: Net employment creation if firing/hiring restrictions were abolished in Egypt.



Source: Angel-Urdinola et al (2010)

9. Differences in level of enforcement (e.g., related to the efficiency of a country’s legal system) are as important or perhaps more important than differences in the letter of the law (Bertola, Boeri, and Cazes, 1999). For example, Almeida and Carneiro (2006) find that Brazilian firms in regions with stronger labor law enforcement employ fewer informal workers, even though EPL is the same across all regions within the country. However, the authors find that stronger law enforcement in the context of restrictive EPL leads to higher unemployment as employers become more reluctant to hire, especially if

they anticipate high firing costs and/or strict firing regulations. Also, strict EPL may not be complied with by employers, especially in countries where enforcement and labor inspections are weak. In Turkey, for instance, the severance pay system is quite generous for OECD standards (World Bank, 2006). In practice, compliance of severance regulations is limited outside the public sector as employers use various practices to avoid payments (including forcing workers to sign undated “voluntary” resignations when starting a job) (Vodopivec, 2008).²

10. Developing economies tend to have a stricter EPL in the absence of social protection systems against unemployment and poverty risks. EPL is not the only regulation affecting employees hiring and firing. Indeed, social protection provisions (such as unemployment benefits, social safety nets for the poor, and access to active labor market policies) also exercise an important influence in employer’s hiring and firing decisions. Because labor laws have a dual role in the labor market (they provide security but at the same time determine labor market flexibility), a new policy concept called “flexicurity” has emerged recently, especially among EU countries (Box I.2). Since strict EPL has been found to have negative effects on employment outcomes, there is a strong advocacy (especially from employers, governments, and foreign investors) for less rigid employment regulation, which implies lower “job” protection and easier firing and hiring practices. At the same time, equally strong demand exists (especially from employees and unions) for providing security to employees – especially vulnerable groups – in order to preserve social cohesion and stability. As such, a balance is needed in order to provide a regulatory and social framework that strikes the right balance between security and flexibility.³ Figure I.2 indicates that OECD countries have lower levels of employment protection than developing countries. This is explained in part by the fact that developing countries generally spend less on social security (i.e. unemployment insurance schemes, labor programs targeted to the unemployed and social safety nets for the poor and unemployed).

Box I.2: Flexicurity policies can be designed across four policy components:

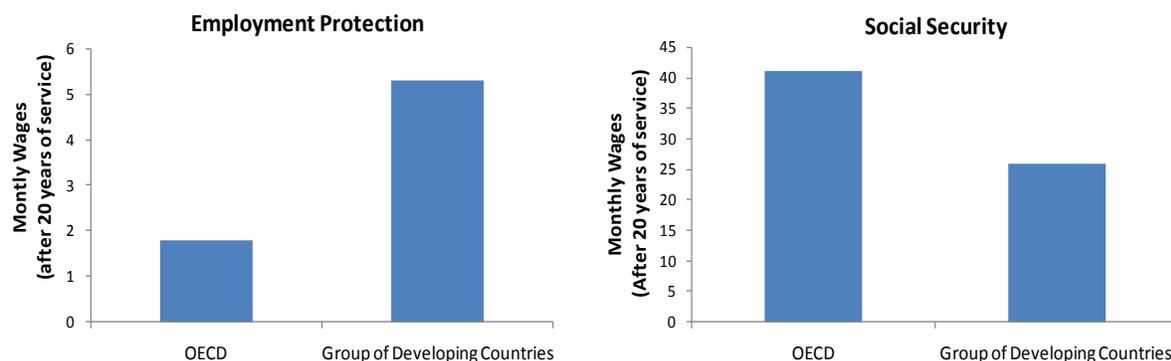
- Flexible and reliable contractual arrangements (from the perspective of the employer and the employee, of “insiders’ and “outsiders”) through modern labor laws, collective agreements, and work organization;
- Comprehensive lifelong learning strategies ensuring that citizens have the opportunity to have high quality initial education, that they complete at least their secondary education and that they acquire new skills and upgrade existing skills throughout their working lives. It is also about ensuring enterprises investing more in human capital and allowing employers to develop their skills;
- Effective active labor market policies helping unemployed people return to work through job placement services and labor market programs, such as training and job creation. Job search courses and job clubs have been shown to be among the most effective measures in helping the unemployed find a job;
- Modern social security systems, especially adequate unemployment benefits to act as a safety net when people are changing jobs, as well as healthcare benefits in case they fall ill as well as pensions for when they retire.

Source: European Commission 2007.

² In Turkey, workers qualify for severance pay after one year of service, and the system mandates a payment of one month wages per year of service for qualifying separations (including separations for economic reasons, just cause discharge cases, and retirements), with no ceiling on number of years but a ceiling on amount paid per year.

³ The concept of *Flexicurity* has become a key element of the European Employment Strategy (EES) (Klosse, 2003).

Figure I.2: Employment Protection vs. Social Security (OECD vs. Developing Countries)



Source: Processed from Heckman and Pagés (2004)

Note: Employment Protection– net present value in monthly wages of dismissal related costs after 20 years of employment. Social Security – net present value in monthly wages of workers/firms contributions for life-risks related costs (disability, illness, unemployment, old age, etc...) after 20 years of employment

EPL in MENA

11. In many MENA countries, EPL is shaped by specific features of the social contract established in the post independence era. There is strong evidence that the origin of a country’s laws is an important determinant of its regulatory approach, in labor as well as in other markets (Botero et al 2004). Specific core attributes of the social contract in MENA include a preference for redistribution and equity in economic and social policy; a preference for states over markets in managing national economies; reliance on state planning in determining economic priorities; an encompassing vision of the role of the state in the provision of welfare and social services, and other features (World Bank 2004; Yousef 2004). In several MENA countries, the main labor law dates back in the 1970s (Bahrain 1976), or even 1960s (Kuwait 1964, Lebanon 1964) (see Table A1 in the annex for a description of the main labor laws by country). Increased exposure to international market forces has had an impact on labor relations in MENA region and some countries (such as Egypt, Morocco, Jordan, Oman, South Arabia, and West Bank Gaza) have recently revised their labor codes to better adapt to international trade, to enhance labor mobility, and to attract foreign direct investment.⁴

12. In most MENA countries, collective bargaining is not very widespread and collective agreements are relatively weak. Unionized MENA countries generally have a single, often compulsory, trade-union structure. Depending on the country, trade unions in MENA are either state-controlled or independent. Although some Unions in MENA have strong political leverage, they rarely represent many workers effectively (as unions represent only a small fraction of the “formal” workforce). In Europe, collective bargaining coverage is relatively high, with 70 percent or more of employees being covered by

⁴ This policy note discusses legal frameworks as of 2009. Any reforms conducted in 2010 may not be reflected in the analysis. For example, a new labor law was issued in Syria on April 12, 2010 after four years of negotiations between Government, Unions and employer’s representatives (which are not reflected in the policy note).

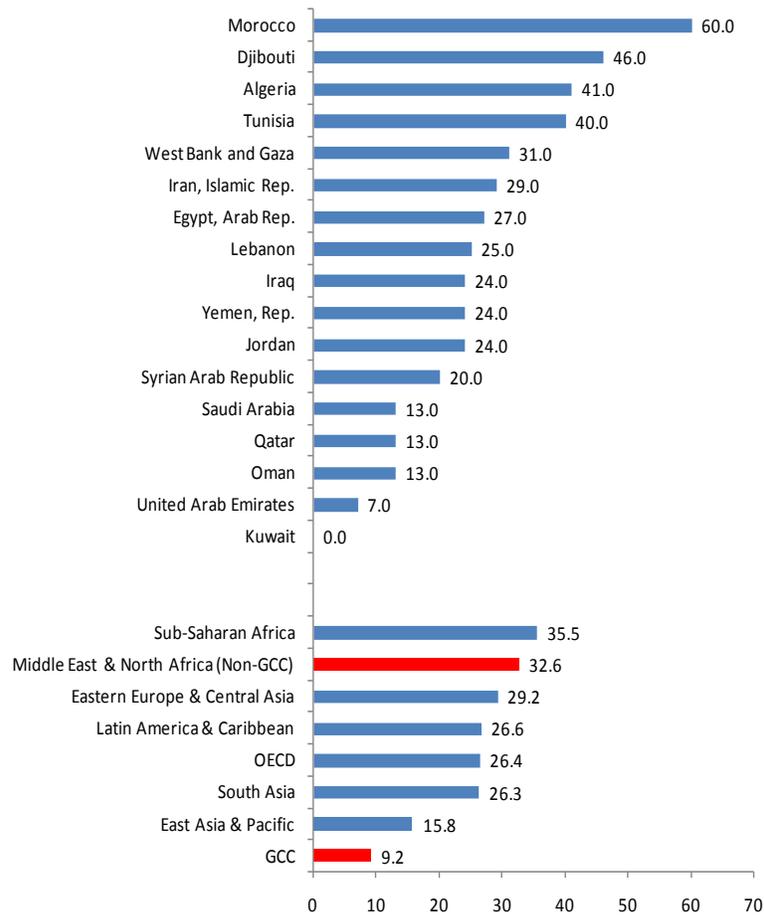
collective agreements in the majority of EU countries. In MENA region, by the available data, coverage is less than 15 percent in Morocco and in the United Arab Emirates (ILO 2008). In this context, the role of EPL as safeguard for workers is much more essential than, for example, in EU15 countries where the majority of workers are somehow covered by collective arrangements. Countries with higher levels of collective bargaining generally rely on a basic (rather flexible) EPL, thus providing a greater role for trade unions and employers associations to determine employment relations. Most non-GCC MENA countries are far from this concept, which partly explains why labor codes tend to include an over-protective regulation, especially concerning firing protection (see Table A2 in the annex for a description of labor laws in the areas of individual and collective labor relations by country).

13. Although there is a lot of variance in the level of rigidity of labor regulation between countries in the region, on average, EPL in MENA appears not too rigid for international standards. A widely used source providing international comparisons on the strictness of employment regulation is the Employing Workers index (EWI) from the World Bank Doing Business dataset. While this index is far from perfect and should be used with care to make policy conclusions on how flexible or rigid labor markets are, it is the only source of consolidated data available on labor regulation in MENA. The index oscillates between 0 and 100. A higher value of the index suggests more rigidity in the labor law. The index is constructed as the average of sub-indexes assessing difficulty of hiring, rigidity of hours, difficulty of firing and firing costs. Figure I.3 plots the EWI for all countries in MENA where data is available and also regional averages for benchmarking purposes.

14. Results in MENA indicate great dispersion in the rigidity of labor law. The region hosts countries with very low EWI (especially among GCC countries: Saudi Arabia, Qatar, Oman, United Emirates, and Kuwait) and very high EWI (especially among Maghreb countries: Tunisia, Algeria, and Morocco but also in Djibouti) (Figure I.3). All other MENA countries (Egypt, Lebanon, Jordan, Yemen, Iraq, Iran, Syria, and West Bank Gaza) display a EWI that is somehow aligned to international benchmarks in other developing regions such as Latin America and South Asia). Nevertheless, non-GCC MENA countries, on average, display a high EWI by international standards, only surpassed by Sub-Saharan Africa.⁵

⁵ Detailed information on the methodology used to construct the Employing Worker's Index can be found in Doing Business' website (<http://www.doingbusiness.org/MethodologySurveys/>)

Figure I.3: Doing Business Employing Workers Index [0-100]

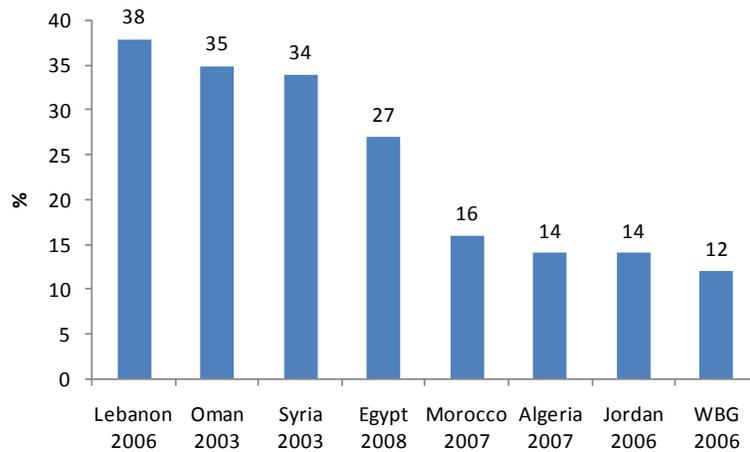


Source: Doing Business Dataset

15. Labor regulation in many non-GCC MENA countries is seen as an important obstacle to hiring and firm growth, although the situation varies country by country. Data from enterprise surveys indicate that in some MENA countries labor regulation is perceived as an important constraint to doing business. In some countries (mainly Lebanon, Oman, Syria, and Egypt), labor regulation is perceived by firms as a major constraint while to a less extent this is true in other countries like Jordan, Algeria, Morocco, and West Bank and Gaza. It is interesting that employers in countries with “apparently” more rigid labor regulation as, such as Algeria and Morocco (as proxied by the Rigidity of Employment Index in Figure I.4) do not identify labor law as a major constraint to doing business as much as in countries with “apparently” less rigid labor laws (such as Egypt, Lebanon, and Syria). This could be explained by the fact that labor regulation could be completely bypassed in some countries where enforcement is low. In such cases, despite the existence of rigid labor laws, the labor market could be virtually unregulated (and thus quite flexible in nature).⁶

⁶ The mismatch between how rigid regulation is and how much it is perceived as a constraint to investment climate may also be explained by how high social contributions and labor taxes are.

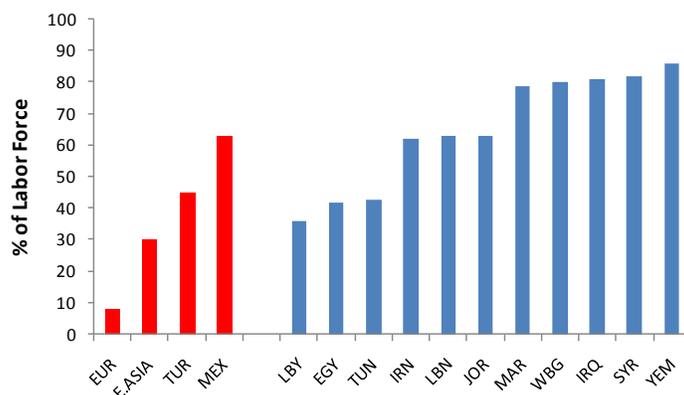
Figure I.4: Share of Firms Identifying Labor Regulations as a Major Constraint to Doing Business



Source: World Bank 2010 at: www.enterprisesurveys.org

16. Nevertheless, employment laws in MENA remain subject to evasion, weak enforcement, and fail to reach the large informal sector. As it will be discussed in more detail in subsequent chapters, even though labor legislation might be rigid de jure, de facto it is not enforced and is widely evaded. This is because labor legislation primarily affects hired employment in the formal sector, although there is some evidence of spillover effects to the informal sector. In all of MENA countries, however, informality is widespread, and some countries in the region are among the most informal economies in the world (Figure I.5). The typical country in MENA produces about 27 percent of its GDP and employs 67 percent of its labor force informally (Loayza and Wada 2009). As such, the application of the labor law in many cases is limited to civil service, public service and a small number of private formal sector firms, many of which are multinationals. Especially in oil rich countries, the share of foreign labor – often informal and thus less protected - is especially high. Also, laws may be applied and enforced differently in different countries. For instance, in some countries (Jordan, Egypt), labor regulations in special economic zones are applied separately from national labor laws. In the United Arab Emirates (UAE), in addition to the federal labor law, three separate labor laws govern employment relations in free zones providing more flexibility to the firms. Achieving greater labor market flexibility through non-enforcement of laws is not an optimal choice because it undermines the rule of law, exposes firms to costly uncertainty, impedes decent formal employment growth and leaves workers without adequate protection (Rutkowski and Scarpetta, 2005). Many MENA countries need to develop modern labor Inspectorates to effectively enforce core worker rights, to supervise the implementation of labor regulations, and to provide technical assistance/advisory services to enterprises. Furthermore, lack of public awareness on legal rights associated with employment may also impair the enforcement of the law in a number of MENA countries. Workers should know their legal rights and how to enforce them.

