1.

LABOUR SUPPLY: DRAGGING ISSUES AND LIMITED POLICY RESPONSE

1 KEY FINDINGS

Before the COVID-19 pandemic, the region needed 33.3 million new jobs to be created between 2020 and 2030[11] to reduce the unemployment rate to 5 per cent	Training systems and curricula are not in line with the needs of the labour market, leading to a significant skill mismatch	Labour force participation rates (LFPRs) have generally remained stagnant since the 2000s with the female labour force participation rate remaining the lowest in the world
The increase in female labour force participation by just 1 per cent over the period 2000-2019, was matched with rising female unemployment	The Arab region has the world highest unemployment rates among youth and females	64 per cent of of total employment in the Arab region is informal, with poor working conditions and limited job stability

As a result of the COVID-19 crisis, nearly one third of the employed population in the region is facing high risks of layoff or reduction of wages and/or hours of work

1. Labour Supply: Dragging Issues and Limited Policy Response

A. Overview

As global economies are hit hard by the COVID-19 pandemic, the Arab region is struggling to respond to the repercussions of the crisis on the labour market that have only exacerbated pre-existing challenges and structural labour market deficits. Prior to this global health crisis, the Arab region already had the world's highest aggregate unemployment rate, with limited jobs and deteriorating job quality. Young people have been particularly disadvantaged with an aggregate youth unemployment rate of 26.4 per cent compared to 10.3 per cent among their adult counterparts.[2] At the same time, considerable gender disparities have long existed in the Arab labour markets, with the labour force participation rate of women significantly lower than that of men. This has been largely driven by cultural norms and values and the lack of decent employment. On average, women have been 2.6 times more likely to be unemployed than men.[3] Reaching full employment as targeted by Goal 8 of the Sustainable Development Goals (SDGs) is a tough endeavour for Arab economies, which are already experiencing detrimental setbacks due to COVID-19 in this respect. Long-term unemployment has reduced the will among Arab youth and females to participate in the labour force and to seek job opportunities.

The majority of employed persons work in the informal economy. The growing levels of informality in the region can be explained by political instability and governance failure, which have led to weakly targeted sectoral policies, weak economic conditions and limited private-sector development. Informal activities delay structural transformation and diversification, lower productivity and slow down the growth of the formal SMEs in the Arab region. Protracted armed conflicts in the region have further exacerbated informality and have caused job losses for many workers from affected countries, who have escaped to safer neighbouring countries.[4]

B. Demographic shift

One of the main challenges facing most Arab economies is the creation of jobs that offer decent wages for their growing populations. Given the interrelation between population growth (across different age brackets) and the labour force, we look at the population pyramid of the Arab world in three different points of time. In 1960, the high share of young people aged 0-14, depicted

[1] ILO calculations based on ILO modelled estimates, November 2019.

[2] ILO modelled estimates, November 2019.

[3] Ibid.

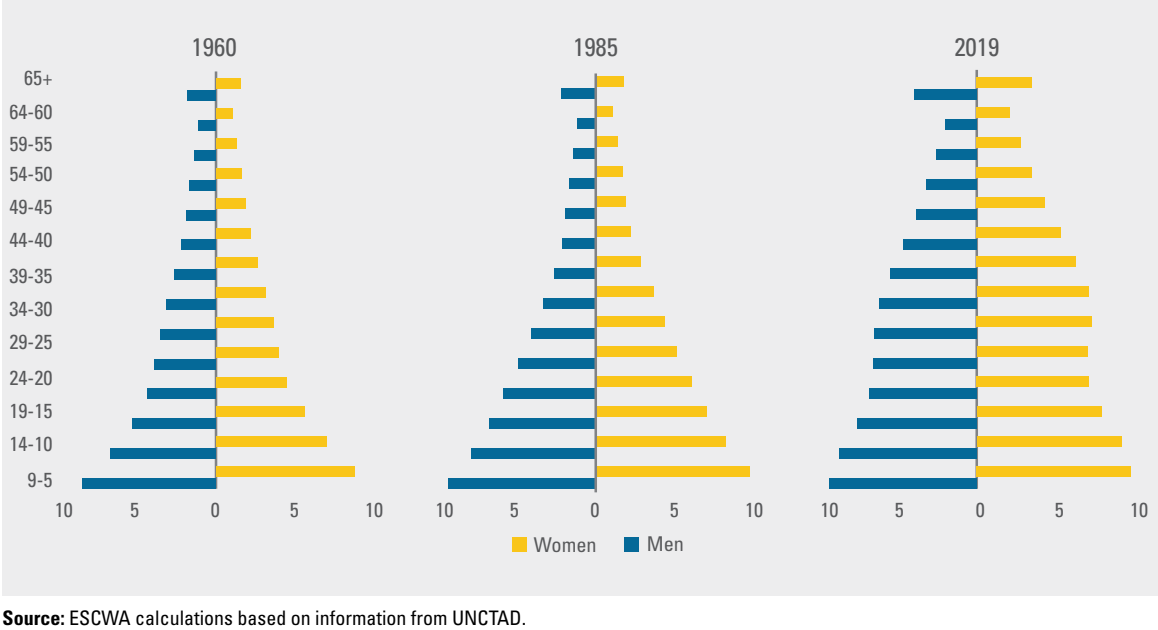
[4] United Nations, 2015. World Economic Situation and Prospects 2015.

