



THE EMPLOYMENT CHALLENGE IN THE MAGHREB

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Introduction: Generating more and better quality jobs with higher productivity probably constitutes the most important challenge the Maghreb countries will face over the next decade. Despite relatively high and sustained economic growth since 2004, employment creation has been insufficient to significantly reduce unemployment, or to absorb the flow of youth joining the labor market. As a result, the unemployment rate remains high among youth, and has been rapidly increasing among secondary education students and university graduates. In addition, most new jobs are of low productivity, often in the informal sector and benefiting the less educated.

The Maghreb Youth Bulge: A Demographic Gift? Similarly to the rest of MENA, the Maghreb region is experiencing a demographic “youth bulge” coupled with a decline in fertility. The resulting decline in the dependency ratio could represent an opportunity for accelerated growth and further poverty reduction, if adequate investments in the production factors and appropriate policies in skills development, employment and social protection are put in place. If these policies are not implemented, this demographic situation would likely result in longer transitions from school to stable work, frustrated ambitions among the youth, increasing informality in the economy, and possibly in political instability. Governments and opinion leaders in the Maghreb are aware

of these potential consequences and take them seriously.

Maghreb Government Strategies and Bank Response: Strategies in Maghreb countries aim to take advantage of a stable macroeconomic and fiscal situation, coupled with reduced debt exposure to achieve higher growth rates (7-8%) and more employment creation. After achieving significant progress in improving the business environment and the investment climate, Tunisia and Morocco are now implementing an integrated approach to stimulate employment creation, based on the Bank’s MILES approach. Both countries are building on a body of analytical products developed in partnership with the Bank over the last few years. Algeria, which is facing similar demographic challenges, is less advanced in terms of policy development but has a keen interest in catching up with the other Maghreb countries and in meeting the demographic challenge. Throughout the Maghreb, the focus is on the following areas:

1. **Investment Climate.** All four countries have explicitly adopted private-led growth strategies. Yet, this shift to market-based mechanisms and the promotion of private entrepreneurship have taken place at different time periods and each country has adopted quite different paces of reform. Oil largely explains the difference between Libya (who’s transition to the market mostly accelerated starting in 2004), Algeria (a slow, unfinished transition that started in the late eighties), and Morocco and Tunisia, both of which adopted market-based economies long ago (even if they only accelerated their integration into the global economy over the past decade). Despite these major differences between the four countries in

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their economic structures and progress in reforms, they all have in common an investment climate that favors connected businessmen and discourages competition, as well as the entry and exit of inefficient firms. Credibility of each government in its commitment to reduce the rents in their respective economies (whether rents benefiting private entrepreneurs or state-owned enterprises) is weak. Looking forward, the Bank could develop joint technical assistance activities in the four countries on topics of common interest such as trade legislation and rules of origin. It could also play a leading role in identifying and quantifying issues related to lack of competition, arbitrary policy implementation and policy uncertainty in the Maghreb countries. These sensitive themes are central to unlocking private sector dynamism in all four countries, which the Bank could help bring to the forefront of each country's policy priorities.

2. **Skills Development.** While the Maghreb countries have made excellent progress in building their human capital base, they still need to achieve a better match between the supply of skills and the demand of their national and regional labor markets. This endeavor requires the overhaul of their technical and vocational education and that of their training systems (TVET) as well as the modernization of the Maghreb universities to raise them to the European standards of quality and governance. Through the Marseille Center for Mediterranean Integration, there is a unique opportunity for the Bank to work with partner organizations and countries to harmonize qualification frameworks for technical and professional skills across the Mediterranean region. Similarly, there is an opportunity to develop widely recognized academic and professional standards for universities, and to develop partnership arrangements between Northern and Southern institutions. The achievement of these goals would raise the quality of the human capital in the south of the Mediterranean space,

facilitate labor mobility across borders and accelerate the delocalization of jobs in the Maghreb.

3. **Active labor market programs (ALMP.)**

Currently, all Maghreb countries offer a menu of ALMP to facilitate individual (re)insertion into the labor market. The offer usually contains wage subsidies, the facilitation/financing of start-ups, and training and job intermediation. Tunisia has made impressive efforts to evaluate its performance and streamline these programs; rigorous evaluations are underway in Morocco; and Algeria has requested Bank support to evaluate its ALMP portfolio. Both Morocco and Tunisia are already in the middle of an overhaul of their ALMP portfolio to shift towards modern case management, profiling, and synergies with related institutions (e.g. of lifelong learning). The Bank is uniquely placed to facilitate international knowledge transfer in this area, for both evaluation and policy design. In the future, given Tunisia's relatively advanced reforms, a South-South exchange of knowledge is an option the Bank also intends to promote.

4. **Social Insurance.** The Maghreb countries traditionally combine a strong protection of jobs with a relatively weak protection of the revenues of the unemployed. It is administratively difficult, and sometimes costly, to lay off workers for economic reasons. Once laid off, the unemployed have limited or no revenue protection. For example, in Tunisia, only those with previous permanent contracts have access to a dedicated insurance. The default recourse, for the large numbers on term or informal contracts, is some minimal revenue assistance or start-up facilitation. When available, pension systems tend to be unrealistically generous and many pension funds in the region are already running annual deficits. The Bank is well placed to respond to recent demands for support in these areas, and to facilitate knowledge transfer from successful reformers, such as Chile.