Figure 5: Informality Rates in non-GCC Countries in MENA



Source: Loayza and Wada (2009)

Note: Informality is defined as the share of employment not contributing to a pension scheme.

17. The majority of countries in MENA have not ratified important ILO conventions. Internationally accepted labor standards and norms governing the individual employment contract are recognized in ILO Conventions and Recommendations. Seven out of 18 MENA countries have ratified all ILO core Conventions (Algeria, Djibouti, Egypt, Israel, Syria, Tunisia, and Yemen) but Bahrain and Oman have ratified only four out of the eight ILO core conventions.⁷ Out of the core conventions, most MENA countries have not yet ratified the Freedom of Association and Protection of the Right to Organize Convention, 1948 (Convention No. 87). As far as the ratification of other ILO Conventions is concerned, the countries vary significantly from four conventions ratified by Oman and 6 conventions ratified by Qatar to 63 conventions ratified by Egypt and 61 conventions by Iraq (See Annex Table A3). Although formally these international documents are binding only to signatories, other non-signatory countries are increasingly aligning their labor legislation according to the norms and regulations stipulated in these Conventions.

18. Any reform in labor regulation in MENA needs to go hand in hand with a reform in the social sector; and should take into account fiscal constraints and institutional capacity. Any reform to EPL should be adopted in parallel to reforms of other social protection policies that support laid off workers and workers in transition between jobs. These social protection policies are far reaching and include unemployment benefits or unemployment insurance, old age income support (including health insurance and old age pensions), social safety net schemes targeted to the most vulnerable, and active labor market programs supporting the unemployed job-seekers. Relaxing EPL implies a threat to job security as jobs become less protected. Governments need to protect workers (who constitute a

⁷ ILO core conventions include: the Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87); the Right to Organize and Collective Bargaining Convention, 1949 (No. 98); the Forced Labor Convention, 1930 (No. 29); the Abolition of Forced Labor Convention, 1957 (No. 105); the Minimum Age Convention, 1973 (No. 138); the Worst Forms of Child Labor Convention, 1999 (No. 182); the Equal Remuneration Convention, 1951 (No. 100); and the Discrimination (Employment and Occupation) Convention, 1958 (No. 111). See: <http://www.ilo.org/ilolex/english/convdisp1.htm>.

national public good) against risks of long-term unemployment and displacement. In this regard, there is vast evidence indicating that short-term and long-term worker displacement increases poverty and inequality, contributes adversely to political instability and crime, and can affect health and mental outcomes in the adult population (e.g. Von Wachter and Sullivan 2009 use administrative data from the USA to show that the displacement of a 40 year old high seniority male worker is associated with a one to one and a half years loss in his life expectancy).

19. Any reform in EPL should also consider the specificities of the political economy, and policy preferences as set in the social contract. EPL reform is likely to face political resistance for various reasons (Scarpetta et al 2007 and Duval and Elmeskov 2005). A major political economy consideration affecting EPL reform is the balance of powers between ‘insiders’ and ‘outsiders’ in the labor market. Bentolila et al (2008) consider that a simple indicator for ‘political support’ of EPL reform is the ratio of the number of workers under permanent contracts to the sum of all employees and unemployed. If permanent workers constitute more than half, roughly implying that an ‘insider’ is the median voter, then their interests will dictate unions’ position and drive the resistance towards easing EPL (Box I.3). Of course, besides the size of different interest groups, their level of political organization also affects the balance of powers. In MENA, factors like globalization, trade, and a more than ever volatile business cycle (arising from recent food, financial, and/or oil crises) – are shaping preferences – at least among policy makers – towards the establishment of more liberal labor regulation coupled with adequate safety nets systems. However, unions in MENA (some of which still have strong political leverage) continue to favor the status-quo as defined by the post-independence social contract, making labor reform a rather complex and far-reaching political process.

Box I.3 Political Economy of EPL reform

Governments adopt different strategies to mobilize EPL reform in the light of political economy considerations. For instance, reforms that relaxed EPL in European and Latin American countries were ‘sequenced’, in the sense that they were enforced marginally, first only for more vulnerable non-permanent workers; a reform which seems politically easier to implement. Though politically easier, this creates what is referred to as ‘two-tier’ EPL reform, and may exacerbate fragmentation in the labor market. Spain is an interesting case where reforming EPL for temporary workers led to an explosion of temporary contracts, which generated concerns about fairness and consequently brought about an EPL deregulation for all workers independent of type of contract. Another strategy is complementing EPL reform with attractive reforms in other social protection mechanisms including the introduction of unemployment benefit schemes, strengthening of active labor market programs to facilitate job-search activities, or targeting safety nets or income support schemes to the most vulnerable. From a political economy perspective, ‘packaging’ reforms also implies that more than one interest group will be exerting pressure to lobby for the measures they consider advantageous, thus making it more difficult for one group to block any single measure within the package of reforms.

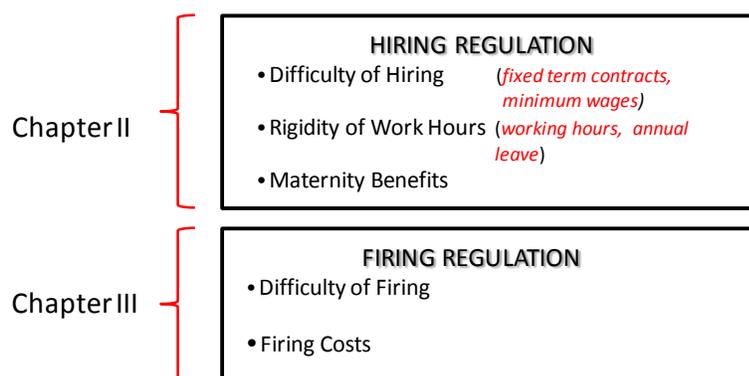
Scarpetta et al (2007) also show evidence that product market liberalization can over time weaken workers’ bargaining power through easing of EPL, implying that product market reforms can ‘substitute’ as well as a ‘complement’ labor market reforms. From a policy perspective, this implies that product market deregulation can be used as a policy ‘substitute’ for labor market deregulation in case the later is faced by political resistance.

Source : Bentolila et al 2008 ; Duval & Elmaskov 2005 ; Scarpetta et al 2007; Bean 1998; Hoj et al 2006

The Policy Note

20. This policy note analyzes five main pillars of labor law in MENA related to hiring and firing practices: Within the broader scope of labor regulation, this policy note main focuses on key issues in the labor law associated with commencing or terminating employment and during the period of employment (including a brief discussion on maternity benefits) (Figure I.6). Given its narrow focus, this study does not claim to be comprehensive and does not substitute for more and, in some cases, needed in-depth analysis of labor regulation on a country by country basis.

Figure I.6: Main Pillars of Labor Law Discussed in the Context of this Policy Note



21. The main sources the data are the World Bank Doing Business 2010 and ILO databank. To compile the Doing Business databank, labor experts are contacted in 183 countries to answer specific questions about labor legislation. Doing Business calculations are based on certain assumptions about forms and employees. As such, the analysis presented here needs to be interpreted with care as it only reflects a sub-sample of the population based on assumptions that are not universal (Box I.4). Finally, the policy note's discussion includes analysis of relevant labor law provisions from EU countries that are used benchmarks and are brought forward for comparison. Relevant characteristics of the labor law in MENA countries are largely presented in the Annexes.

Box I.4: Assumption used in Doing Business Databank (DBD)

The worker: is (i) a 42-year-old, nonexecutive, full-time, male employee; (ii) has worked at the same company for 20 years; (iii) earns a salary plus benefits equal to the economy's average wage during the entire period of his employment; (iv) is not a member of a labor union (unless mandatory).

The Business: is (i) a limited liability company; (ii) operates in the economy's largest business city; (iii) is 100 percent domestically owned; (iv) operates in the manufacturing sector; (v) is a small to medium-size company with 60 employees; (vi) is subject to collective bargaining agreements in economies where such agreements cover more than half the manufacturing sector and apply even to firms not party to them, and (vii) abides by every law and regulation but does not grant workers more benefits than mandated by law, regulation or (if applicable) collective bargaining agreement. These assumptions ensure comparability across countries.

Source: World Bank 2009; Botero et al 2004.

CHAPTER II. Hiring Regulations in MENA

This chapter provides an overview of hiring regulations in MENA. Hiring laws regulate the extent to which flexible contract types are restricted by law, how expensive it is for firms to hire first time job seekers, and the extent to which employers and workers accommodate/allow scheduling of nonstandard work hours and paid leave. MENA countries in general do not display strict hiring regulations as compared to international standards, although some of them do. Most MENA countries have quite flexible arrangements in their labor laws as far as fixed term labor contracts are concerned. Many workers in MENA work overtime to earn extra income, but overtime arrangements are often abused by employers as legal arrangements and provisions (such as payments of wage premiums for night work and overtime) are often bypassed to the benefit of the employer. In terms of annual leave, regulation in most MENA countries is rather generous for international benchmark, which is partly explained by the benefit packages offered to public servants. Finally, most MENA countries offer some form of maternity protection; but benefits are not generous by international standards.

Difficulty of Hiring

1. Difficulty of hiring measures the extent to which flexible contract types are restricted by law and how expensive it is for firms to hire first time job seekers. With more globalized labor markets and a higher participation of women in the labor force, there is a shift towards more flexible work organization structures, de-standardization of employment contracts, and diversification of working time arrangements (not only in the informal sector but also in the formal sector as well). These can differ significantly from the standard “full time” contractual model in terms of the degree of employment attachment, income security, and the relative stability of the associated working and living conditions. A contract of employment includes many dimensions: it can be concluded for an indefinite term, for a fixed term, or for the time of completion of a specified task. Another important dimension for hiring is the price of labor, which is often proxied by how the minimum wage for new entrants compares with the overall level of wages of the employed population (although the minimum wage is a mechanism to provide a benchmark for a minimum living pay, is also used as a proxy for the price of low-skilled labor relative to high-skilled labor). The policy note analyzes the two main dimensions concerning difficulty of hiring practices: how restrictive access to flexible contracts is (applicability and duration) and how high the level of the minimum wage is for a first-time job seeker compared to the overall level of wages of the employed population. Figure II.1 presents a “difficulty of hiring index” as calculated in the Doing Business (2010) databank. The index measures (i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed term contracts; and (iii) the ratio of the minimum wage for a trainee or first-time employee to the average value added per worker. The index takes values between 0 and 100 with higher values being associated with more difficult hiring practices (Box II.1).

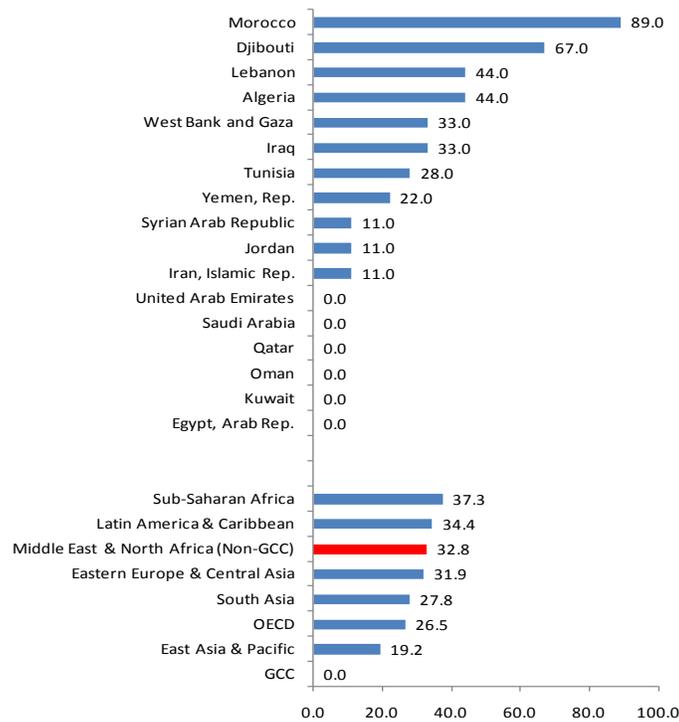
Box II.1: Computation of the Difficulty of Hiring Index (DHI)

An economy is assigned a score of 1 if fixed-term contracts are prohibited for permanent tasks and a score of 0 if they can be used for any task. A score of 1 is assigned if the maximum cumulative duration of fixed-term contracts is less than 3 years; 0.5 if it is 3 years or more but less than 5 years; and 0 if fixed-term contracts can last 5 years or more. Finally, a score of 1 is assigned if the ratio of the minimum wage to the average value added per worker is 0.75 or more; 0.67 for a ratio of 0.50 or more but less than 0.75; 0.33 for a ratio of 0.25 or more but less than 0.50; and 0 for a ratio of less than 0.25. In Tunisia, for example, fixed-term contracts are not prohibited for permanent tasks (a score of 0), and they can be used for a maximum of 48 months (a score of 0.5). The ratio of the mandated minimum wage to the value added per worker is 0.30 (a score of 0.33). Averaging the 3 values and scaling the index to 100 gives Tunisia a score of 28.

Source: <http://www.doingbusiness.org/MethodologySurveys/>

2. MENA countries in general do not display a high Difficulty of Hiring Index as compared to international standards, although some Non-GCC countries do. According to Figure II.1, Non-GCC MENA countries, on average, display a Difficulty of Hiring Index (DHI) similar to that in other developing regions such as ECA and Latin America (but slightly higher than that in OCED and South Asia). The DHI is low most East Asia/GCC countries, as well as in Egypt, Iran, Syria, and Jordan; and somehow aligned to international standards in Yemen, Tunisia, Iraq, and WBG. Only in Algeria, Lebanon, Djibouti, and Morocco, the DHI is high by regional and international benchmarks.

Figure II.1: Doing Business Difficulty of Hiring Index [0-100]



Source: Doing Business Databank

Fixed-Term contracts

3. Fixed-term work contributes to making labor markets more flexible but it is also associated with lower employment quality. Fixed term work provides a buffer for cyclical fluctuations of demand, allowing companies to adjust employment levels without incurring high firing costs. Fixed-term work also allows companies to reap market opportunities by engaging in projects of short duration without bearing disproportionate personnel costs. This is especially important in labor markets where permanent employment is protected by strict regulations and high firing costs. Fixed-term contracts tend to be heavily used to hire young people and other labor market entrants who in general have weaker bargaining power (such as the unemployed and/or those with the lowest education levels). On the other hand, especially for these more vulnerable workers, fixed-term work can provide a bridge into employment and an opportunity to gain experience and skills. This is especially true for first time workers who lack experience and are given an opportunity to be trained and to receive an income. However, research has pointed out a number of risks associated with the use of fixed-term work, especially for workers. For instance, fixed-term workers are subject to higher turnover, earn lower wages on average, and receive less training (EC 2006).

4. Regulations governing fixed term contract need to work hand in hand with firing regulations to avoid abuses. When firms can easily hire temporary workers under regulatory settings where it is costly to dismiss regular ones, firms do not have any incentives to convert workers from temporary to permanent contracts (Box II.2). This in turn may adversely contribute to employment quality since, in many cases, workers under fixed term contract have limited (or no) access to social security (pension programs, health insurance, and/or unemployment insurance). Since temporary contracts can only be renewed a limited number of times or have a given duration, temporary workers – mostly young and unskilled – may be forced into an endless moves across jobs that provide only temporary contracts.

5. Most MENA countries have quite flexible arrangements in their labor laws as far as fixed term labor contracts are concerned. Only in Algeria, Djibouti, Iraq and Morocco, fixed term contracts are prohibited for permanent tasks. About half of all MENA countries have no limits in the duration of fixed term contracts (Bahrain, Iran, Iraq, Oman, Saudi Arabia, and Syria) while Djibouti, Morocco and Yemen have established a limit of 12 months. Other countries have longer limits for the duration of fixed-term contract ranging from 24 to 60 months (WBG, Qatar, Jordan, and Kuwait, and United Arab Emirates). In Lebanon, no limit in the duration has been established but after 24 months the worker is treated as open ended for purposes of severance pay. In Algeria, the law does not specify a maximum time limit, but it requires that the duration is specified, otherwise the contract will be considered permanent (see Table A4 in the Annex).