by a wide base of the pyramid, was driven by high birth and fertility rates. In 1985, the decline in birth rates was not sufficient to significantly reduce the size of the expansive base, while at the same time older cohorts became more populous. In 2019, older cohorts represented higher shares of the population, although the 0-14 group remained the largest among all population groups. The demographic shift between 1960 and 2019 increased the size of the working-age population; however, without any particular increase in the size of the labour force, especially among the younger population group and women. Interestingly, Algeria, Lebanon, Morocco, and Tunisia are experiencing a "fast rate of aging", with the share of people above the age of 60 increasing faster than any other age group.[5]

As depicted in the graphs, the constantly growing working-age population of the Arab world calls for an equally growing number of jobs. According to these figures up until 2019, it is estimated that the region needs around 33 million jobs[6] to ensure an unemployment rate of 5 per cent by 2030, without factoring in the impact of the COVID-19 pandemic. If the aim is to also increase the female labour force to match participation levels similar to those in middle-income countries, the number of jobs needed could even reach 65 million.

Yet, with the emergence of the COVID-19 crisis, all earlier scenarios and proposed numbers needed to attain SDG 8 of the 2030 Agenda on decent work and economic growth have to be revisited. Current policies, that aim at creating jobs in response to the increasing size of the working-age population, will not suffice to accommodate those millions of workers who have lost their jobs or are left with reduced hours of work and/or earnings because of the pandemic. A new set of policies and measures needs to be developed targeting those individuals most affected by the crisis to enable them to sustain a decent life. This applies to all Arab countries, members and non-members of the Gulf Cooperation Council (GCC).

Figure 1. Demographic structure of Arab States, by age and sex, 1960, 1985 and 2019



Source: ESCWA calculations based on information from UNCTAD.

[5] United Nations Department of Economic and Social Affairs (UNDESA) Population Division, 2019.

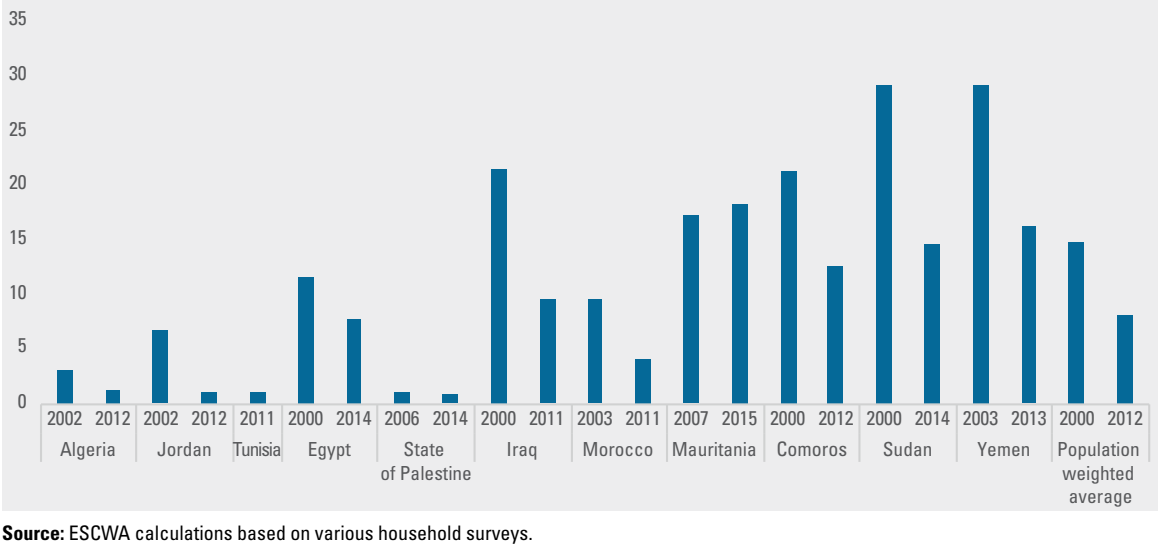
[6] ILO calculations based on ILO modelled estimates (November 2019).