5. **Further integration into the Euro-Mediterranean economic space.** Economic integration holds a huge potential for job creation in the Maghreb. The health sector provides a powerful illustration of what could happen. With the right policies and investments, the quality of care in the Maghreb could become competitive and offer a realistic and efficient alternative to European health care systems, which are under increasing pressure to control costs. This would create “good quality employment” for thousands of qualified and unemployed health care professionals in the Maghreb. A harmonization with Europe of the qualification standards of trained health professionals could also create mutually beneficial migration flows. This is already happening on a small scale and there is wide recognition of the potential for development.

Country Perspective

Tunisia. The Tunisia strategy for employment creation emphasizes the importance of the service industries, which have the potential to generate large numbers of medium and highly skilled jobs. The reform and development of the service industries will follow the same pattern as the successful industrial reforms undertaken during this decade: modernization of the legal and regulatory framework, investments in efficiency gains, liberalization of trade, and integration with Europe through the adoption of European norms and production standards. In addition, the Government has just issued a new decree to reform the framework for ALMP policies.

The 5-year Development Plan of 2010-2014, currently under preparation, aims to articulate the policies and investment programs that support this strategy. The Plan emphasizes the interaction and articulation between **Growth, Employment and Skills Development**, and aims to set up the foundations for a knowledge economy. It recognizes the need for highly skilled human resources and proposes to enhance the education and training system, and to promote innovation and research and

development. To promote higher growth and private investments rates, it proposes three strategic policy areas:

- Deepening the structural reforms that have promoted the global integration of the Tunisian economy over the past 15 years;
- Transitioning into a high value-added products and services based economy;
- Continuing to promote income distribution, and equity of opportunities and services for the entire population.

The Bank is ready to engage in a multi-sectoral support to address the issues related to skills development, science and technology and innovation, active Labor Markets and Social Protection measures for the unemployed. To achieve greater donor harmonization, the Bank will partner with the EU, which is in the process of preparing a 60 million Euro grant to support employment. The CPS discussion may also lead to a request for a skills and employment DPL.

Morocco. The Moroccan Government and the private sector adopted a “*Pacte National pour l’Emergence Industrielle 2009-2015*,” which defines the shared responsibilities of the State and the private sector for developing 6 priority industries (off-shoring services, car, space and aeronautic, electronic, textile and leather and agro-business). The *Pacte* also aims to strengthen competitiveness in all sectors, including in tourism and construction. This strategy is expected to result in the creation of 220,000 jobs, which would lead to a significant reduction in urban youth unemployment. However, the success of the *Pacte* will largely depend on a strengthened human capital base, which has been identified by Moroccan business associations as a key constraint to investment and growth. A pension reform/social insurance TA is ongoing. A Skills Development and Labor Market Project integrating higher education, TVET, labor market policies and social protection reforms is being discussed as part of the CPS preparation. Such an operation could support key reform initiatives as follows:

- Education and training. Since 1999, the Government has embarked in a comprehensive reform of the education and training system but its implementation encountered delays. The 2009-2012 Emergency Plan, recently approved, aims to put the reform back on track and is supported by multi-donor financing, including a \$100 million Bank loan (currently being negotiated). Higher education reforms concentrate on (a) improving quality and relevance to labor market needs in order to reduce unemployment among university graduates; (b) the promotion of research to meet the needs of a knowledge-based economy; and (c) system improvement (governance, human resources and M&E, etc.). In addition, an Emergency Plan for TVET was developed by the Ministry of Labor and includes *inter alia* measures to improve the supply, quality and relevance of programs to the emerging sectors.
- Labor markets. The Ministry of Labor is engaged in a series of reforms and actions aimed at: (i) increasing the impact of active labor market programs through better evaluation and improved design; (ii) strengthening the quality and scope of intermediation services; (iii) developing a better understanding of the dynamics of the labor market to inform education/training/retraining contents; and (iv) facilitating labor mobility through income rather than job protection.
- Social security. Finally, the Government is keen on expanding its social security system (currently covering only 27% of the labor force), and on reforming the pension system to lower the high tax wage and increase sustainability.

Algeria. The Bank has been engaged in multi-year technical assistance programs to strengthen the Algerian pension system and foster employment creation. The work on pensions has included actuarial training using the PROST model and an analysis of the main sustainability issues and options for reform. At the request of the Government, the Bank prepared a policy note assessing recent trends in the labor market, current labor market regulations and existing active labor market programs, and an analysis of income protection systems for workers in Algeria. A second policy note assesses the barriers to job creation and training provision by the private sector and the relationship to fiscal constraints. The Bank has recently received a request from the Government of Algeria for reimbursable technical assistance for, among others, impact evaluation of policies and an analysis of safety nets and subsidy impacts.

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