6. Most MENA countries have quite flexible rules for renewing a fixed-term contract beyond the original maximum term. About half of the countries in the region have no limits for the renewal of fixed term contract (Algeria, Egypt, Iraq, Jordan, Kuwait, Oman, and United Arab Emirates). Other countries limit the number of times or regulate the time span under which fixed term contracts are renewed (e.g.

fixed term contracts can be renewed only once in Djibouti and in countries like WBG and Tunisia workers cannot work under a fixed term contract for more than 24 months and 4 years respectively). In some countries when fixed term contracts are renewed the contract term will change to open ended after a pre-defined time (after the first renewal in Syria, after 24 months in Lebanon for severance pay purposes, and after 3 years in Saudi Arabia). Only Morocco prohibits renewal of fixed term contracts (see Table A4 in the Annex).

Box II.2: International Best Practices Concerning Fix Term Contracts Regulation

To prevent abuse arising from the use of successive fixed-term employment contracts or relationships, the EU Council Directive 1999/70/EC concerning the framework agreement on fixed-term work suggests listing in national legislation one or more of the following measures: (a) Objective reasons justifying the renewal of such contracts or relationships; (b) Maximum total duration of successive fixed-term employment contracts or relationships; (c) Number of renewals of such contracts or relationships.

As far as the duration is concerned, in EU15 countries, the fixed-term contracts vary (with exceptions in some countries) from one year in Spain, 18 months in France, two years in Greece, Luxembourg and Sweden, and three years in the Netherlands and Portugal. There are no limits on duration in Austria, Belgium, Denmark, Ireland and Italy. In Germany, there is no maximum duration for a fixed-term contract with just cause, and two years for a fixed-term contract without objective cause. In the UK, there is no limit as well but employees who have worked successive fixed-term contracts for a period of four years or more will become permanent employees unless the employer can objectively justify the continued use of fixed-term arrangements. In Finland, there is no specific maximum duration for fixed-term employment contracts. However, after five years, a fixed-term contract is subject to the same requirements for termination as an indefinite-term contract. Renewals for fixed-term contracts are more restricted, and even in the countries with the most flexible arrangements, as a rule, a justification is required. For example, in Belgium, the maximum term of a single fixed-term contract is not limited; however, it cannot be renewed without justification based on the nature of the functions or other legitimate reasons.

Source: Kuddo (2009).

Minimum Wages

7. Setting minimum wages is a common practice in many countries. Countries set minimum wages with the intended objective to promote a fair wage structure, to provide minimum acceptable standard of livings for low-paid workers, and to alleviate poverty. However, if minimum wages (in relation to the average wage) are set too high, they can have an adverse impact on employment. In setting minimum wages governments (or the bargaining parties) need to reconcile two opposite kinds of considerations. On the one hand, there are social consideration of workers needs, standards of living and earnings inequality, which lead to the pressure – coming usually from labor unions – to increase the minimum wage. On the other hand, there are economic considerations of productivity, competitiveness, and job creation, which result in the pressure – usually originating from employers’ organizations – to keep the minimum wage at a low level. There are two basic mechanisms for setting the minimum wage. First, a statutory minimum wage is set by the government, possibly involving consultations with trade unions and employers. Second, minimum wages are determined through collective (tripartite or bipartite) negotiations. Collective agreements can set national or sectoral (industry, occupational)

minimum wages. In some countries, sectoral collective agreements are extended to employers who were not party to the original agreements, and also to workers not belonging to trade unions (Kuddo 2009).

8. Several international documents refer to policy recommendations on minimum wages. The ILO Minimum Wage Fixing Convention No. 131 (1970) states that the elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include: (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and (b) economic factors, including the requirements of economic development, levels of productivity, and the desirability of attaining and maintaining a high level of employment. The Convention sets up the following other principles: (i) once established, minimum wages have the force of law; (ii) most workers should benefit from the protection of the minimum wage although exceptions are possible; (iii) social partners should be fully consulted (not just informed); and (iv) Minimum wages should be adjusted from time to time. The OECD 1994 Jobs Strategy recommended making wages and labor costs more flexible by introducing sub-minima differentiated by age or region and/or indexing them to prices instead of average earnings. Since the chances of being employed informally are substantially higher for young workers, introducing a discounted minimum wage for youth or those with limited labor market experience, the minimum wage could reduce informal employment for this group and improve their job perspectives. In Tunisia, for instance, the minimum wage rate for juvenile workers is 85 percent of the rate applicable for adults.

9. About half of all MENA countries do not have a legal minimum wage and, those who do, set them with considerable variation in the details. Bahrain, Djibouti, Iraq, Kuwait, Qatar, Saudi Arabia, United Arab Emirates, and West Bank and Gaza do not have officially established minimum wages.⁸ Other countries in the region that do have a legal minimum wage set it with considerable variation in the details. This occurs because minimum wage regulations have many dimensions: (i) the level at which the minimum wage set; (ii) coverage; (iii) differentiation in the level (e.g., by age, sector, or region); (iv) methods of adjusting levels to reflect inflation; (v) how the level is set (e.g., by government or by the social partners); (vi) whether it applies to the private and/or public sector; and (vii) sanctions for non-compliance. In most MENA countries for which the data are available, the government sets the national minimum wage, following a period of consultation with the social partners. For example, in Morocco, national minimum wage rates are set by the government in close collaboration with representatives from employees and employers organizations. In some countries (like Lebanon), the minimum wage largely applies to all workers (salary and wage-earners in both the public and private sector independently of age/gender). In other countries, the minimum wage covers only particular groups of workers. For instance, in Algeria, civil and military national defense personnel, magistrates, state officials, along with the personnel of public establishments of an administrative nature are not covered

⁸ For comparison, in 2009, 20 of the 27 Member States of the EU (Belgium, Bulgaria, Czech Republic, Estonia, Greece, France, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and the U.K.) and one candidate country (Turkey) had national legislation setting statutory minimum wages.

by the national minimum wage rate (separate legislation is enacted concerning these workers). In Morocco, the government sets two national minimum wage rates for employees/workers carrying out agricultural work and for employees/workers in the industrial and commercial sectors, and in liberal professions. In Tunisia, the minimum wage level for young workers is lower than that for adult workers (see Table A5 in the annex for a summary of practices in establishing minimum wages in a selected group of MENA countries).

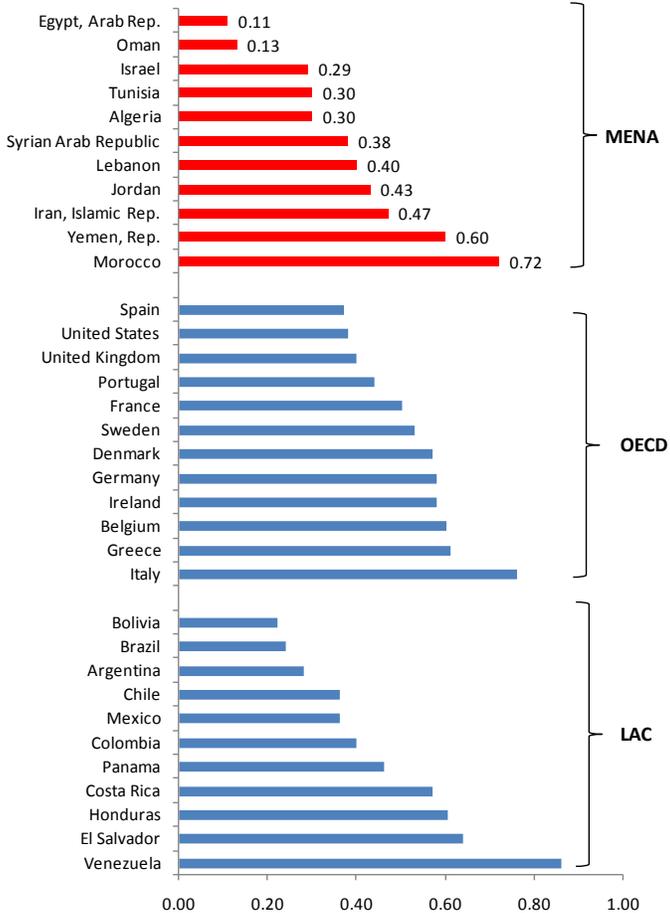
10. Minimum wages are particularly useful in labor markets with low mobility and in cases where firms have “monopsonistic” power. Low labor mobility, especially among low skilled women, strengthens the sense of “local” (and non-convergent) labor markets whereby differences in employment outcomes across regions are quite large. In Egypt, for example, unemployment rates are very different across governorates (e.g. unemployment rates in Luxor/Fayoum/Suhag and are below 5% vs. 12% in Cairo and 16% in Dakhalia). Nevertheless, workers – especially women – seem not to move from better to worse performer regions in order to seek better job opportunities. These combined factors are generally prevalent in labor markets where firms have monopsonistic power. The implication of this is that firms may be paying women workers (in the textile industry, for example) below their marginal product of labor, which causes the supply of labor to be below that in a competitive setting (a feature that may be affecting women disproportionately). Indeed, in some countries like Egypt, Turkey and Macedonia, a large share of working women is employed by a few large textile companies. Women in the textile industry claim having to accept jobs with very precarious conditions (in terms in pay, safety, and working hours) due to lack of alternative employment opportunities (CRPM, 2008). If indeed low-educated workers, especially women, face a monopsonistic market; standard economic theory would indicate that the introduction of a minimum wage above the monopolistic wage but below the competitive market wage would likely increase employment without causing additional unemployment (Aaronson et al., 2008; Angel-Urdinola, 2008).

11. High minimum wages have been found to generate disemployment effects – albeit small in aggregate – but significant among less-productive workers. This occurs when the minimum wage is set above the marginal product of unskilled labor (Angel-Urdinola, 2007; OECD 1998 and 2006; Brown, 1999; Neumark and Wascher, 1999; Neumark and Wascher, 2007; and Boeri and van Ours, 2008). Disemployment effects may vary according to a worker’s age, skills, industry and region of employment. Young workers may be most vulnerable to job losses under a high level (or a high increase) of the minimum wage. International evidence indicated that a 10 percent increase in the level of minimum wage would reduce youth employment by a range of 1 to 4 percent. The fall in youth employment may sometimes be accompanied by an increase in employment of other groups (e.g. older workers as employers substitute away from younger workers who had become relatively more expensive). The presence of a youth sub-minimum reduces the negative consequences of the minimum wage for youths.

12. The level of the minimum wage in Yemen and Morocco is high as compared to average wages, which could introduce risks for disemployment effects especially among youth. It is quite challenging to make international comparisons in regards to level at which minimum wages are set in order to assess whether they are high/low relative to a country’s wage distribution and productivity. This occurs

because (i) minimum wages can be set on either an hourly, daily, weekly, or monthly basis, which complicates cross-country comparisons, and (ii) comparison between countries in theory would need to control for the skill distribution (If a country has a large dispersion in its level of skills then it would have a wide dispersion and a lower ratio of minimum wage to mean wage, and vice versa).⁹ Despite these caveats, a common measure used to make international comparisons on the level at which the minimum wage is set is the ratio of the minimum wage to the average wage. A higher ratio is associated with a comparatively higher level of the minimum wage. In MENA, as it is the case in other countries, this ratio varies significantly from country to country (Figure II.2). Morocco displays the highest ratio in the region (0.72), followed by Yemen (0.60) and Iran (0.47). Egypt displays the lowest ratio in the region (0.11) (see also Table A6 in the Annex).¹⁰

Figure II.2: Minimum Wage / Average Wages [International Comparisons]

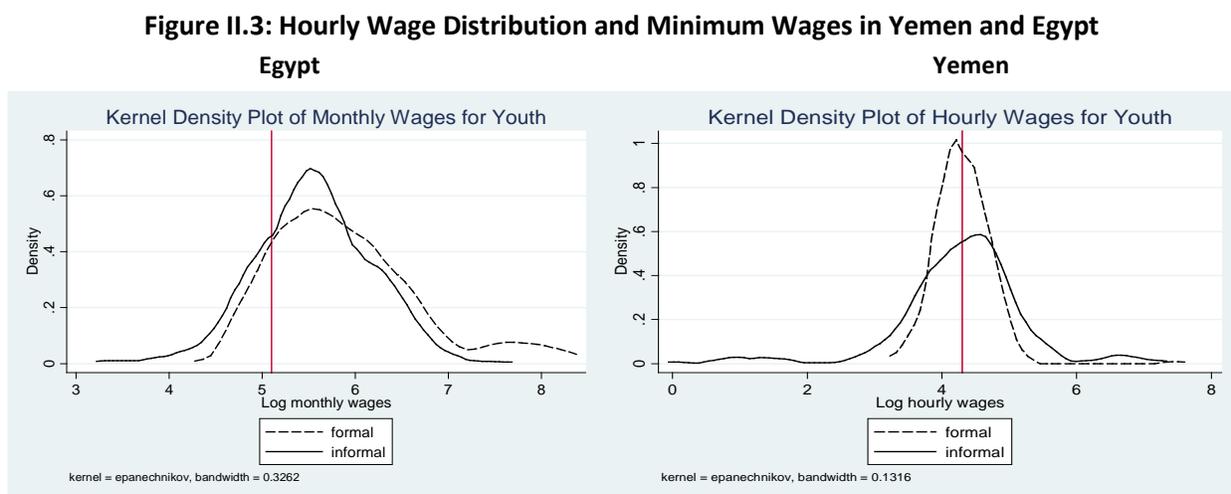


Source: Doing Business Databank and Maloney and Nuñez (2003)

⁹ In most MENA countries with minimum wages, monthly rate has been established but Morocco uses hourly rate, and Iran – both monthly and daily rate (see Table A6 in the Annex).

¹⁰ Due to a lack of consistent cross-country data on average earnings, by the Doing Business methodology, the average GNI per capita that is used as a proxy for average earnings. The ratio is adjusted to represent the percentage of population in working age as a share of the total population.

13. In most MENA countries, sanctions for non-compliance with minimum wage rules – albeit regulated – are weakly enforced. Independently of how high/low the minimum wage is relative to average wages, the extent to which minimum wage policy affects employment outcomes and the wage distribution depends on how much minimum wage is enforced. Although most MENA countries with defined legal minimum wage have regulations on enforcement (Table A5 in the Annex), enforcement is rather weak, inspections are rare due to a lack of resources, and fines are rarely imposed. To better illustrate this claim, Figure II.3 provides useful information about both the level of the minimum wage relative to the wage distribution for new labor market entrants in Egypt and Yemen. The figure plots the distribution of net hourly wages for wage earners between 18 and 21 years of age who work full time (between 30 and 60 hours a week) in the formal and informal sectors. The horizontal line represent the level at which the minimum wage is set. Results confirm that, as discussed before, the level at which the minimum wage is set in Yemen is higher than that in Egypt: while in Egypt the minimum wage is to the left tail of the wage distribution, in Yemen it is very close to the distribution's mode. However, in both countries there is a significant mass of workers earning below the minimum wage, suggesting low levels of enforcement. However, the wage distribution for formal workers in Yemen seems quite centered (and compressed) around the minimum wage, suggesting that the minimum wage may serve as a benchmark wage for new entrants in the formal sector.



Source: Authors using Yemen 2006 Household Budget Survey and Egypt's 2006 Labor Market Panel Survey.