C. Education and skills mismatch

According to household surveys such as the Pan Arab Project for Family Health (PAPFAM), the Multiple Indicator Cluster Survey (MICS) of the United Nations Children's Fund (UNICEF) and the Demographic and Health Survey (DHS), most Arab countries have made significant progress in eradicating illiteracy. Countries with relatively high levels of illiteracy on the one hand, including the Comoros, Iraq, the Sudan, and Yemen, are converging towards full literacy at a slower pace compared to other countries. On the other hand, Jordan and Morocco managed to reduce their illiteracy rates by 80 per cent and 58 per cent, respectively, within 10 years. Completion rates in the region remain an issue at the primary, secondary and tertiary levels of education, especially in least developing countries (LDCs) and those affected by conflict.

In addition to insufficient completion rates, the quality of education remains an issue. Assessing educational quality using fourth-grade 95th percentile math and science scores of the Trends in International Mathematics and Science Study (TIMSS),[7] Arab States score lowest compared to all other participating countries from East Asia and Latin America. Because of political instability and the low level of development compared with other countries, it is not surprising that Yemen has the lowest scores in both math and science. What is surprising, however, is that Kuwait, Morocco and Tunisia remain far below international norms.[8] Further, despite the particularly low quality of education in the region relative to other countries with similar income levels, spending on education remains low as demonstrated in the national budgets of many States.[9]

Figure 2. Children aged 6-15 years who have never attended school, by year and country (percentage)



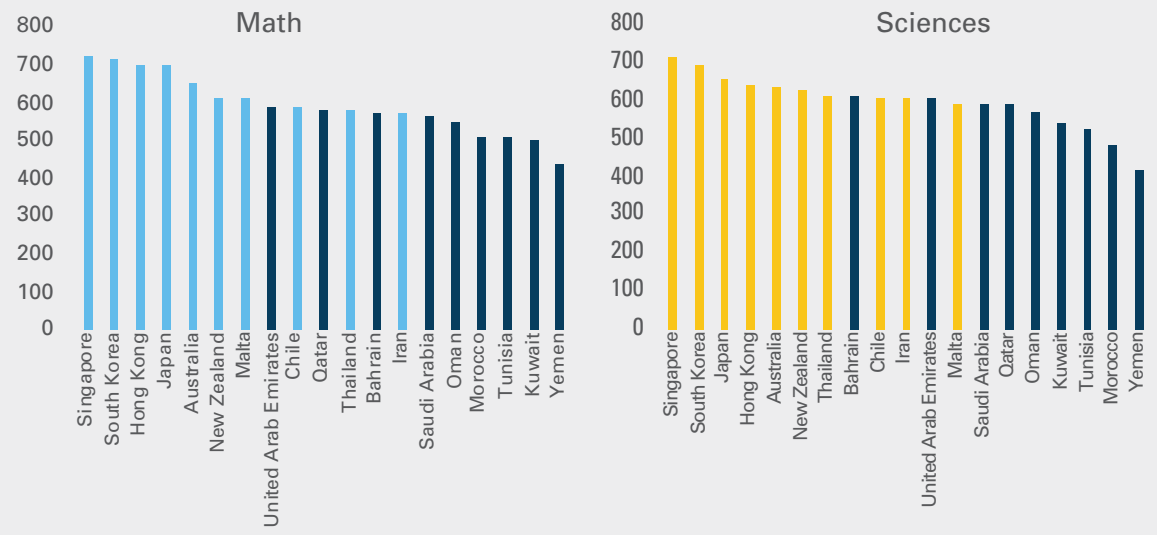
Source: ESCWA calculations based on various household surveys.

[7] TIMSS is a large-scale assessment designed to inform educational policy and practice by providing an international perspective on teaching and learning in mathematics and science.

[8] While these countries have long prioritized education, serious shortcomings related to the quality of their educational systems still exist. These include qualifications and teaching skills of school teachers and professors; quality and relevance of educational curricula; geographical focus of educational institutions (in Tunisia for example, the unfair geographical distribution of schools and universities is a main obstacle to raising the quality of education in the country); and educational facilities and infrastructure.

[9] Since 1970, Arab countries allocated only some 5 per cent of the regional gross domestic product (GDP) to education.

Figure 3. TIMMS distribution of fourth-grade 95th percentile, 2011



Source: World Development Indicators.

The recent COVID-19 pandemic has further exposed the weaknesses of the education system in the region, at least in terms of infrastructure, access to technology and teachers' skills. The attempt to shift to e-learning has been challenging, amplifying inequality in access to education in the Arab world. Increased investments in education will be critical as the world will become increasingly IT-dependent, requiring capacity-building for teachers, reforms of curricula and increased investments in infrastructure.

