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MORE AND BETTER JOBS: EMPLOYMENT CREATION AND ENTREPRENEURSHIP

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European Training Foundation

ECONOMIC STRUCTURE AND EMPLOYMENT DYNAMICS

Unemployment rate in the Southern Mediterranean (SEMED¹) countries is the highest worldwide, with rates ranging from 9.4% in Morocco to 22.5% in Palestine (2017 or LAD, ETF KIESE). Unemployment hits particularly hard youth and women, and even more young graduates: although more educated than ever, graduates find it very hard to get jobs in the region that are in line with their level of education and skills. This often pushes them to accept jobs which are below their skills level (when available), to remain out of the education and training and labour market systems or to migrate. High youth unemployment constitutes a loss in productivity, generates high opportunity costs and low return on education investments. Fewer than one in two people works in the region, mostly due to the extremely low participation of women to the labour market.

Unemployment and inactivity in the region are linked to both the economic structure and the demographic challenge experienced by the different countries. On the one side, **job creation over the past decades has been limited and concentrated in low productivity sectors**, mostly within the **informal economy** (up to 79.9% of workers in Morocco are informal, 2010, ILO) and requiring low or medium skills level. This had a number of negative effects on the economy, on the society and on workers (loss revenues, unfair competition, low economic performance, poor working standards, job insecurity, etc.). On the other side, almost half of the population in the region is constituted by youth (46.5% under the age of 24, ETF, KIESE²), which offers a window of opportunity while at the same time putting high pressure on labour markets.

Looking at recent employment trends within the countries, **a shift in the economic structure and sectors** is noticeable. Data signal a common decrease of employment in agriculture and manufacturing (however, still very relevant especially in Morocco and Egypt), with an increase in services (60%, ETF KIESE). As this trend is expected to continue, it implies a need to prepare young people also for new jobs and occupations. Most of people in the regions work as employees (up to 87.6% and 84% respectively in Israel and Jordan, 2017, ETF KIESE), while employers constitute just a minimal part of total workers (below 10% in all countries, with women employers being less than 2.5%, ETF KIESE). The public sector remains the largest employer in the SEMED countries: the overreliance on public sector employment – traditionally absorbing the rising number of university graduates – constitutes a major problem for the countries, as young people tend to seek or wait for jobs which would give them higher benefits and security rather than accepting jobs in the private sector.

The **informal economy continues to be a structural feature** in the region and has been persistent over the years: formal employment constitutes a core element of economic and social dynamics of all countries, accounting for a significant share of their GDP and employment (up to 79.9% of informal workers in Morocco, 2010, ILO). For many people (but not for all), informality plays a critical role in alleviating poverty and social hardship, in particular for those with low or no education. For many disadvantaged groups, such as women, young workers, persons with disabilities, indigenous people

¹ The note refers to the following SEMED countries: Morocco, Algeria, Tunisia, Egypt, Lebanon, Jordan, Israel, Palestine. Data for Libya are not available and not included in the statistics mentioned.

² Average data in the report are based on latest available data.

and migrants work in the informal economy represents the only way to escape extreme poverty. This trend towards higher levels of precarious and informal employment has become a critical impediment to realizing decent work as a global development goal: indeed, a large informal economy is often associated with lower GDP per capita, a negative impact on the state budget due to the foregone revenues, and an unfair competition with formal enterprises that undermines their productivity and economic performance. Informal economy also has important negative consequences on individuals, as there is a high correlation between informal employment and poor working conditions such as long working hours, poor earnings, lack of social security protection, low productivity, lack of access to training and lack of legal protection and rights at work.

Global links, competitiveness and innovation

From a trade perspective, the region continues to be **the least integrated in the world**. The share of interregional trade counts to very low share of countries total trade (for instance, less than 5% in the Maghreb countries, according to a very recent IMF report, 2019), which is substantially lower than in all other regional trading blocs around the world. This is due to a number of factors, including geopolitical considerations and restrictive economic policies.

While intra-regional exchanges remains limited, **SEMED countries are relatively well integrated in the global economy and their economic interdependence is growing**. Countries increasingly participate in Global Value Chains (GVC) (in particular Israel, Egypt, Morocco and Tunisia), especially in sectors such as agriculture, processed food products, plastics, textiles, metal products, electronic equipment and motor vehicles. As integration in GVC is usually directly related to GDP per capita growth (ETF, 2018), growing connections to third countries seems to be a promising factor for national development. The share of exports of goods and services is gradually increasing in some countries (Algeria, Morocco and Palestine, with export counting respectively 23%, 34% and 18% of their GDP³), while decreasing in the others. Remittances continue to contribute substantially to national economies, especially in the case of Palestine and Lebanon (15% of GDP, 2017, UNDP). After the drop experienced in 2011, foreign direct investments continue to be moderate and experience fluctuations (highest investments in Lebanon and Israel, 5% of GDP, 2017, UNDP), but with encouraging upward trends across almost all countries.

³ Latest available year between 2017 – 2011, World Bank database.