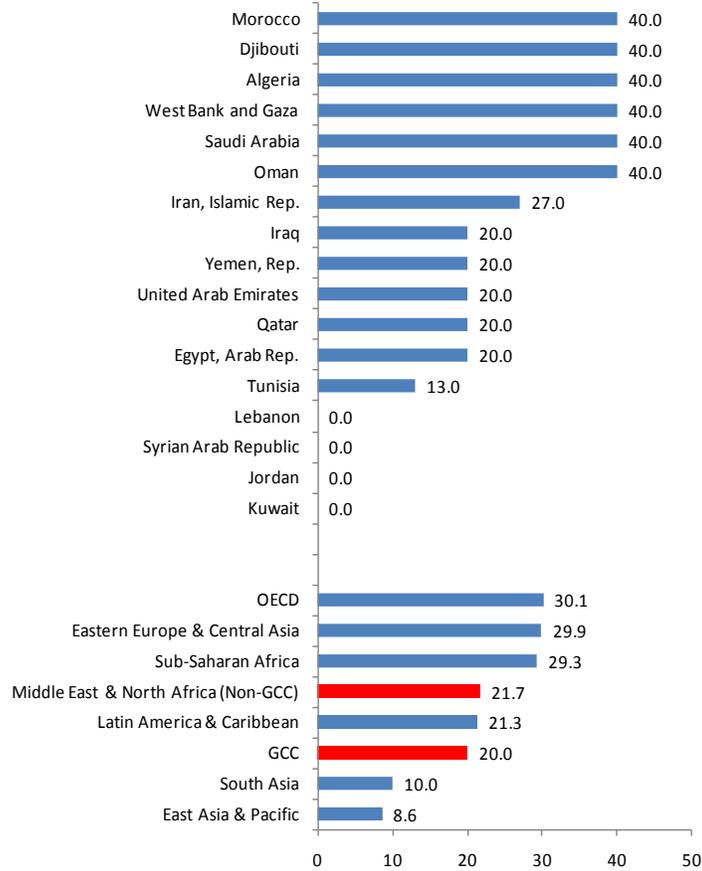
Note: The vertical line illustrates the level at which the minimum wage is set.

Rigidity of Work Hours

14. Rigidity of work hours measures the extent to which employers and workers accommodate/allow scheduling of nonstandard work hours and annual paid leave. While many workers like to work overtime to earn extra income, overtime arrangements can also be abused by employers, especially on-season or during increases in the volume of work. Several international treaties deal with minimum standards regarding work time arrangements. The first ILO Hours of Work Convention from 1919 was devoted to hours of work in industry. Article 2 of the Convention states,

“Working hours ... shall not exceed eight in the day and forty-eight in the week”. The follow-up Forty-Hour Week Convention No. 47 from 1935 states that each country that ratifies the convention declares its approval of the principle of a forty-hour workweek. Many countries are fixing labor legislation with the principle 40-hours as the length of the normal working week (industry) since overtime, including wage premiums, does not apply to this period. Annual leave also constitutes an important component to measure rigidity of work hours. The length of the allowed worker’s annual leave (and whether or not is paid) influences hiring practices, labor turnover, and labor demand. In the context of this policy note, rigidity of work hours will be measured by the “Rigidity of Hours Index” (HDI) and calculated in the Doing Business (2010) Databank (Box II.3). Results indicate that the HDI in MENA is lower than that in OECD, ECA, and Sub-Saharan African, close to that in LAC, and higher than that in South and East Asia. Within MENA, the HDI is low in Lebanon, Syria, Jordan, and Kuwait; and somehow aligned to international standards in Egypt, Qatar, United Arab Emirates, Yemen, Iran, and Iraq. In Oman, Saudi Arabia, WBG, Algeria, Djibouti, and Morocco, the DHI is high for regional and international benchmarks (suggesting more rigid regulation) (Figure II.4).

Figure II.4: Doing Business Rigidity of Hours Index [0-100]



Source: Doing Business Databank

Box II.3: Computation of the Rigidity of Hours Index (RHI)

The rigidity of hours index has 5 components: (i) whether there are restrictions on night work; (ii) whether there are restrictions on weekly holiday work; (iii) whether the workweek can consist of 5.5 days; (iv) whether the workweek can extend to 50 hours or more (including overtime) for 2 months a year to respond to a seasonal increase in production; and (v) whether paid annual vacation is 21 working days or fewer. For questions (i) and (ii), when restrictions other than premiums apply, a score of 1 is given. If the only restriction is a premium for night work and weekly holiday work, a score of 0, 0.33, 0.66 or 1 is given according to the quartile in which the economy's premium falls. If there are no restrictions, the economy receives a score of 0. For questions (iii), (iv) and (v), when the answer is no, a score of 1 is assigned; otherwise a score of 0 is assigned. For example, Egypt does not impose restrictions on night work (a score of 0), nor on weekly holiday work (a score of 0), allows 6-day workweeks (a score of 0), permits 50-hour workweeks for 2 months (a score of 0) and requires paid vacation of 30 working days (a score of 1). Averaging the scores and scaling the result to 100 gives a final index of 20 for Egypt.

Source: <http://www.doingbusiness.org/MethodologySurveys/>

Work Hours and Annual Leave

15. In most MENA countries, the length of a legal workday is 8 hours per day (48 hours a week) but overtime work is commonly practiced. Almost in all MENA countries, an 8-hour workday is a rule, except Oman in which a standard workday is 9 hours. The typical workweek in manufacturing is still six days in most MENA countries. The standard work week is longer than 40 hours (up to 48 hours a week) in several countries in the region, including in Bahrain, Lebanon, Qatar, Tunisia, and West Bank and Gaza (Table A7 in the Annex). Some countries have restrictive regulation on overtime work. For instance, in Iran workers cannot be required to work overtime. In Lebanon, overtime is allowed only in exceptional circumstances according to the law. In Saudi Arabia, the Labor Office will prohibit excessive hours, and the worker cannot be required to work overtime. In practice, however, overtime work in MENA is commonly practiced, especially in the informal sector. To illustrate this point, Table II.1 presents the distribution of the “normal” weekly hours of work for formal and informal workers in Egypt, Iraq, and Yemen. In the formal sector, the share of workers working more than 48 hours per week (normally) is approximately 24 percent in Egypt, 18 percent in Iraq, and 30 percent in Yemen.

Table II.1: Normal Hours of Work per Week [Formal vs. informal workers]

	Egypt		Iraq		Yemen	
	Formal	Informal	Formal	Informal	Formal	Informal
% 0-30 hrs	2.1	5.1	23.9	10.5	9.7	9.9
% 30-48 hrs	73.9	37.2	58.3	57.2	60.2	37.7
% 48-60 hrs	7.3	11.5	8.9	19.6	14.9	24.8
% 60 hrs & longer	16.7	46.2	8.9	12.7	15.3	27.6

Source: Authors using Yemen 2006 Household Budget Survey, Egypt's 2006 Labor Market Panel Survey, and Iraq's 2007 Household Socio-Economic Survey.

16. Labor legislation in most MENA countries sets up limits (and compensation) for overtime work, but these regulations are hardly enforced. Typically overtime can be between 2 and 4 hours per day, or 12 hours per week (Tunisia, and West Bank and Gaza). In Djibouti, the labor law limits overtime to 5 hours per week. Beyond that, the worker must have permission from the Inspector of Labor. In most cases, the workweek cannot exceed a maximum of 60 hours per week and 12 hours per day (Table A7 in the Annex). According to results in Table II.1, about half of the workers who claim to work overtime claim to actually work more than 60 hours per week, which constitutes a longer shift than that allowed by law. In the formal sector, the situation is even worse with 40 to 60 percent of all workers in Egypt, Yemen, and Iraq claiming to work overtime. In all MENA countries, overtime premium has set up by law varying between 25 and 75 percent (except in Djibouti in which the premium is established by collective agreement). Due to high levels of non-compliance, many of the workers working long shifts (in practice) may not be recognized any wage premium for overtime work.¹¹

17. Labor legislation in most MENA countries is silent as far as night work is concerned although long periods of night work can be detrimental to the health of workers. Regulation in MENA is quite flexible concerning night work. Mandatory pay premium for night work has been established only in Iran, Oman, Tunisia, United Arab Emirates, and Yemen (Table A7 in the Annex). Night work arrangements are discussed in the ILO Night Work Convention No. 171 from 1990. The following definitions are given in this Convention: (a) the term night work means all work that is performed during a period of not less than seven consecutive hours, including the interval from midnight to 5 a.m., to be determined by the competent authority after consulting the most representative organizations of employers and workers or by collective agreements; and (b) the term night worker means an employed person whose work requires performance of a substantial number of hours of night work which exceeds a specified limit. This limit shall be fixed by the competent authority after consulting the most representative organizations of employers and workers or by collective agreements. Article 8 of the Convention states that compensation shall recognize the nature of the night work. Many countries in the region could consider revising their night work regulation along these lines.

18. In regards to annual leave, regulation in most MENA countries is generous as compared to international benchmarks. The Doing Business database allows monitoring the mandatory paid annual vacation (in working days) after 20 years of continuous employment. Based on the data, annual leave arrangements are quite generous in most of the countries in the region. In Djibouti, Egypt and Yemen, the annual leave is up to 30 working days; 28 working in Iraq; and 26 working days in Saudi Arabia (Table A8 in the Annex). The shortest mandatory annual leave is in Lebanon at 15 working days, which is the minimum recommended by the ILO Convention No. 132 (Box II.4). For comparison, in the EU15 states, mandatory paid annual leave after 20 years of continuous employment in a private sector firm varies between 20 working days in Belgium, Ireland, Italy, and the Netherlands to 25 working days in most other countries (Kuddo, 2009).

¹¹ In EU15 countries, the maximum number of weekly overtime hours varies widely, from two in Spain to 15 in the Netherlands, based on a standard 40-hour workweek (Boeri and van Ours 2008). In many EU countries, there is no overtime premium, by law. In others, the overtime premium varies between 25 percent and 100 percent (Kuddo 2009).

Box II.4: Basic principles of a paid annual leave under ILO Convention (Revised) No. 132 from 1970

- (i) Every person shall be entitled to an annual paid holiday of a specified minimum length. The holiday shall in no case be less than three working weeks for one year of service;
- (ii) A person whose length of service in any year is less than that required for the full entitlement shall be entitled in respect of that year to a holiday with pay proportionate to his length of service during that year;
- (iii) A minimum period of service may be required for entitlement to any annual holiday with pay. The length of any such qualifying period shall not exceed six months;
- (iv) Public and customary holidays, whether or not they fall during the annual holiday, shall not be counted as part of the minimum annual holiday with pay;
- (v) Periods of incapacity for work resulting from sickness or injury may not be counted as part of the minimum annual holiday with pay;
- (vi) Every person taking the holiday shall receive in respect of the full period of that holiday at least his normal or average remuneration;
- (vii) The division of the annual holiday with pay into parts may be authorized by the competent authority or through the appropriate machinery in each country... One of the parts shall consist of at least two uninterrupted working weeks.

Source: ILO

Maternity Leaves

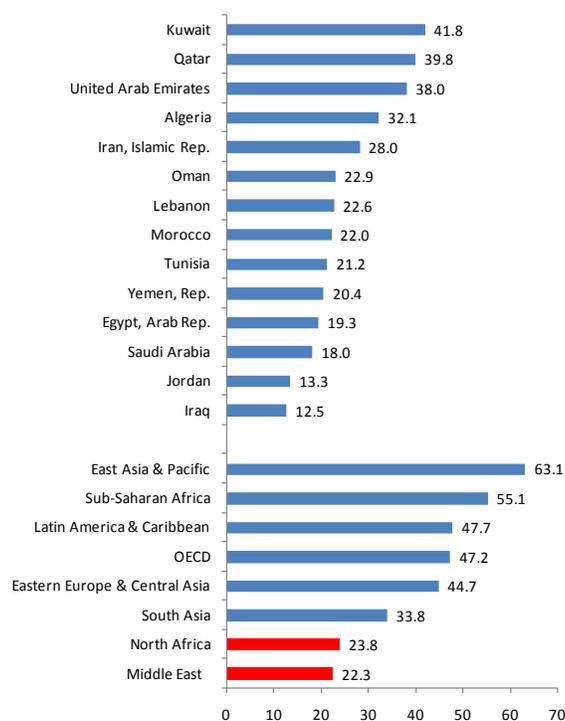
19. Maternity leave is an important public policy measure to protect the health of the mother and child during the final months of pregnancy and the first few months after delivery. However, extended maternity leave can potentially affect women's labor market participation adversely. A long period of leave may reduce the attachment of women to the labor market and can lead to an actual or perceived erosion of skills. Employers may be reluctant to hire or promote women of child-bearing age due to the associated direct and/or indirect costs (e.g., replacement workers) of maternity leave, particularly for extended leave (UNICEF 1999). Concerning maternity leave provisions, it should be kept in mind that the labor market situation in most MENA countries differs significantly from the developed countries, as far as female labor is concerned. With a few exceptions (such as Kuwait, Qatar, United Emirates – which are countries that enjoy a participation of migrant women in their domestic labor markets), female employment in MENA remains low (between 12 and 30 percent) for international standards (Figure II.5). A large portion of female employees work in civil/public services; still, most employed women are engaged as contributing family workers or own-account workers (e.g., do not enjoy social protection benefits as specified in the labor law).

20. Most MENA countries offer some form of maternity protection; but benefits are not generous for international benchmarks. The ILO Maternity Protection Convention No. 183 suggests that a woman to whom this Convention applies should be entitled to a period of maternity leave of not less than 14 weeks (Box II.5). ¹²Although formally not binding to provisions of a Convention, maternity leave of 14 weeks has been established in Algeria and Morocco. In other MENA countries, the normal duration of the leave is shorter, being the shortest in Tunisia (30 days) and in Bahrain (45 days) (See Table A9 in the

¹² Convention No. 183 was ratified by 18 countries none of which are from MENA.

Annex). While in some countries, such as Iran, the main labor law covers all working women, in most other countries, separate laws govern particular groups of female workers (civil servants and public employees are typically covered by separate, and usually more generous provisions). For example, in Kuwait, the regular maternity leave lasts 30 days before and 40 days after confinement. A woman who takes maternity leave forfeits her right to annual leave. In comparison, civil servants have more generous provisions: (i) a delivery leave on full pay, starting on the day of confinement or if hospitalized before confinement, from the day of hospitalization; (ii) a four-month maternity leave after confinement on half pay; (iii) an unpaid special parental leave, maternity or child care leave for a child under the age of six of a period of at least six consecutive months and a maximum of four years. In Tunisia, while the usual maternity leave is 30 days, female civil servants are entitled to 60 days of maternity leave (and may also take up to 4 months of postnatal leave after the expiry of maternity leave – a so called optional maternity leave). Some countries have established certain restrictions on maternity leave provisions. For example, in Egypt, a woman worker may not obtain maternity leave more than twice throughout her period of employment. In Libya, a female employee should have completed at least six months' continuous service with the same employer in order to be entitled to maternity leave.¹³

Figure II.5: Female Employment to Population Ratio (15+) [2008]



Source: Authors using World Bank's WDI and ILO KILMnet datasets

¹³ For comparison, in all EU15 countries, pregnant employees and mothers are entitled to a period of rest before and after confinement. Currently the duration of paid maternity leave is less than 100 days in Germany, Ireland and Portugal. In Belgium, Germany and the Netherlands the expectant mother is entitled to six weeks of leave before confinement, and in Austria and Greece to eight weeks. In Belgium, Germany and the Netherlands, eight weeks of this rest is optional for the employee following confinement. In Greece and Luxembourg, the rest period following confinement is eight weeks (Kuddo 2009).