Skills mismatches in the Arab world likely occur for the following reasons:

- Poor quality of education and irrelevance of educational and training systems to the labour market, which is itself driven by imperfect information in the educational system and the lack of involvement of the private sector in the design of education and training curricula. According to ESCWA calculations based on data from the World Bank's Enterprise Survey, almost 40 per cent of firm owners claim that the inadequately educated work force is an obstacle in the Arab region;
- Lack of career guidance and orientation towards relevant fields of education;
- Individual preferences for working in the public sector and investing in skills suitable for public-sector jobs, irrespective of the skills needed by the private sector;
- Unfair access to education: many individuals cannot afford access to quality education that would enable them to get value-added jobs in the labour market;
- Imperfect information in the labour market: suitable workers and firms have difficulties finding each other;
- Creation of low-quality jobs requiring low skills and minimal education, influenced by the growth of informal non-productive jobs.

Together, these factors explain why higher levels of education in the region do not necessarily translate into more and better employment opportunities. Constraints exists on both the demand and supply side, which need to be carefully addressed to harness the benefits of increased investment in education.

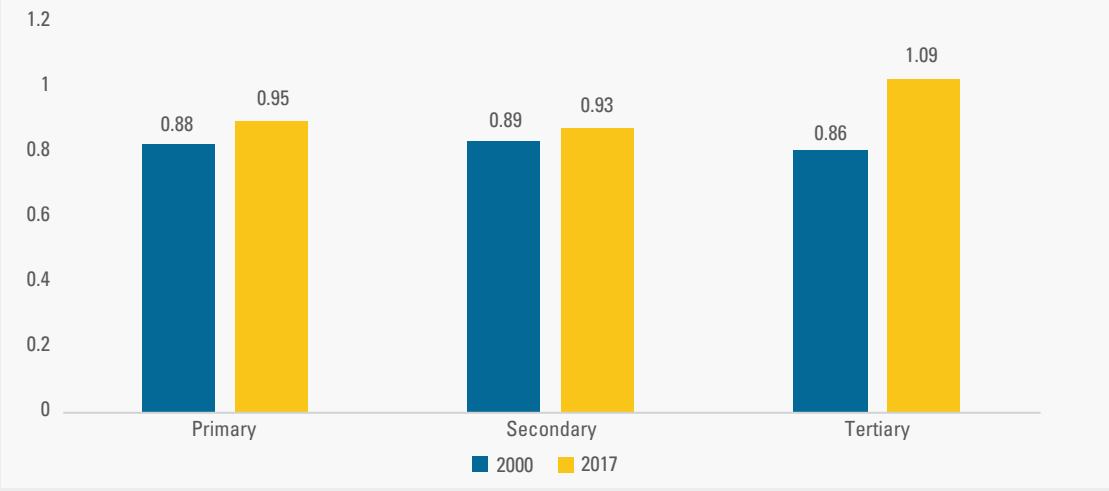
As stated in SDG targets 4.a and 4.c, Arab States should aim at "building and upgrading education facilities that are child, disability and gender-sensitive and provide safe, non-violent, inclusive,

and effective learning environments for all".[10] Furthermore, they should consider "increasing the supply of qualified teachers, including through international cooperation for teacher training in developing countries, especially for least developed countries".[11]

Box 1. Gender gap in education

Education policies in the region have largely narrowed the gender gap at all levels of education, particularly at the tertiary level, where in 2018, the gross enrolment ratio of women exceeded that of men. While literature commonly emphasizes the positive impact of increased education on employment opportunities, the Arab region faces a paradox. The increased education levels do not correlate with more and better employment opportunities, especially among women whose educational performance has significantly improved over the years, yet has not positively affected female unemployment, as we will see in future sections.

Gender Parity Index in gross enrolment ratios, 2000-2017



Source: UNESCO Institute for Statistics database.

Based on the Human Development Index 2018, the gender gap in education persists globally, not only in the Arab region. On average, Arab women have access to 6.2 years of education, which is roughly equivalent to the number of years required to complete primary education, while Arab men, on average, access 7.7 years of education (figure below). The recent waves of conflict and displacements in the Arab region, coupled with economic hardship, have adversely impacted educational attainment for everybody. In conflict-affected countries and their neighbouring States, women face added risks based on prevailing sociocultural perceptions such as child marriage. Child marriage remains highly prevalent in several least developed and conflict-affected countries, which explains the high female dropout rates, especially at higher educational levels, [a] lowering their future employability prospects.