Box II.5: International Standards Regarding Maternity Leave Entitlements

Basic international standards regarding maternity leave entitlements are laid down in the ILO Maternity Protection Convention No. 183 from 2000, and Maternity Protection Recommendation No. 191 from the same year. In particular, the Convention calls for:

- Each Member shall, after consulting the representative organizations of employers and workers, adopt appropriate measures to ensure that pregnant or breastfeeding women are not obliged to perform work which has been determined by the competent authority to be prejudicial to the health of the mother or the child, or where an assessment has established a significant risk to the mother's health or that of her child;
- On production of a medical certificate or other appropriate certification, as determined by national law and practice, stating the presumed date of childbirth, a woman to whom this Convention applies shall be entitled to a period of maternity leave of not less than 14 weeks. Maternity leave shall include a period of six weeks' compulsory leave after childbirth;
- The prenatal portion of maternity leave shall be extended by any period elapsing between the presumed date of childbirth and the actual date of childbirth, without reduction in any compulsory portion of postnatal leave;
- On production of a medical certificate, leave shall be provided before or after the maternity leave period in the case of illness, complications or risk of complications arising out of pregnancy or childbirth;
- Cash benefits shall be provided at a level which ensures that the woman can maintain herself and her child in proper conditions of health and with a suitable standard of living.
- In order to protect the situation of women in the labor market, benefits in respect of the leave shall be provided through compulsory social insurance or public funds, or in a manner determined by national law and practice. An employer shall not be individually liable for the direct cost of any such monetary benefit to a woman employed by him or her without that employer's specific agreement.
- It shall be unlawful for an employer to terminate the employment of a woman during her pregnancy or absence on leave or during a period following her return to work to be prescribed by national laws or regulations, except on grounds unrelated to the pregnancy or birth of the child and its consequences or nursing.
- A woman is guaranteed the right to return to the same position or an equivalent position paid at the same rate at the end of her maternity leave.
- A woman shall be provided with the right to one or more daily breaks or a daily reduction of hours of work to breastfeed her child.

Recommendation No. 191 adds the following: (i) Provision should be made for an extension of the maternity leave in the event of multiple births; (ii) To the extent possible, measures should be taken to ensure that the woman is entitled to choose freely the time at which she takes any non-compulsory portion of her maternity leave, before or after childbirth; and (iii) A woman should be entitled to return to her former position or an equivalent position paid at the same rate at the end of her leave. The period of leave should be considered as a period of service for the determination of her rights.

Source: ILO

21. In most MENA countries, employers cover the direct and indirect costs of maternity leave, thus providing them incentives to refrain from hiring female employees. An important aspect of maternity leave provisions is who bears the costs. Due to direct and indirect costs to employers, an extensive usage of such entitlements may lead to restrictions in the hiring of potential mothers. In several countries in the region, such as in Algeria, Iraq, and Morocco, the cost of maternity benefits is covered by the social security system. Although in such situations the employer does not bear direct costs for maternity leave, it also does cause inconveniences associated with the need to find a

replacement for the female worker, or to secure a workplace upon the worker's return. In most MENA countries, however, it is the employer who has to cover direct and indirect costs. While for civil servants and public employees the source of relevant expenditures is the government budget – central or local –, for small private businesses, maternity benefits might be a significant burden, and businesses might be hesitant to employ young women (Box II.6). Paternal and Parental leave are options to promote gender equality are to reduce the “variable” cost of hiring female workers. These policies aim at encouraging gender equality by sharing the cost (and the responsibility) of infant care between both parents. Paternity leaves are targeted at men around the time of a child's birth. Parental leaves, generally longer, are more flexible leaves that are available to families who to families who want to care for their children without putting them in day care at a young age. Well designed paternity/paternal leaves can enhance gender equality by reducing the variable cost of hiring women, increase female labor force participation (by allowing more flexible arrangements between work and home-care), and promote more involvement of father in child upbringing.

Box II.6: Maternity Insurance Reform in Jordan

The Jordanian labor law grants women ten weeks of employer-paid maternity leave, daily hour permission for breastfeeding mothers and up to one year of unpaid leave for care of newborn. However, the fact that the full cost of the maternity benefit is borne by the employer creates disincentives for employers to hire women and impedes female access to the labor market. This may well be contributing to the very low level of female participation (as low as 13 percent) in the private sector labor market in Jordan. The Jordanian Parliament recently passed a broad social insurance reform law based on a proposal prepared by the Social Security Corporation (SSC). The proposal includes reforms in administration and finance of the SSC, work injuries insurance, maternity insurance, unemployment insurance, as well as old age, disability and death insurance. The maternity insurance reform entails the financing of maternity benefits through payroll taxes applied on all workers, regardless of gender. Both employers and employees contribute to a 'Maternity Fund' that will be managed by the SSC. The benefit is introduced at the cost of 0.75% of payroll. This measure, which will start implementing in the near future, is expected to increase incentives to hire women, encourage women to join the labor force, and limit discrimination in the labor market.

Source: Author's own elaboration

22. In addition to maternity leave entitlements, pregnant women and mothers with children are protected in many other ways. Consistent with the ILO Convention No. 183, in Lebanon, under the Labor Code, it is prohibited to terminate the employment of a pregnant woman or send her notice during her maternity period or when she is on leave on grounds of childbirth. The same guarantees are promulgated in labor legislation in Libya in which it is prohibited to dismiss a woman or terminate her contract during maternity leave or any extension thereof. The law should be explicit with regard to other social guarantees as well. For example, pregnant or breast-feeding women should not be employed to carry out difficult or hazardous jobs, which jeopardize the health of the mother and child. Night work should be prohibited for pregnant women, women who are on postnatal leave, and women having children, say, under the age of three. Finally, it is important to create a flexible and widespread network of childcare options to ensure equal opportunities for women in the market economy (since childcare facilities are limited in most MENA countries, the burden of rearing a child lays heavily on the shoulders of women).

CHAPTER III. Firing Regulations in MENA

This chapter provides an overview of firing regulations in MENA. Compared to international benchmarks, firing regulations in MENA are rather strict. While the termination of workers due to redundancy is legally authorized in all MENA countries, most countries have complex regulations that require notification, justification, and approval for dismissals. In some countries, employers are even required to comply with stipulated obligations to reassign and/or retrain workers after termination. Since most MENA countries lack unemployment insurance, severance pay regimes (some of which are quite generous) remain in place. Balance between economic efficiency and worker protection could be achieved if governments set as an overarching goal “to protect the income of workers as opposed to protect particular jobs” through the expansion of unemployment insurance schemes. Excessive regulation and firing costs can deter employers from hiring workers and is often associated with higher levels of unemployment.

Difficulty of Firing

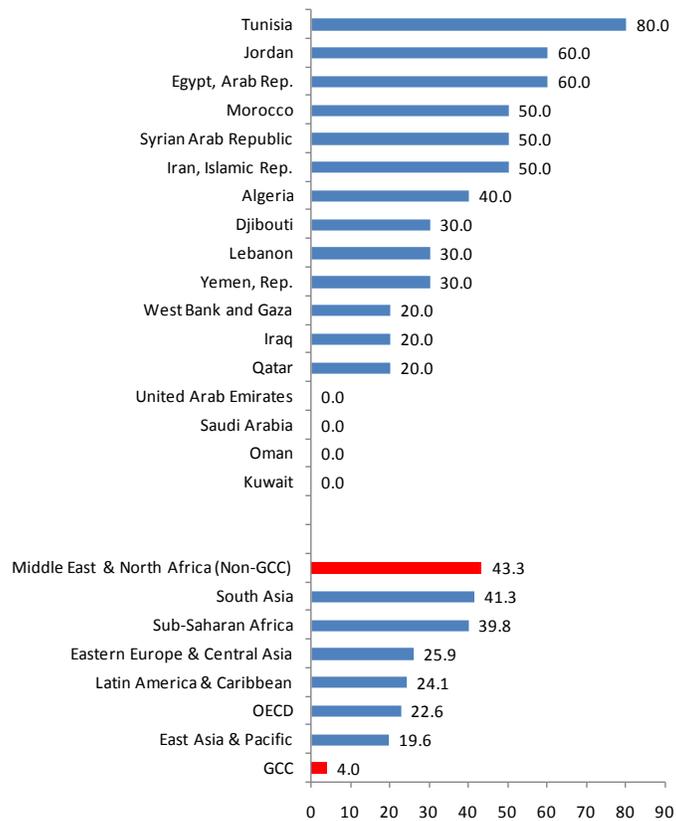
1. If labor legislation hinders firms’ ability to adjust their workforce in response to business-cycle fluctuations, firms may hire workers informally to avoid severance costs and increase flexibility. The law may impose strict procedural requirements for redundancy of one or more workers for economic reasons—such as prior approval by the labor authority. Such requirements, while created with the intention to protect workers from abuse or to provide a safety net, may hinder the employer’s capacity to adjust in periods of economic crisis. Indeed, under some regulation regimes, when it comes to making employment decisions for economic reasons, these requirements can give the authorities—not employers—the power of discretion. Excessive regulation and firing costs can deter employers from hiring workers in the first place. International evidence indicates that reducing the complexity and costs of dismissals for economic reasons is a first step toward encouraging formal job creation (World Bank 2009a). In the context of this policy note, difficulty of firing will be measured by the “Difficulty of Redundancy Index” (DRI) as calculated in the Doing Business (2010) Databank (Box III.1). The index reflects the extent to which regulation requires notifications/justifications for dismissal, the approval requirements for termination of a redundant worker or a group of redundant workers, any stipulated obligations to reassign/retrain workers after termination, and other priority rules for redundancy and reemployment. Results indicate that the DRI in Non-GCC MENA countries (on average) is the highest in the world. Within MENA, the DRI is low in GCC countries (Oman, Saudi Arabia, Kuwait, and United Arab Emirates); and somehow aligned to international standards in Iraq, Qatar, WBG, Yemen, Djibouti, Lebanon, and Algeria. At the same time, Iran, Syria, Morocco, Egypt, Jordan, and Tunisia display a high DHI for regional and international benchmarks (suggesting more rigid dismissal regulations) (Figure III.1).

Box III.1: Computation of Difficulty of Redundancy Index (DRI)

The difficulty of redundancy index has 8 components: (i) whether redundancy is disallowed as a basis for terminating workers; (ii) whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker; (iii) whether the employer needs to notify a third party to terminate a group of 9 redundant workers; (iv) whether the employer needs approval from a third party to terminate 1 redundant worker; (v) whether the employer needs approval from a third party to terminate a group of 9 redundant workers; (vi) whether the law requires the employer to reassign or retrain a worker before making the worker redundant; (vii) whether priority rules apply for redundancies; and (viii) whether priority rules apply for reemployment. For the first question an answer of yes for workers of any income level gives a score of 10 and means that the rest of the questions do not apply. An answer of yes to question (iv) gives a score of 2. For every other question, if the answer is yes, a score of 1 is assigned; otherwise a score of 0 is given. Questions (i) and (iv), as the most restrictive regulations, have greater weight in the construction of the index. In Tunisia, for example, redundancy is allowed as grounds for termination (a score of 0). An employer has to both notify a third party (a score of 1) and obtain its approval (a score of 2) to terminate a single redundant worker, and has to both notify a third party (a score of 1) and obtain its approval (a score of 1) to terminate a group of 9 redundant workers. The law mandates retraining or alternative placement before termination (a score of 1). There are priority rules for termination (a score of 1) and reemployment (a score of 1). Adding the scores and scaling to 100 gives a final index of 80.

Source: <http://www.doingbusiness.org/MethodologySurveys/>

Figure III.1: Doing Business Difficulty of Redundancy Index [0-100]



Source: Doing Business Databank

2. The termination of workers due to redundancy is legally authorized in all MENA countries, but with various restrictions in most cases. In most countries, the employer is obliged to notify a third party (typically the Ministry of Labor; the Labor Inspectorate, or workers' representatives) before terminating one redundant worker. Notification of a third party is not necessary only in Kuwait, Lebanon, Saudi Arabia and United Arab Emirates. In Oman, there is no mandatory notification, but in practice employers notify the labor department to prevent employees for not signing dismissal notice. The most rigid legislation in this regard is in Bahrain where an employee can unilaterally request the Ministry of Labor to reach an amicable settlement with the employer. If a settlement is not reached, the Ministry of Labor refers the matter to the High Court. In six countries in the region (Algeria, Djibouti, Egypt, Iran, Jordan, and Tunisia) employers need not only to notify, but also to consult (and/or seek approval) a third party regarding individual dismissals (see Table A10 in the Annex). Other countries have to meet undertake certain procedures after dismissing a redundant workers. For instance, retraining and/or reassignment obligations are stipulated in the labor law in countries like Algeria, Morocco and Tunisia. Five countries have legal provisions on priority rules for re-employment as well (Algeria, Egypt, Lebanon, Morocco, and Tunisia). For example, in Lebanon, a redundancy dismissal shall take into consideration the worker's seniority, competence, age, family and social situation.

3. In order to dismiss one redundant worker the approval of a third party is requested in Egypt, Iran, Jordan, Syria and Tunisia but also in Morocco for staff representatives. These requirements seriously hinder the employer's ability to adjust workforce according to labor market needs. The laws are even more restrictive regarding group redundancies. When the employer plans to execute collective dismissals from work, in half of MENA countries, he/she is obliged not only to inform a third party but also to consult, typically the labor authorities or employees' organization recognized as the representative of the employees. Only in Kuwait, Oman, Saudi Arabia and United Arab Emirates employers do not need a third party agreement before terminating a group of 9 redundant but nonunionized workers (see Table A10 in the Annex).

4. Overall, enterprise restrictions on terminations in many MENA countries are considerable. Although ILO international conventions promote avoidance and minimization of terminations, especially those without just cause, employers ought to be reasonably free to choose the most suitable employees without state direction or interference (Box III.2). These priority rules for dismissals may conflict with the economic needs of the company. Over burdensome requirements, while created with the intention to protect workers from abuse or to provide a safety net, may hinder the employer's capacity to adjust in periods of economic crisis and also growth in labor demand. Economic efficiency and worker protection could be achieved if governments set as an overarching goal "to protect the income of workers as opposed to protect particular jobs" through, for instance, the expansion of unemployment insurance schemes and/or active labor market policies. An appropriately designed unemployment insurance scheme can provide adequate protection to workers in the context of a more flexible labor market. Some countries in MENA, especially those with high levels of youth unemployment, should consider less rigid employment regulation (which implies lower "job" protection) while providing security to employees – especially vulnerable groups – in order to preserve social cohesion and stability.

Box III.2: ILO Termination of Employment Convention No. 158 from 1982.

The Convention states that the employment of a worker shall not be terminated unless there is a valid reason for such termination connected with the capacity or conduct of the worker or based on the operational requirements of the undertaking, establishment or service. The employment of a worker shall not be terminated for reasons related to the worker's conduct or performance before he/she is provided an opportunity to defend against the allegations made, unless the employer cannot reasonably be expected to provide this opportunity. A worker whose employment is to be terminated shall be entitled to a reasonable period of notice or compensation in lieu thereof unless guilty of serious misconduct, that is, misconduct of such a nature that it would be unreasonable to require the employer to continue employment during the notice period.

As far as consultation of workers' representatives is concerned, the Convention suggests that when the employer contemplates terminations for reasons of an economic, technological, structural or similar nature, the employer shall: (a) provide the workers' representatives concerned in good time with relevant information including the reasons for the terminations contemplated, the number and categories of workers likely to be affected and the period over which the terminations are intended to be carried out; (b) give, in accordance with national law and practice, the workers' representatives concerned, as early as possible, an opportunity for consultation on measures to be taken to avert or to minimize the terminations and measures to mitigate the adverse effects of any terminations on the workers concerned such as finding alternative employment. The Convention also states that applicability of consultations may be limited to cases in which the number of workers whose termination of employment is contemplated is at least a specified number or percentage of the workforce (e.g., to group redundancies).

The ILO Termination of Employment Recommendation No 166 (1982) suggests a package of measures that should be considered with a view to averting or minimizing terminations of employment for reasons of an economic, technological, structural or similar nature. These might include, inter alia, restriction of hiring, spreading the workforce reduction over a certain period of time to permit natural reduction of the workforce, internal transfers, training and retraining, voluntary early retirement with appropriate income protection, restriction of overtime and reduction of normal hours of work. Also, where it is considered that a temporary reduction of normal hours of work would be likely to avert or minimize terminations of employment due to temporary economic difficulties, consideration should be given to partial compensation for loss of wages for the normal hours not worked, financed by appropriate methods under national law and practice.

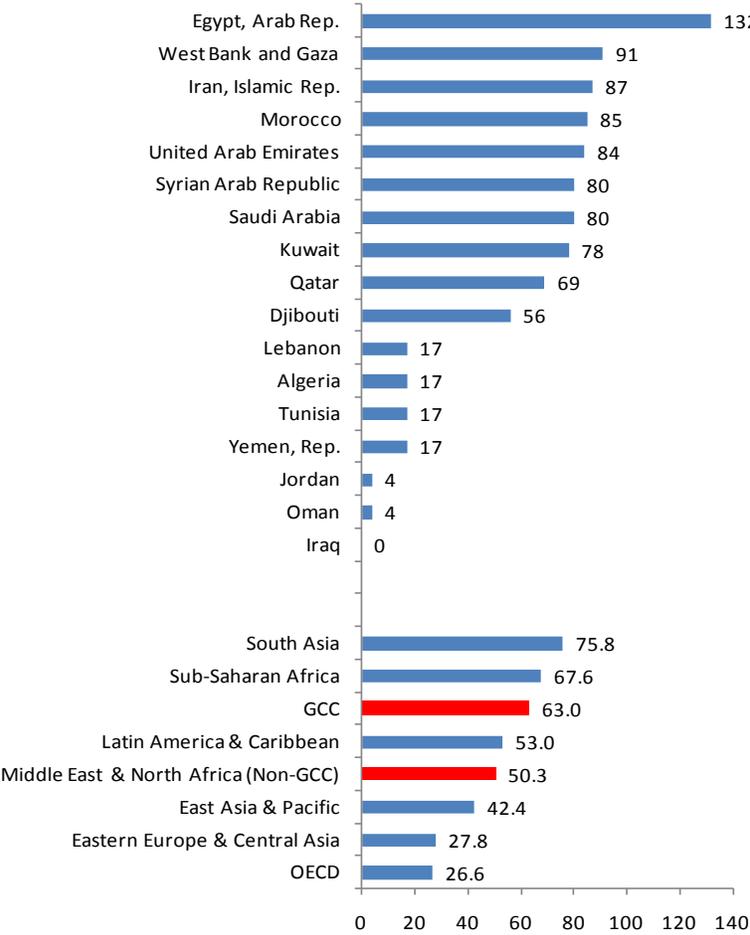
Source: ILO

Firing costs

5. Firing costs involve notice requirements, severance payments, and penalties due when terminating a redundant worker. A review of the literature indicates that firing costs reduce the extent of employment adjustment to economic shocks: during a downturn, firing costs reduce the number of layoffs, while during an upturn, hiring is curbed because of the possibility of having to lay off workers in the future (Hamermesh, 1993). Therefore, the price of job security provisions has been the basis of a great deal of policy debate (see Botero et al 2004). In the context of this policy note, firing costs will be measured by the "Redundancy Cost Indicator" (RCI) as calculated in the Doing Business (2010) Databank. The indicator measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. If the redundancy cost adds up to 8 or fewer weeks of salary and the worker can benefit from unemployment protection, a score of 0 is assigned for the purposes of calculating the aggregate ease of doing business ranking. If the

redundancy cost adds up to 8 or fewer weeks of salary and the worker cannot benefit from any type of unemployment protection, a score of 8.1 weeks is assigned for the purpose of calculating the aggregate ease of doing business. If the cost adds up to more than 8 weeks of salary, the score is the number of weeks. One month is recorded as 4 and 1/3 weeks.¹⁴ Results indicate that the RCI in MENA (on average) is lower than that in South Asia and Sub-Saharan African; similar to that in Latin America, and higher than that in OECD, ECA, and East Asia. Within MENA, the RCI is low for international benchmarks in Iraq, Oman, Jordan, Tunisia, Algeria, and Lebanon. All other countries display a high RCI for regional and international benchmarks (Figure III.2).

Figure III.2: Doing Business Redundancy Cost Indicator [In Weeks of Salary]



Source: Doing Business Databank

¹⁴ In Egypt, for example, an employer is required to give 3 month’s notice before a redundancy termination, and the severance pay for a worker with 20 years of service equals 27.5 months of wages. Altogether, the employer pays the equivalent of 132 weeks of salary to dismiss the worker.

Advance Notices

6. Advance notice is a means to give workers ample warning of future layoffs and thus facilitate job search. While the employee has no obligation to give a reason for notice of termination, the employer has to justify the cause for contract termination according to the law. If an employer wants a rapid reduction in its workforce, then both severance pay and notice pay for period must be paid. In that case, notice payments look much like severance payments. The existence of a notice period de facto extends the duration of labor market adjustment, and it is obviously a cost-factor for employers, especially when multiple employees have to be dismissed. The ILO Termination of Employment Recommendation No. 166 from 1982 suggests that: (i) the employer should notify a worker in writing of a decision to terminate his employment, and that (ii) a worker who has been notified of termination of employment or whose employment has been terminated should be entitled to receive, on request, a written statement from his employer of the reason or reasons for the termination.

7. In most MENA countries, the notice period is reasonably short - typically one month but three month in Egypt and four months in Lebanon. That is no notice period in Iraq, and in Iran, there is only an obligation of the worker to give notice period to the employer (see Table 11 in the Annex). The EU15 countries have quite different practices regarding advance notice but most countries have more generous entitlements in this regard. For example, a worker with 20 years of service at the employer can receive a notice varying from 30 calendar days in Spain, eight weeks in Ireland, and two months in Portugal and France but up to six months in Finland, Germany and Sweden. The ILO Termination of Employment Recommendation No. 166 also suggests that the worker should, for the purpose of seeking other employment, be entitled to a reasonable amount of time off without loss of pay, taken at times that are convenient to both parties. This is the practice in many ECA countries. For example, in Poland, within a minimum two week period of notice, the worker has the right to take two to three days leave from work for the purpose of seeking new employment depending on the duration of the notice period. In Lithuania, this length of time should not be less than ten percent of the employee's rate of working time during the term of notice. Time off from work shall be granted in accordance with the procedure agreed between the employee and the employer (Kuddo 2009).

Severance Pay

8. Since most MENA countries lack unemployment insurance, severance pay regimes remain in place. Mandatory severance pay is an attractive system in developing countries because it requires little administrative capacity to monitor the unemployment status, does not require the collection of social contributions, and, given that it is paid as a lump sum, does not affect the efficiency of job search (Vodopivec, 2004). In MENA, most countries have some type of severance pay regime, with the exception of Iraq, Bahrain, Jordan, and Oman; where lay off workers are covered by the social security system (see Table A11 in the Annex). Severance pay for redundancy dismissal after 20 years of employment is the most generous in Egypt, 27.5 months of pay (collective dismissals), followed by 20

months of pay in Iran, and 555 calendar days in United Arab Emirates.¹⁵ At the same time, only a few countries in MENA region have unemployment insurance (UI) systems, namely, Algeria, Egypt, Iran, and Kuwait (see Table A12 in the Annex). Even in countries with UI systems in place – at least legally – the system is hardly functioning. In Egypt, for instance, during the period 2001-07 less than 350 people per year received benefits (Angel-Urdinola et al, 2010). The factors contributing to the low utilization are lack of public awareness about UI benefits among plan members, restrictive eligibility conditions, the difficulty of (and the stigma attached to) documenting a “just-cause” firing decision, and low overall lay-off risk among covered open-ended contract employees. In all EU countries, the state assumes a large part of the risk through income support in the case of unemployment (unemployment benefits) and measures to help workers find a new job (active labor market policies). Seven EU15 countries require employers to make severance payments to eligible dismissed workers, and eight countries leave this to collective agreements and private contracting.

9. In some MENA countries, severance payments are linked to seniority. A distinguishing feature of severance-pay laws is whether the benefits do or do not vary with the seniority of the terminated worker. All the countries in the region with severance pay entitlements use a sliding scale connected to years of employment. By design, a sliding-scale country is more generous to its more senior workers than its less senior workers. In general, however, sliding-scale countries mandate more generous benefits overall than do fixed-benefit countries. Also workers with shorter tenure (young, females) are cheaper to dismiss and are expected to suffer higher dismissal probabilities in downturns (Boeri et al 2008). The most generous seniority-related benefit is in Iran and West Bank and Gaza where longevity of service reaps rewards: the severance formula is one month of wages for each complete service year. In Egypt, since a small scale redundancy is not allowed, there is no legally specified severance formula.

10. Severance regimes have more drawbacks than they have benefits. First of all, these payments offer only limited pooling of unemployment risk (within firms, not across them). Secondly, they do not protect workers against the duration of the risk. Those workers who remain unemployed for a long time might not receive enough funds to endure the unemployment spell. Last but not least, the proportion of all workers covered by severance payments tends to be low, as one of the pre-requisite seems to be for these workers to have formal indefinite contracts in the private sector (Pages et al, 2007). High severance pay and lengthy notice periods make layoffs more costly and the process more difficult for employers. Studies also show that high severance pay contributes to part-time employment, self-employment and informality. There is also mounting evidence that severance pay reduces inflows to and outflows from unemployment. By doing so, it contributes to longer unemployment spells that is, a stagnant unemployment pool (OECD 2004 and 1999).

¹⁵ According to the ILO Termination of Employment Convention No. 158 from 1982, a worker whose employment has been terminated shall be entitled, in accordance with national law and practice, to (a) a severance allowance or other separation benefits, the amount of which shall be based inter alia on length of service and the level of wages, and paid directly by the employer or by a fund constituted by employers' contributions; or (b) benefits from unemployment insurance or assistance or other forms of social security, such as old-age or invalidity benefits, under the normal conditions to which such benefits are subject; or (c) a combination of such allowance and benefits.

11. Many countries are increasingly relying on unemployment insurance savings accounts (UISA).

An appropriately designed unemployment insurance scheme can provide adequate protection to workers in the context of a more flexible labor market. Balance between economic efficiency and worker protection could be achieved if the government set as an overarching goal “to protect the income of workers as opposed to protect particular jobs” (often unproductive). Labor market characterized by high informality, weak enforcement, and moral hazard issues (like many in MENA) could benefit from a model of UI that relied on unemployment insurance savings accounts (UISA). Traditional UI schemes tend to be abused in developing countries. The general operation of UISAs is straightforward, transparent, and less prompt to abuse (although they allow for only limited risk pooling, as savings in the accounts can deplete faster than what is needed). Employers deposit some specified fraction of each worker’s earnings in a special individual savings account on a regular basis. In Chile workers are also required to make regular contributions to their accounts. Upon separation workers can make withdrawals from their savings accounts as they deem fit (some programs allow access before separation for health, education, and housing). UISAs are a relatively new program, although Brazil has used them since the 1960s. More recently, several other Latin American countries (Argentina, Chile, Colombia, Ecuador, Panama, Peru, Uruguay, and Venezuela) have introduced UISAs (Robalino and Sanchez-Puerta, 2008).

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Annex

Table A0: Main Employment Indicators Used in the Policy Note

<i>U = Unemployed population</i>		<i>WAP = Population aged 15 to 64</i>
<i>E = Employed population</i>		<i>LF = Population in the labor force (U + E)</i>
<u>Indicator</u>	<u>Description</u>	<u>Calculation</u>
LFP rate (%)	Share of labor force in the WAP	$LF (U + E) \div WAP$
Employment rate (%)	Share of employed in the WAP	$E \div WAP$
Unemployment rate (%)	Share of unemployed in the labor force	$U \div LF$
Inactivity rate (%)	Share of WAP not in the labor market	$WAP - LF \div WAP$
Joblessness rate (%)	Share of WAP not working, excluding students	$U + (WAP - LF) - Enrolled \div WAP$
Informality Rate (%)	Share of employed workforce making contributions to social security	
Eurostat - Statistical Office of the European Communities		
<i>Unemployed persons</i>	All persons 15 to 74 years of age (for years 1995-2000, all person 16 to 74 years in Spain, Sweden, United Kingdom, Iceland, and Norway) who were not employed during the reference week, had actively sought work during the past four weeks and were ready to begin working immediately or within two weeks. The duration of unemployment is defined as the duration of a search for a job or as the length of the period since the last job was held (if this period is shorter than the duration of search for a job).	
<i>Employed persons</i>	All persons who worked at least one hour for pay or profit during the reference week or were temporarily absent from such work.	
<i>Unemployment rate</i>	The number of people unemployed as a percentage of the labor force. The labor force is the total number of people employed and unemployed.	
OECD - Organization for Economic Co-operation and Development		
<i>Labor Force Participation</i>	Indicates the ratio of the labor force to non-institutional working-age population (age 15-64).	
<i>Unemployment</i>	All persons above a specified age, who during the reference period were: <ul style="list-style-type: none"> • Without work, i.e. were not in paid employment or self-employment during the reference period. • Currently available for work, i.e. were available for paid employment or self-employment during the reference period. • Seeking work, i.e. had taken specific steps in a specified recent period to seek paid employment or self-employment. The specific steps may include registration at a public or private employment exchange; application to employers; checking at worksites, farms, factory gates, market or other assembly places; placing or answering newspaper advertisements; seeking assistance of friends or relatives; looking for land, building, machinery or equipment to establish own enterprise; arranging for financial resources; applying for permits and licenses, etc. 	
WDI - World Development Indicators		
<i>Labor Force Participation</i>	Indicates the ratio of the labor force to working-age population (age 15 and above).	

Table A1: The Main Law and/or Other Legal Acts on Labor

Country	Main Labor Law
Algeria	Act 90-11 of April 21, 1990, relating to labor relations, supplemented and amended on January 11, 1997 Act No. 90-02 of 6.2.1990, amended and supplemented, relating to the prevention and settlement of labor disputes
Bahrain	Labor Law for the Private Sector, Law No. 23 of 1976 (the "Labor Law") The Regulations for Implementing the Bahrain Labor Law, Ministerial Orders 13 - 27 of 1976 Legislative Decree No. 14 of 1993 with respect to Amending The Labor Law for the Private Sector Promulgated by Legislative Decree No. 23 of 1976
Djibouti	Act No. 133/AN/05/5 on the Labor Code (Act of 31/01/06)
Egypt, Arab Rep.	Labor Law No. 12/2003 & Relief Fund Law No 156/2002
Iran, Islamic Rep.	Labor Act 1990
Iraq	Act. No. 71 of 1987, dated July 27, 1987 (the Iraq "Labor Code")
Jordan	Civil Code No. 43 for the Year 1976 ("CC") Labor Law No. 8 for the Year 1996 Social Security Law No. 19 for the Year 2001 Resolution of the Minimum Wage Committee for the Year 2006
Kuwait	Law No. 38/1964 Concerning Labor in the Private Sector
Lebanon	The Lebanese Code of Labor dated September 23rd, 1946.
Morocco	Labor Code promulgated by law n° 65-99, dated September 11 2003 and in force since June 8 2004. Its related application decrees and departmental orders (adopted between December 2004 and November 2005)
Oman	Royal Decree No. 35/2003 issuing the labor law
Qatar	Labor Law No. 14 of 2004
Saudi Arabia	The Labor Law, issued under Royal Decree No. M/51 dated 23/8/1426H (corresponding to 26 September 2005). It took effect on 26 April 2006.
Syrian Arab Republic	Labor law No. 91 of 1959 (the "Labor Law")
Tunisia	Law N° 66-27 of April 30, 1966 promulgating the Labor Code, amended by Law No. 94-29 of 21/02/1994 and Law 96-62 of 15/07/1996; Departmental Order of 29/05/1973 of the Minister of Social Affairs approving the Master Agreement, amended by appendixes 1, 2a
United Arab Emirates	Federal law No. 8 of 1990 on Regulating Labor Relations Ministerial Decision No 49/1 of 1980 Ministerial Decision No. 27/1 of 1991 Ministerial Decision No. 467 of 2005 Ministerial Resolution No. 401 of 1997
West Bank and Gaza	Palestinian Labor Law No. 7, for the year 2000
Yemen, Rep.	Labor Law No. 5/95 Social Insurance Law No. 26/91

Source: Doing Business (2010) Databank

Table A2: Other major labor laws in the areas of individual and collective labor relations by country.