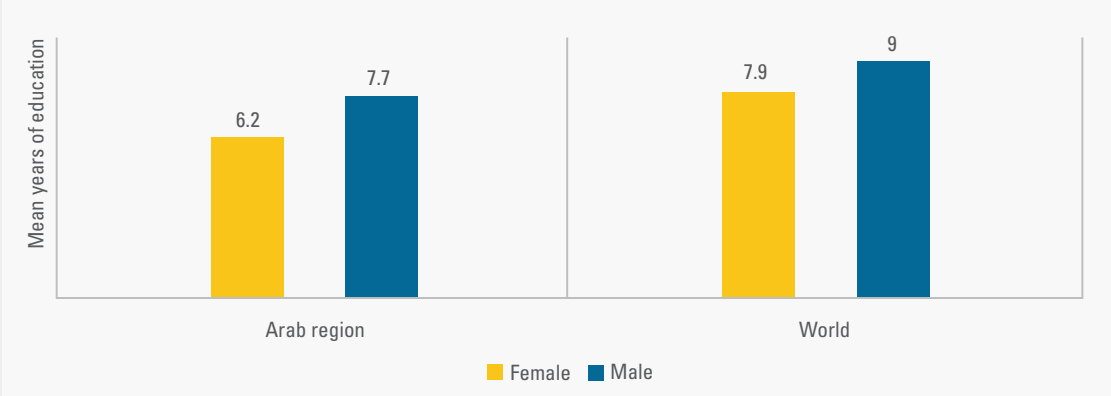
According to the United Nations Educational and Scientific Organization (UNESCO), at least a completed lower secondary education is required in the Arab region to have sufficient foundation skills for a decently remunerated job.[b] In a similar vein, some scholars argue that there exists a non-linear U-shaped relationship between female educational attainment and labour-market participation, especially in developing countries.[c] Women with no education, on the one side, and those having completed secondary or even higher education, on the other, are more likely to join the labour force compared

[10] SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

[11] Ibid.

to women with elementary and intermediate education levels.[d] Women with secondary and higher education participate in the labour market because of higher income incentives. Education might increase a woman's chance of getting a decent job; yet, much remains to be done to improve the quality of education for both men and women, particularly as the Arab region still lags behind the world average (figure below). To facilitate access to the job market, educational reforms should put quality of education among other factors. The private sector can offer further hands-on training that facilitates the school-to-work transition, thus feeding into SDG 4 targets, which aim to provide relevant skills and quality education for men and women equally.

Average years of education by sex



Source: United Nations Development Programme (UNDP), 2018.
Notes: a International Centre for Research on Women (ICRW) and World Bank, 2017. Economic Impacts of Child Marriage: Global Synthesis Report.
b UNESCO, 2013.
c Verick, 2018; Chamlou and others, 2011; Khawaja and others, 2009.
d Khawaja, M. and others, 2009.

D. Labour force participation rates

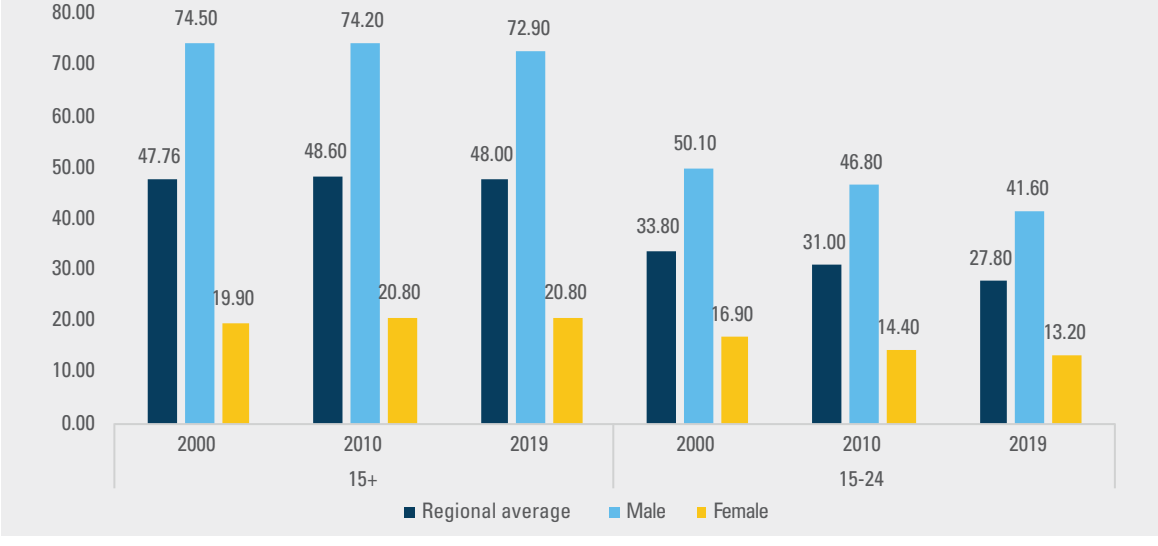
According to the ILO definition, LFPR measures the proportion of a country's working-age population, namely, individuals aged 15 years and above, who engage actively in the labour market. The average LFPR in the Arab region is lower than the global average, mainly due to the low participation rates among Arab women (men are almost as active as their global peers). Figure 4 shows that participation rates have generally remained stagnant since the 2000s, with only female participation rate increasing by just 1 per cent to remain the lowest in the world, at 21 per cent (compared with 74 per cent for men) in 2019. This was despite the fact that the Arab region's income more than doubled between 2000 and 2019 in real terms, and the proportion of those aged 15-64 increased from 57.7 per cent to 62.3 per cent of the total population.

As Arab youth are spending more time in education and training than before, LFPR for youth (aged 15-24) is much lower than for other age brackets and has been decreasing over the years; the regional average fell from 33.8 per cent to 27.8 per cent between 2000 and 2019. LFPR for young women decreased from 17 per cent in 2000 to 13.2 per cent in 2019. While this may partly

reflect the increase in educational attainment, especially for women, it also reflects the State's failure to create opportunities and ease the school-to-work transition. All these factors, along with the staggering high level of long-term unemployment among youth and females, reduced the hope of Arab youth to find a decent job and pushed them to either join the informal sector or be economically inactive.

The current pandemic will aggravate youth participation in the job market even further. Data show that LFPRs among youth have fallen significantly worldwide due to the COVID-19 crisis.[12] Official estimates for the Arab region are not available; yet, the difficult situation for job searchers and the drastic increase in job destruction and layoffs is expected to affect the labour market in the region, especially for youth. .

Figure 4. Labour force participation rates in the Arab region, by sex, 2000, 2010 and 2019



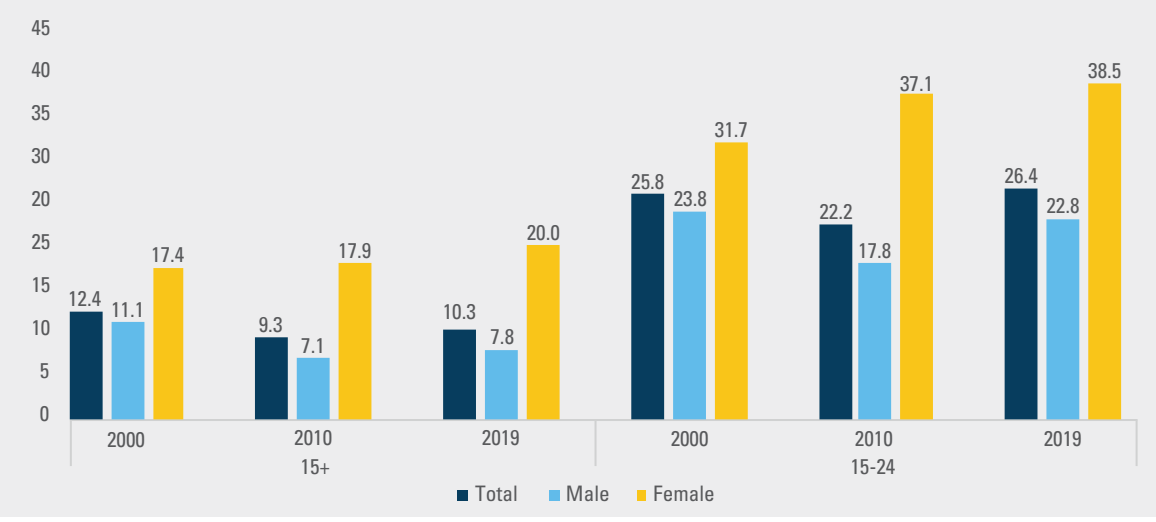
Source: ILO modelled estimates.

E. Unemployment rates

Based on ILO estimates, the unemployment rate of men (15+) is significantly lower than that of women, whose rate increased from 17.4 per cent in 2000 to 20 per cent in 2019, 2.6 times the unemployment rate for men (figure 5). This significantly high unemployment rates among women (15+) are driven by the growth in their labour force participation that was not matched with jobs that are secure, decent and culturally acceptable in many societies. In fact, the 2.76 per cent average annual increase in female labour force over the period 2000-2020 was accompanied by an average growth of 3.4 per cent in unemployed women. In general, the political and economic instabilities in the last 10 years have further aggravated the situation, resulting in lower economic growth in the non-GCC States and lower job creation capacities in all sectors. Also, political instability alone was the most significant issue behind lower female economic inclusion mainly when it comes to employment and entrepreneurship in fragile and conflict-affected countries.