Country	Labor Law
Algeria	Executive Order No. 2000-392, 6.12.2000 fixing the guaranteed national minimum wage Order 97/03, 11/01/1997 Prescription 96/21 of 09/07/1996 Order 96/12 of 10.6.1996 Legislative Decree No. 94-09, 26.5.1994 on preserving jobs
Bahrain	The Trade Union Law of 2002
Djibouti	
Egypt, Arab Rep.	Social Insurance Law No 79/75
Iran, Islamic Rep.	
Iraq	Retirement and Social Security Law for Laborers No. 39 of 1971; Foreign Labor Regulation No. 18 of 1987
Jordan	
Kuwait	Private Sector Law No. 38 of 1964 Amiri Decree No. 17 for the year 1959 enacting Foreigners Residence Law- Ministerial Resolution No. 640 for the Year 1987 concerning the Executive By-law of the Foreigners Residence Law Law No. 28 for the year 1968
Lebanon	Decree No. 17386 dated September 2, 1964 governing collective agreements, conciliation and arbitration
Morocco	Law No. 1-93-16, dated March 23 1993, governing training agreements
Oman	N/A
Qatar	N/A
Saudi Arabia	N/A
Syrian Arab Republic	Legislative decree No. 49 of 1962 Social Security law No. 92 of 1959 Law No. 50 of 2004 Bar organization law issued by the legislative decree No 84 in 1968
Tunisia	Law No. 94-28 of 21/02/1994 as amended, governing professional disease and work accidents Law No. 93-10 of 17/02/1993 on professional training Decree No. 93-1049 of 03/05/1993 on incentives for employment of youth
United Arab Emirates	N/A
West Bank and Gaza	N/A
Yemen, Rep.	N/A

Source: Doing Business (2010) Databank

Table A3: Number of ILO conventions ratified by country.

	Number of ILO conventions ratified	Number of ILO core conventions ratified	Core ILO conventions not yet ratified
Algeria	54	8	-
Bahrain	9	4	87, 98, 100, 138
Djibouti	58	8	-
Egypt, Arab Rep.	63	8	-
Iran, Islamic Rep.	13	5	87, 98, 138
Iraq	61	7	87
Jordan	23	7	87
Kuwait	19	7	100
Lebanon	49	7	87
Morocco	50	7	87
Oman	4	4	87, 98, 100, 111
Qatar	6	5	87, 98, 100
Saudi Arabia	15	5	87, 98, 138
Syrian Arab Republic	50	8	-
Tunisia	52	8	-
United Arab Emirates	9	6	87, 98
West Bank and Gaza	-	-	-
Yemen, Rep.	29	8	-

Source: ILO

Table A4: Regulations on Fixed-Term Contracts (FTC)

	Are FTC prohibited for a permanent task?	What is the maximum duration of a FTC (in months), not including any renewals?	What are the rules for renewing a FTC beyond the original maximum term?	What is the maximum cumulative duration of a FTC relationship (in months), including all renewals?
Algeria	Yes	No Limit. But the requires that the duration is specified, otherwise the contract will be considered permanent	No limit	No limit
Bahrain	No	No limit.	No specific provisions on renewals. If no renewal is agreed but the contracting parties continue to abide by it after its expiry it shall be deemed to have been renewed by both parties for an indefinite period under the same terms	No limit
Djibouti	Yes	12	Renewable once	24
Egypt, Arab Rep.	No	No limit, but employee may terminate after 5 years	No limit	No limit
Iran, Islamic Rep.	No	No limit.	N/A	No limit
Iraq	Yes	No limit.	No limit	No limit
Jordan	No	60	No limit	No limit
Kuwait	No	60	No limit	No limit
Lebanon	No	No limit but after 24 months worker is treated as indefinite term for purposes of severance pay	No limit but renewal beyond 24 months leads to treatment as indefinite term worker for purposes of severance pay	24
Morocco	Yes	12	No renewal except for starting a new enterprise or new product, in which case one renewal is allowed.	12
Oman	No	No limit.	No limit	No limit
Qatar	No	60	N/A	No limit
Saudi Arabia	No	No limit.	One renewal is allowed, if the original contract includes a clause allowing renewal. However, if the total term after one renewal reaches 3 years, the contract automatically becomes open-ended	No limit
Syrian Arab Republic	No	No limit.	If renewed, the contract term will change to unlimited.	No limit
Tunisia	No	48 months including renewals	The term should not exceed 4 years	48
United Arab Emirates	No	48	No limit	No limit
West Bank and Gaza	No	24	No renewals allowed after 24 months	24
Yemen, Rep.	No	12	N/A	No limit

Source: Doing Business (2010) Databank

Table A5: Minimum wage arrangements in selected MENA countries

	Setting the MW	Coverage	Categories of workers with specific MW levels	Frequency of adjustment	Enforcement
Algeria	the government sets a national minimum wage (SMNG) that applies to all sectors, following a period of consultation with the social partners	Civil and military national defense personnel, magistrates, state officials, along with the personnel of public establishments of an administrative nature are not covered by the national minimum wage rate. Separate legislation is enacted concerning these workers.	Apprentices receive a pre-salary, which is paid by the State and is the equivalent of 15% of the national minimum wage rate. This pre-salary is paid for 6 months if an apprenticeship is for a period of 24 months or less. If the apprenticeship is for more than 24 months, the pre-salary is paid for 12 months.	The legislation does not set forth how frequently the national minimum wage rate should be adjusted.	Labor inspectors ensure the provisions of the Law concerning labor relations are adhered to.
Lebanon	The national minimum wage rate is fixed by the government in accordance with the report made by the tripartite Commission on the Cost of Living Index comprising representatives of the government, employers, wage earners and salary-earners.	The minimum wage applies to all workers, both salary and wage-earners, of at least 20 years of age in both the public and private sector other than those specifically excluded.	Domestic servants, workers in agricultural corporations not connected to trade and industry, workers in family businesses employing solely family members, workers younger than 20 years of age, and casual or temporary workers in public administration.	There is no specific time-period provided in the legislation. Instead, minimum wage rates are adjusted whenever the economic situation renders a review necessary.	The labor inspection service ensures that the Labor Code is adhered to.
Morocco	National minimum wage rates are set by the government for: employees and workers carrying out agricultural work (SMAG); and employees and workers in the industrial and commercial sectors, and in liberal professions (SMIG), following the opinion of the most representative employees' and employers' organizations.	Minimum wage provisions apply to all persons who are party to an employment contract: in industry; commerce; professional occupations; and agricultural work	the government sets two national minimum wage rates for: employees and workers carrying out agricultural work (SMAG); and employees and workers in the industrial and commercial sectors, and in liberal professions (SMIG). Apprentices may be paid wages that are lower than the minimum wage rates.	The legislation does not set forth how frequently minimum wage rates should be adjusted.	Labor inspectors verify that all labor legislation (including the payment of minimum wage rates to employees in industry, commerce and professional occupations, and agriculture), is complied with.

Source: ILO (<http://www.ilo.org/travaildatabase/servlet/minimumwages>)

Table A5 cont.: Minimum wage arrangements in selected MENA countries

	Setting the MW	Coverage	Categories of workers with specific MW levels	Frequency of adjustment	Enforcement
Saudi Arabia	Although the legislation provides for the establishment of a minimum wage system by the government, in fact no minimum wages have been implemented. Wages are fixed in individual agreements between the worker and the employer.				
Tunisia	Minimum wage rates are set by the government. Minimum wage rates for workers other than those employed in the agricultural sector (SMIG) and for workers in the agricultural sector (SMAG) are set and revised by the government in a decree, following consultations with workers' and employers' organizations. In practice, the National Committee on Social Dialogue is consulted prior to the government setting minimum wage rates.	The minimum wage rate is the level set for workers in positions that do not require a professional qualification.	There is a distinction between minimum wage rates for agricultural and non-agricultural workers. A minimum wage rate is set for workers younger than 18 years of age, which is lower than the regular minimum wage rate. Currently, the minimum age rate for juvenile workers is 85% of the rate applicable for adults.	The legislation does not set forth how frequently rates should be adjusted; however, in practice rates are updated each year.	Labor inspectors ensure that the provisions of the Labor Code are adhered to.

Source: ILO (<http://www.ilo.org/travaildatabase/servlet/minimumwages>)

Table A6: Regulation on Minimum Wages (MW)

	What is the MW for a 19-year-old Worker in his/her first job?	Ratio of MW to Average Wage
Algeria	12,000 dinars per month	0.30
Bahrain	N/A	-
Djibouti	N/A	-
Egypt, Arab Rep.	Agreement by the parties (in practical terms, 165 L/month)	0.11
Iran, Islamic Rep.	2,635,200 Rials per month or 87,840 Rials per day for Persian year 1388 (March 21, 2009 - March 21, 2010)	0.47
Iraq	N/A	-
Jordan	150 JD/month	0.43
Kuwait	N/A	-
Lebanon	500000 LL/month	0.40
Morocco	10,14 DH/hour	0.72
Oman	120 RO/month for the lowest grade	0.13
Qatar	No minimum wage mandated by law - QAR 6000 is customary	-
Saudi Arabia	N/A	-
Syrian Arab Republic	6250 pounds/month	0.38
Tunisia	60% of the previous. Apprentice wage scale: 1st quarter: 30%; 2nd quarter: 40%; 3rd quarter: 50%; 4th quarter: 60% (if apprenticeship extends beyond one year); 5th quarter: 70%; after 5th quarter: 80%	0.30
United Arab Emirates	N/A	-
West Bank and Gaza	N/A	-
Yemen, Rep.	The minimum wage for a government employee is YRE 20,000 / month gross. The minimum wage for the private sector cannot be less.	0.60

Source: Doing Business (2010) Databank

Table A7: Regulation Concerning Standard Workdays and Overtime.

	What is the length of the standard work day?	What is the maximum overtime limit in normal circumstances?	What is the premium for overtime work?
Algeria	8 hours	8 hours per week	50%
Bahrain	8 hours a day or 48 hours a week. 6 hours a day or 36 hours a week during Ramadan	Overtime may not exceed 60 hours unless the workers occupation requires more overtime and MOLSA has given its consent.	25% for daytime overtime and 50% for nighttime overtime.
Djibouti	8 hours	5 hours / week. Beyond that, he must have permission from the Inspector of Labor, but there is a maximum of 60 hours per week and 12 hours per day	Established by collective agreement
Egypt, Arab Rep.	8 hours	2 hrs/day	35% during the day; 70% for the night
Iran, Islamic Rep.	8 hours	4 hrs/day. The worker cannot be required to work overtime	40%
Iraq	8 hours	4 hours/day	50% for daytime overtime, 100% for night-time overtime
Jordan	8 hours	N/A	25%, 50% for nighttime overtime
Kuwait	8 hours	2 hours/day	25%
Lebanon	8 hours/day (48 hours/week), Saturdays included.	None. Overtime is allowed only in exceptional circumstances.	50%
Morocco	8 hours	100 hrs/year	25% day work; 50% night; 50%-100% holidays
Oman	9 hours	N/A	at least 25% (or compensatory leave), 50% for night work, 100% for weekly or public holiday
Qatar	8 hours day on a 6 day week, 6 hours day during Ramadan	2 hours maximum of overtime by day (10 hours by day)	25% for overtime and 50% for night overtime and 50% for work between 9 pm till 3 am
Saudi Arabia	8 hours	No limit. However, in practice, the Labor Office will prohibit excessive hours. The worker cannot be required to work overtime.	50% for all types of overtime work
Syrian Arab Republic	8 hours	2 hours/day, 520 hours/year	for daytime overtime: 25%, nighttime 50%
Tunisia	8 hours in a 48 hours' work week	12 hrs/week	75% for the 48 hours system
United Arab Emirates	8 hours and 6 hours during the month of Ramadan	2 hours/day	25% normal working hours (if overtime is on Fridays, public holidays or at night then the 50% premium for night or weekend work applies)
West Bank and Gaza	8 hours, or 9 hours in 5 days work week	12 hours/week	50%
Yemen, Rep.	8 hours	N/A	50% normal working days, 100% at night, on the day of weekly rest, and on official holidays

Source: Doing Business (2010) Databank

Table A7 cont.: Regulation Concerning Standard Workdays and Overtime.

	How many days are there in the typical work week in manufacturing?	What is the maximum number of working hours allowed in a day?	What is the maximum number of working days per week?
Algeria	5 or 6	12	6
Bahrain	5	11	6
Djibouti	6	12	6
Egypt, Arab Rep.	5 or 6	10	6
Iran, Islamic Rep.	5 or 6	12	6
Iraq	5	12 hours (8 hours standard + 4 hours overtime)	6
Jordan	6	11	6
Kuwait	6	10	6
Lebanon	6	12	6
Morocco	5.5	12	6
Oman	6	9	6
Qatar	6	10, including overtime	6
Saudi Arabia	6 (6 is most common in manufacturing although 5-day and 5.5-day workweeks also exist)	11	6
Syrian Arab Republic	5	10 (8 normal hours + 2 overtime hours allowed under limited circumstances)	6
Tunisia	6	10 hrs but certain categories of personnel such as drivers and watchmen may work up to 12 hrs per day without exceeding 64 hrs per week pursuant to an authorization from the minister in case of necessity to recover the loss of time caused by a work interruption or the nature of the work	6
United Arab Emirates	6 (but 5 also exists in some workplaces)	10	6
West Bank and Gaza	6 (5 days of 8 hours, and 1 day of 5 hours)	12 hours taking into account a 9 hour work day plus overtime.	6
Yemen, Rep.	6	12	6

Source: Doing Business (2010) Databank

Table A7 cont.: Regulation Concerning Standard Workdays and Overtime.

	Can the workweek for a single worker extend to 50 hours per week for 2 months/year to respond to a seasonal increase in production?	What is the mandatory pay premium for night work (% of salary)	What is the mandated decreased shift time for night work?
Algeria	No	N/A	N/A
Bahrain	Yes	N/A	N/A
Djibouti	Yes	No	No
Egypt, Arab Rep.	Yes	No	No
Iran, Islamic Rep.	Yes	35%	N/A
Iraq	Yes	No	Yes - 7 hours maximum
Jordan	Yes	N/A	N/A
Kuwait	Yes	N/A	N/A
Lebanon	Yes	N/A	N/A
Morocco	Yes	N/A	N/A
Oman	Yes	50%	N/A
Qatar	Yes	N/A	N/A
Saudi Arabia	Yes	N/A	N/A
Syrian Arab Republic	Yes	N/A	N/A
Tunisia	Yes	Yes - the general CBA says there is a pay premium, the amount of which is to be determined by the sector-specific CBA	No
United Arab Emirates	Yes	50%	N/A
West Bank and Gaza	Yes	N/A	N/A
Yemen, Rep.	Yes	15%	N/A

Source: Doing Business (2010) Databank

Table A8: Regulation Concerning Rest and Vacations

	What is the minimum number of hours of rest required by law between workdays?	What is the legally defined specific weekly rest day?	What is the mandatory paid annual vacation (in working days) after 20 years of continuous employment?
Algeria	The law imposes no minimum (but typically not less than 12 hours)	Friday, but for economically imperative reasons, it can be another day	22
Bahrain	N/A	N/A	20
Djibouti	12	Friday; exceptions are possible as determined by ministerial decree	30
Egypt, Arab Rep.	14	N/A	30
Iran, Islamic Rep.	N/A	N/A	24
Iraq	N/A	No	28
Jordan	13	Friday	21
Kuwait	N/A (one hour break every 5 hours of work)	N/A	21
Lebanon	9	N/A	15
Morocco	N/A	N/A	24
Oman	N/A	N/A	22
Qatar	N/A	N/A	24
Saudi Arabia	13 hours	Friday	26
Syrian Arab Republic	14	N/A	21
Tunisia	10 hrs (12 hrs for women and minors)	N/A	18
United Arab Emirates	14	Friday	26
West Bank and Gaza	No explicit limit for rest between rest days, but maximum 1 hour mandatory break every 5 hours of work	Friday, but can be made another day for work reasons	18
Yemen, Rep.	N/A	Friday, but can be made another day for work reasons	30

Source: Doing Business (2010) Databank

Table A9: Regulation on Maternity Leave in MENA [selected countries]

	Description of the Scope of Maternity Benefits
Algeria	Maternity protection covers all employed women except for civil servants and public employees, workers in air and sea transport and fishing vessels, home workers, journalists, actors and performers, commercial travelers, athletes and domestic workers, who are covered by separate provisions. Medical and cash benefits from the sickness insurance are granted in the event of illness or complications.
Bahrain	N.A.
Egypt	Maternity protection under Law No 12, of 2003, covers women working in the Private Sector. Women civil servants, household workers, members of the employer's family and agricultural workers are excluded from the scope of application of this law. Civil servants and workers employed by public sector bodies are covered by separate legislation. A woman worker may not obtain maternity leave more than twice throughout her period of employment.
Iran	All women workers, trainees and apprentices in industrial and agricultural establishments, mining enterprises, construction, transport enterprises, commercial establishments, production units and any other place open to the public.
Iraq	N.A.
Jordan	N.A.
Kuwait	Women workers performing manual or intellectual work. Civil servants, casual and temporary workers and employees, domestic servants and owners of small enterprises employing less than five workers are not covered. Female civil servants are covered by separate legislation. Maternity protection legislation applies to all female civil servants and includes the following types of leave: (1) A delivery leave on full pay, starting on the day of confinement or if hospitalized before confinement, from the day of hospitalization (2) A four-month maternity leave after confinement on half pay (3) An unpaid special parental leave, maternity or child care leave for a child under the age of six of a period of at least six consecutive months and a maximum of four years.
Lebanon	Maternity leave under the Labor Code applies to all female salaried employees and wage-earners in commercial, industrial, educational establishments and charity foundations. Civil servants, domestic servants, women working in agricultural cooperative establishments which have no connection with commerce or industry, and establishments engaging only family members in family undertakings are not covered by the Labor Code.
Morocco	N.A.
Qatar	N.A.
Saudi Arabia	N.A.
Syria	N.A.
Tunisia	Maternity protection under the Labor Code covers women employed in undertakings engaged in industry, commerce and agriculture, whether public or private, denominational or non-denominational as well in the liberal professions, women working in handicraft establishments, cooperatives, non-trading corporations and trade unions and associations of any kind. Women employed in family undertakings are excluded. Female civil servants are covered by separate legislation
United Arab Emirates	N.A.
Yemen	N.A.