[12] ILO, 2020a.

Figure 5. Unemployment rates in the Arab region, by sex, 2000, 2010 and 2019



Source: ILO modelled estimates (November 2019).

Youth unemployment figures in the region are the highest worldwide. Over the past decade, the average youth unemployment rate has increased from some 22 per cent in 2010 to some 26 per cent in 2019 (figure 5), with female youth unemployment even approaching 40 per cent. In addition, the region is suffering from incredibly high rates of long-term youth unemployment, registering for instance, 36 per cent in Tunisia, 60 per cent in Morocco and 80 per cent in Egypt. If youth remain unemployed for too long, they might eventually stop looking for work altogether, drop out from the labour force and disappear from unemployment figures. Without concerted efforts to reduce unemployment in the region, the number of unemployed persons is expected to rise from 14.3 million in 2019 to 17.2 million in 2030.

Furthermore, it is estimated that a total of 39.8 million individuals in the Arab region are employed in sectors that are identified as most-at-risk (table 1), suggesting that almost one third of the employed population in the region is in high risk of being laid off or facing reduced wages and/or hours of work. Following the COVID-19 crisis, and according to the ILO nowcasting model,[13] during the first quarter of 2020, working hours in the Arab region declined by an estimated 2.2 per cent (equivalent to approximately 3 million full-time jobs, assuming a 48-hour working week), compared to the pre-crisis situation, namely, the fourth quarter of 2019. For the second quarter of 2020, the equivalent estimates indicate a much sharper decline, with a loss of 19.5 per cent of the hours worked compared to the last pre-crisis quarter;[14] that is equivalent to 23 million full-time jobs. As for the third quarter of 2020, 12.8 per cent of working hours are estimated to be lost, equivalent to 15 million full-time jobs.[15]

[13] ILO, 2020a.

[14] For all 22 countries in the Arab region, no high-frequency economic data are used in the model, hence the estimates are based on an extrapolation based on two measures, namely, stringency of Government response and observed mobility declines. The estimates therefore are affected by substantial uncertainty and can be subject to important revisions. For more information on the estimates, please check the appendix of ILO, 2020a.

[15] Values are rounded to the nearest million. The equivalent losses in full-time jobs are presented to illustrate the magnitude of the estimates of hours lost. These losses can be interpreted as the estimate of the reduction in hours worked assuming that those reductions were borne exclusively and exhaustively by a subset of full-time workers, and the rest of workers did not experience any reduction in hours worked. These figures should not be interpreted as numbers of jobs actually lost or as actual increases in unemployment.

These figures add to the 14.3 million unemployed individuals recorded in the region in 2019.

While women are less represented in the high-risk sectors compared to their male counterparts (21 per cent of all employed women are working in these four sectors compared to 34 per cent of men), it is worth noting that almost half of those working in human health and social activities are women and thus at the frontline of the fight against COVID-19. As a result, they are forced to spend more hours at work, in addition to increasing care work and household responsibilities.

Table 1. Employment at risk in the Arab region, by sector, 2020

	Risk level	Employment (thousands)			Sectoral share
		Total	Male	Female	
Agriculture, forestry and fishing	Low-medium	25,262	18,524	6,738	19.9
Mining and quarrying	Medium	1,373	1,299	74	1.1
Manufacturing	High	12,395	10,507	1,887	9.8
Utilities	Low	1,225	1,147	78	1
Construction	Medium	16,537	16,371	166	13
Wholesale and retail trade; repair of motor vehicles and motorcycles	High	18,876	16,826	2,050	14.9
Transport, storage and communication	Medium-high	9,033	8,634	399	7.1
Accommodation and food service activities	High	3,734	3,341	392	2.9
Financial and insurance activities	Medium	1,179	918	260	0.9
Real estate, business and administrative activities	High	4,789	4,112	677	3.8
Public administration and defence, compulsory social security	Low	11,721	10,088	1,633	9.2
Education	Low	9,251	4,736	4,514	7.3
Human health and social work activities	Low	3,814	1,994	1,820	3
Other services	Medium-high	7,549	4,740	2,809	6
Total		126,736	103,238	23,498	100

F. Informal employment

In the Arab world, 64 per cent of total employment is informal. Informal work is expected to increase while Governments lack both the right policy mix to reduce informal employment and the appropriate tools to measure informal employment and its impact on productivity, poverty and overall economic growth. ILO has adopted the following common operational definition of informal employment:

Own-account workers (without hired workers) operating an informal enterprise are classified as in informal employment. Similarly, employers (with hired workers) operating an informal enterprise are classified as in informal employment. All contributing family workers are classified as having informal employment, irrespective of whether they work in formal or informal-sector enterprises. In the case of employees, informal employment is defined in terms of the employment relationship that should not be, in law or in practice, subject to national labour legislation, income taxation, social protection, or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, and others). In practice, the formal or informal nature of a job held by an employee is determined on the basis of operational criteria such as social security contributions by the employer (on behalf of the employee), and entitlement to paid sick leave and paid annual leave.[16]

Many scholars link informal employment to the lack of economic and institutional governance.[17] Others consider the lack of incentives to formalize and point to the equal access to public goods between the informal and formal sectors. In general, these factors are evident in many countries in the region. For instance, informality mainly results from a combination of weak public services, a restrictive regulatory regime and a low capacity of the State in monitoring and implementation, as is the case in Algeria, Egypt, Jordan, and Lebanon, for instance. Certain conditions prevalent in the Arab region fuel informal employment even further, which include the following: demographic change, which represents a major challenge for such countries as Egypt, Jordan, Lebanon, the State of Palestine, and the Syrian Arab Republic; the prevalence of conflict and political instability, namely, in Iraq, Libya, the State of Palestine, the Syrian Arab Republic, and Yemen, impacting the political stability of seven other countries, namely, Egypt, Jordan, Lebanon, Saudi Arabia, the Sudan, Tunisia, and the United Arab Emirates; low fiscal and monetary stability due to low oil prices affecting GCC countries; and low economic growth, and jobless growth, in non-oil-producing nations. As a consequence, many Arab citizens are pushed into the informal sector as their only option to earn a living.

Furthermore, a weak regulatory framework limits private-sector development and overall growth. Following the Arab Spring, regulatory quality deteriorated in many countries impacting competition rules, investments, including foreign direct investment (FDI), subsidies, environmental regulations, trade, and the overall business climate. The low quality of education limits people's ability to switch from informal to formal jobs and may also limit the quality of research and development (R&D) innovations.

Data also reveal that TFP in Arab States is lower than in other countries with similar income levels. Insufficient governance in many countries in the region results in tax evasion, which increases the incentive to operate within the informal sector even further. Some countries have experienced improvement in the past years, such as Qatar and the United Arab Emirates. However, many Arab States are still below the 50th percentile ranking globally, and the Arab region has one of the lowest ratios of tax revenues to GDP worldwide.

In light of the COVID-19 crisis and with 89 per cent of all individuals in informal employment in the region estimated to be significantly impacted by lockdown measures, formalization becomes an even more pressing issue.[18]

[16] ILO, 2018.

[17] Estrin, S. and M. Prevezer, 2011.

[18] ILO, 2020b.

G. Policy recommendations

1

To reform educational programmes, and develop effective active labour market policies, particularly for the youth. Arab Governments need to address the issue of skills mismatch through a holistic approach that aims to reform the education system and consider overhauling the curriculum, inculcating creative and critical thinking, raising competency in the subjects of science, technology, engineering and mathematics (STEM), investing in teacher training and facilities, increasing involvement of the business sector in curricula design and delivery, and greater investment in career counselling and guidance. Investments in public employment services and active labour-market policies (ALMPs) also need to be boosted in the short run to ensure the successful transition for youth from school to work.

2

In response to the COVID-19 crisis, to develop policies that support businesses and individuals to provide income to the most vulnerable and support business continuity. Income support, direct employment creation, occupational safety and health (OSH) measures, support to enterprises, along with other interventions aimed at easing the repercussions of the crisis on workers and employers are key. At the same time, Arab Governments need to address structural challenges and devise medium- to long-term policies aimed at addressing the various challenges that have hindered for years decent employment creation in the region. These include policies to support formalization, private-sector development, structural transformation, promotion of gender equality and youth employment, improved education, and better skills matching and career counselling, amongst others. Developing coordinated policy frameworks and comprehensive national employment policies remain key as these can ensure effectiveness of the various supply-and-demand side policies and can optimize employment and labour-market outcomes.

3

Arab countries, to encourage additional formalization through pro-employment macroeconomic frameworks, well designed pro-poor tax systems and inclusive social protection programmes. All this should not happen at the expense of short-term job loss in the informal sector, particularly those jobs that are providing badly needed livelihoods. Mitigation policies to help maintain livelihoods during the transition from informal to formal sectors should be implemented. Progressive tax policies should substitute heavy reliance on indirect taxation.