Source: ILO (<http://www.ilo.org/travaildatabase/servlet/maternityprotection>)

Table A9 cont.: Regulation on Maternity Leave in MENA [selected countries]

	Normal duration	Compulsory leave	Financing of benefits
Algeria	14 consecutive weeks	At least one week before confinement	Social security system, which is financed by the contributions of employers and persons covered by the social insurance act. 100 per cent of the daily wage for 14 weeks. However, the amount of maternity benefits shall not be lower than 8 times the net hourly rate of the national minimum guaranteed wage.
Bahrain	45 days		Employer
Egypt	90 days taken before or after confinement	45 days after confinement	Social security and the employer
Iran	Women covered by the Labor Code are entitled to ninety days maternity leave, of which 45 days must, if possible, be taken after confinement. For breastfeeding mothers, up to three children, the maternity leave is four months.	45 days after confinement	N.A.
Iraq	62 days	N.A.	Social security
Jordan	10 weeks	N.A.	Employer
Kuwait	Thirty days before and 40 days after confinement. A woman who takes maternity leave forfeits her right to annual leave	N.A.	The employer. One hundred per cent of pay for the normal duration of maternity leave (70 days).
Lebanon	7 weeks including the prenatal period and the period following the childbirth	N.A.	The employer. Cash benefits are also provided by the Social Security Act. The Social Security Act provides that cash benefits will be paid by the National Social Security Fund. One hundred per cent of normal wage.
Morocco	14 weeks	N.A.	Social security; 100 % of earnings
Qatar	50 days	N.A.	Employer
Saudi Arabia	10 weeks	N.A.	Employer
Syria	50 days	N.A.	Employer
Tunisia	30 days, on production of a medical certificate. Female civil servants are entitled to 2 months of maternity leave. They may also take up to 4 months of postnatal leave after the expiry of maternity leave (optional maternity leave).	N.A.	Under the Social Security Act, women who have at least 80 days of contributions during the four calendar quarters preceding that in which the birth takes place are eligible to the cash benefit. For civil servants, the full salary is paid during maternity leave and half-salary during the optional period of additional postnatal leave (up to four months). For women covered by the Labor Code, the daily wage is calculated on the basis of the wage earned during a calendar quarter chosen among the four quarters preceding the leave. The average daily wage is equal to 1/90 of this wage.
United Arab Emirates	3 months	N.A.	Employer
Yemen	60 days	N.A.	Employer

Source: ILO (<http://www.ilo.org/travaildatabase/servlet/maternityprotection>)

Table A9 cont.: Regulation on Maternity Leave in MENA [selected countries]

	Extension	Non-discrimination and employment security
Algeria	N.A.	Any provision in collective agreements, conventions or labor contracts stipulating any kind of discrimination in employment, based on sex or family status among other reasons, shall be null and void.
Bahrain	N.A.	N.A.
Egypt	A woman working in an enterprise employing 50 workers or more may obtain 2 years' unpaid leave to care for her child (optional maternity leave). This leave is only granted twice during her period of employment. Civil servants may take this type of leave three times during the entire period of employment.	N.A.
Iran	Maternity leave is extended by 14 days for multiple births. For breastfeeding mothers, up to three children, the maternity leave is extended to five months in the event of twin birth and twelve months in the event of multiple birth, with the full amount of her previous earnings paid	N.A.
Iraq		N.A.
Jordan		N.A.
Kuwait	One hundred unpaid consecutive or non-consecutive days after maternity leave because of any illness arising out of pregnancy or confinement that has been medically certified.	N.A.
Lebanon	N.A.	Under the Labor Code it is prohibited to terminate the employment of a pregnant woman or send her notice during her maternity period or when she is on leave on grounds of childbirth or sick leave. However, dismissal with notice is permitted during these periods if the woman works elsewhere.
Morocco	N.A.	N.A.
Qatar	N.A.	N.A.
Saudi Arabia	N.A.	N.A.
Syria	N.A.	N.A.
Tunisia	15 days due to sickness as a result of pregnancy or confinement. A medical certificate is required.	An employer may not dismiss a woman on the grounds that she has suspended her work during the period before and after her confinement. If she is dismissed, the employer is liable to pay damages provided that she informed her employer of the reason for her absence. Notice of dismissal is prohibited up to a maximum of 12 weeks after maternity leave if the woman produces a medical certificate that she is incapable of returning to work because of an illness arising out of her pregnancy or confinement.
United Arab Emirates	N.A.	N.A.
Yemen	N.A.	N.A.

Source: ILO (<http://www.ilo.org/travaildatabase/servlet/maternityprotection>)

Table A10: Regulation Concerning Dismissal of Redundant Worker

	Is it legal for an employer to terminate the employment contract of a worker on the basis of redundancy?	Must the employer notify a third party before dismissing one redundant worker?	Does the employer need the approval of a third party in order to dismiss one redundant worker?
Algeria	Yes	Yes, both notify and consult	No
Bahrain	Yes	Yes, employee can unilaterally request the Ministry of Labor to reach an amicable settlement with the employer. If a settlement is not reached then the Ministry of Labor refers the matter to the High Court which shall decide.	No
Djibouti	Yes	Yes, both notify and consult the Inspector of Labor and, where available, the staff representatives	No
Egypt, Arab Rep.	Yes	Yes, both notify and consult	Yes
Iran, Islamic Rep.	Yes	Yes, both notify and consult	Yes
Iraq	Yes	Yes, only notify to the Ministry of Labor and Social Affairs	No
Jordan	Yes	Yes	Yes
Kuwait	Yes	No	No
Lebanon	Yes	No	No
Morocco	Yes	No for normal workers, Yes for staff representatives	No for normal workers, Yes for staff representatives
Oman	Yes	There is no mandatory notification, but in practice employers notify the labor dept to prevent employee's not signing dismissal notice. Notification serves in the place of signing. Consultation is not required.	No
Qatar	Yes	Yes - only notification to the Ministry of Labor and Social Affairs is required.	No
Saudi Arabia	Yes	No	No
Syrian Arab Republic	Yes	Yes	Yes
Tunisia	Yes	Yes, both notify and consult	Yes
United Arab Emirates	Yes	No	No
West Bank and Gaza	Yes	Yes, only notify	No
Yemen, Rep.	Yes	Yes, only notify	No

Source: Doing Business (2010) Databank

Table A10 cont.: Regulation Concerning Dismissal of Redundant Worker

	Must the employer notify or consult a third party before dismissing a group of 9 redundant workers?	Is there a retraining or reassignment obligation before an employer can make a worker redundant?
Algeria	Yes, both notify and consult	Yes
Bahrain	Yes, employee can unilaterally request the Ministry of Labor to reach an amicable settlement with the employer. If a settlement is not reached then the Ministry of Labor refers the matter to the High Court which shall decide.	No
Djibouti	Yes, both notify and consult the Inspector of Labor and, where available, the staff representatives	No
Egypt, Arab Rep.	Yes, both notify and consult	No
Iran, Islamic Rep.	Yes, both notify and consult.	No
Iraq	Yes, only notify to the Ministry of Labor and Social Affairs	No
Jordan	Yes, both notify and consult	No
Kuwait	No	No
Lebanon	Yes, both notify and consult	No
Morocco	Yes, both notify and consult	Yes
Oman	No	No
Qatar	Yes - only notification to the Ministry of Labor and Social Affairs is required.	No
Saudi Arabia	No	No
Syrian Arab Republic	Yes, both notify and consult	No
Tunisia	Yes, both notify and consult	Yes
United Arab Emirates	No	No
West Bank and Gaza	Yes, only notify (Not mandated by law, but necessary in practice to avoid substantial penalties for unlawful and unjustified termination.)	No
Yemen, Rep.	Yes, only notify	No

Source: Doing Business (2010) Databank

Table A10 cont.: Regulation Concerning Dismissal of Redundant Worker

	Are there priority rules that apply to redundancy dismissals or lay-offs?	Are there priority rules that apply to re-employment?
Algeria	Yes	No
Bahrain	No	No
Djibouti	No	Yes, the workers dismissed for economic reasons keep for a year hiring priority
Egypt, Arab Rep.	Yes	No
Iran, Islamic Rep.	No	No
Iraq	No	No
Jordan	No	Yes
Kuwait	No	No
Lebanon	Yes, the final program of redundancy dismissal shall take into consideration seniority, competence, age, family and social situation.	Yes, hiring priority within one year from dismissal
Morocco	Yes	Yes
Oman	No	No
Qatar	No	No
Saudi Arabia	No	No
Syrian Arab Republic	No	No
Tunisia	Yes	Yes
United Arab Emirates	No	No
West Bank and Gaza	No	No
Yemen, Rep.	No	Yes

Source: Doing Business (2010) Databank

Table A11: Regulation Concerning Firing Costs

	Legal notice period for redundancy dismissal after 20 years of continuous employment?	What is the severance pay formula?	What is the severance pay for dismissal after 20 years of continuous employment?
Algeria	1 month, or as required by the collective agreements	N/A	3 months
Bahrain	30 days	For a Bahraini national earning above the average monthly salary of 839 BHD, the leaving indemnity is calculated over the excess of 4000 BHD monthly salary. Therefore no leaving indemnity would be paid.	N/A
Djibouti	15 days for workers paid on timely basis;	N/A	12 months
Egypt, Arab Rep.	1 months for employees, workers and laborers;	Since a small scale redundancy is not allowed, there is no legally specified severance formula. The severance requirement for a collective dismissal is 1 month for each of the first 5 years and 1.5 months for any years beyond 5.	27.5 months
Iran, Islamic Rep.	3 months for supervisors and managers	One month per year of employment	20 months
Iraq	3 months	None	N/A
Jordan	None	None; the worker would be covered by the social security system	N/A
Kuwait	1 month	15 days for the first 5 years of work	17.5 months
Lebanon	1 month	+ 1 month for every year thereafter, not to exceed 1.5 years total severance pay	N/A
Morocco	15 days	None (the limit from 2 to 12 months applies only when there is a misuse of powers)	76.4 weeks
Oman	4 months	A salary for 96 hr/year - 1st 5 years; 144 hr/year - 2nd 5 years; 192 hr/year - 3rd 5 years; 240 hr/year - beyond 15 years	N/A
Qatar	2 months	None since the worker is covered by the Social Insurance Law.	60 weeks
Saudi Arabia	30 calendar days	3 weeks per year of service	17.5 months
Syrian Arab Republic	2 months	Half a month's pay for each of the first five years and one month's pay for each of the subsequent years	17.5 months
Tunisia	30 days	Half a month of the last salary for the first 5 years, full month for every year after the 5th year	3 months
U.A.E	4 weeks	N/A	555 calendar days
W.B.G	1 month	21 calendar days for each of the first 5 years; 30 calendar days for each year beyond 5 up to a maximum of 2 years of pay	20 months
Yemen, Rep.	30 days	1 month based on the last gross salary for each year worked	3 months

Source: Doing Business (2010) Databank

Table A12: Unemployment Protection Regimes

	Does your country have an unemployment protection scheme?	How is the unemployment protection scheme funded?	What is the amount of the unemployment benefit and for how long does an unemployed worker receive it?
Algeria	Yes, unemployment insurance	Employers 1% of the base of social security contributions. Employee 0.50% of the base of social security contributions	Between 75% of the guaranteed national minimum wage (SNMG) and 3 times the SNMG. Duration: two months per year of contribution
Bahrain	N/A	N/A	N/A
Djibouti	No	N/A	N/A
Egypt, Arab Rep.	Yes	The employer at the rate of 2% of the wages of the insured persons	60% of the last wage of the insured person. The indemnity shall continue to be paid to the insured person until the day preceding the date of his being engaged in an employment, or for a period of 16 weeks whichever is earlier. This period shall be extended to 28 weeks if the contribution period to this insurance exceeds 24 months. The indemnity shall also be paid during the period of vocational training determined by the Manpower office
Iran, Islamic Rep.	Yes	The employer must pay a sum equivalent to 3% of the salary of each worker during the course of employment of each employee.	Between 55% (or the minimum salary if higher) and 80% of daily wages of the person who has been made unemployed. From 6 months to 50 months depending on circumstances.
Iraq	No	N/A	N/A
Jordan	No	N/A	N/A
Kuwait	Yes	Contributions by employers and Kuwaiti Government	100-300 kd until employed
Lebanon	No	N/A	N/A
Morocco	No	N/A	N/A
Oman	No	N/A	N/A
Qatar	No	Indemnisation of the employee by the employer	N/A
Saudi Arabia	No	N/A	N/A
Syrian Arab Republic	No	N/A	N/A
Tunisia	No	N/A	N/A
United Arab Emirates	No	N/A	N/A
West Bank and Gaza	No	N/A	N/A
Yemen, Rep.	No	N/A	N/A

Source: Doing Business (2010) Databank

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Summary Findings

This note provides a general background of the main features of Labor Regulation in the Middle East and North Africa (MENA) and benchmarks them against international best practices. The note compiles information on available labor laws and other legal acts concerning employment protection regulation. Within the broader scope of labor regulation, and in order to assure regional comparability, information collected focuses on key issues in the labor law associated with commencing or terminating employment and during the period of employment (including maternity benefits). The main sources the data are the World Bank Doing Business 2010 and ILO databank. This note is a tool to provide policymakers and international organizations with a regional diagnose of how labor regulation affects labor market outcomes in MENA and inform client governments about strategic approaches to employment creation through labor policy and reform. This activity comes as a response to regional priorities in the context of the Arab World Initiative (AWI). One of the six strategic themes of the AWI focuses explicitly on employment creation as a top priority. Part of the World Bank's mandate under the AWI is to inform client governments about strategic approaches to employment creation through labor policy and reform.

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