TABLE: EXPORTS AS % OF GDP (2017 OR LATEST AVAILABLE YEAR), GDP SHARE OF TOTAL TRADE (EXPORTS AND IMPORTS) 2017, GDP SHARE OF NET FDI FLOWS 2017, GDP SHARE OF REMITTANCES 2017, GNI SHARE OF NET OFFICIAL DEVELOPMENT ASSISTANCE FLOWS 2016

Countries	Exports as % of GDP 2017-2011	Total trade as % of GDP 2017	Net FDI flows as % of GDP 2017	Remittances as % of GDP 2017	Net ODA as % of GNI 2016
Algeria	23.2	60.4	1.0	1.23	0.1
Egypt	13.2↓	44.8	3.1	9.57	0.6
Israel	31.3↓	58.4	5.4	0.28	-
Jordan	37.6↓	92.6	4.2	11.06	7.1
Lebanon	26.9↓	70.0	5.3	15.34	2.3
Morocco	34.3	83.5	2.4	6.27	2.0
Palestine	18.4	74.2	1.4	14.78	15.7
Tunisia	40.7↓	99.9	1.7	4.73	1.6

Table: Exports as % of GDP (2017 or latest available year), GDP share of total trade (exports and imports) 2017, GDP share of net FDI flows 2017, GDP share of remittances 2017, GNI share of net official development assistance flows 2016

Regrettably, with the exception of Israel, **global competitiveness, innovation capacity and digital readiness remain limited**. However, some improvements can be noticed, as a result of currency depreciations in Egypt and Tunisia and the implementation of some policy reforms to leverage information and communication technologies, to take advantage of the digital economy and to boost national trade.

TABLE: RANKINGS OF COUNTRIES IN GLOBAL COMPETITIVENESS INDEX (2017-2018), GLOBAL INNOVATION INDEX (2018) AND DIGITAL READINESS INDEX (2018)

Country	Global Competitiveness Index (2017-2018) (1)	Global Innovation Index (2018) (2)	Digital Readiness Index (2018) (3)
Algeria	86	110	77
Egypt	100	95	72
Israel	16	11	20
Jordan	65	79	47
Lebanon	105	90	NA
Morocco	71	76	66
Palestine	NA	NA	NA
Tunisia	95		

Source: (1) WEF Global Competitiveness Index 4.0 (GCI) 2018, with ranking among 140 economies. (2) The Global Innovation Index (GII) 2018 rankings, which provides detailed metrics about the innovation performance of 126 countries by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO), <https://www.globalinnovationindex.org/>. (3) Cisco 2018, Country Digital Readiness which ranks 118 countries, <https://www.cisco.com/c/dam/assets/csr/pdf/Country-Digital-Readiness-White-Paper-US.pdf>

Role of SMEs and entrepreneurship trends

Large part of economic activities in the region is based on **small and medium enterprises** (SMEs), which provide most of the jobs available. Business with less than five employees dominate the private sector in Egypt and Palestine, representing almost 60% of employment (IMF, 2018). This is also substantial in Jordan and Tunisia (between 35% and 40%, IMF, 2018). Most SMEs have limited productivity capacity and are mostly informal, with absence of social security and safety nets, income fluctuations and high dependency on seasonality.

The entry of new firms in the formal sector is low compared to international standards and business tend to remain small and generate few jobs, which indicates issues related to the access to finance, legal protection, but also macroeconomic stability, level of skills and competition framework. A few fast-growing firms (so-called gazelles⁴) generate a high share of jobs in all countries: while gazelles represent a very small percentage of formal sector firms, they account for almost three-quarters of total net job creation in the region, and in some countries (e.g. Egypt) they more than compensate for the loss in employment among other firms (IMF, 2018).

As in the rest of the world, **entrepreneurship** in the region is widely understood as a means of “growing the pie”— i.e. increasing economic activity, creating more jobs and producing more income for more people. However, as quality matters more than quantity in entrepreneurship, it is important than countries set conditions to develop well-functioning entrepreneurial ecosystems, to support the best entrepreneurs, not necessarily the most. In fact, while in the region there are quite high density of entrepreneurs, few are really producing added value and generating jobs: according to the Global Entrepreneurship Monitor, entrepreneurial activities are very spread across countries (up to 43% of working age population in Jordan who is about to start or has started an entrepreneurial activity in the last three and half years), however only limited activities are able to create wealth and are able to grow⁵.

The **social economy**⁶ (so-called third sector) is a growing segment of the regional economy and it substantially contributes to improving the wellbeing of local communities. In some countries, eg. in Morocco, Tunisia and Algeria, the social economy has largely evolved due to the cooperation between the government, local development associations, international donors and state agencies, to form and rapidly expand the co-operative movement across multiple sectors such as in agriculture and fisheries but also health and care. Co-operatives have become an important tool to mobilise and empower rural populations facilitating their integration into the market.

⁴ Gazelles are firms that start with at least five employees and double their employment over a three-year period. Such companies are usually created by exploiting new market niches and offering novel products, services, or processes that have few competitors or substitutes.

⁵ According to the Global Entrepreneurship Index 2016 (measuring only productive and scalable entrepreneurship), in the SEMED region only Israel and Lebanon performs well or fairly well in this regard (respectively ranking 21 and 50 out of 132 countries in the world), while the others show very low performance. Across countries, entrepreneurs still face major difficulties both when starting their own business or expanding and scaling up their venture. In particular, challenges are reported in marketing products and services, finding funding, recruiting people with the right skills and finding partners to expand to new countries and markets.

⁶ The social economy refers to enterprises and organizations (cooperatives, mutual benefit societies, associations, foundations and social enterprises) which produce goods, services and knowledge that meet the needs of the community they serve, through the pursuit of specific social and environmental objectives and the fostering of solidarity (ILO).

POLICIES AND ACTIONS

In such a context, the fundamental challenge for the region is to **create more quality jobs** and make them available to all. Being aware of this, all countries have started to explore **SMEs support and entrepreneurial initiatives** as ways to support job creation, inclusive economic growth and formalisation. According to the latest Small Business Act (SBA) assessment (OECD, ETF, 2018), SEMED countries are stepping up their efforts to improve business statistics (e.g. through the establishment of SMEs Observatories in Jordan and Morocco), to strengthen coordination among SMEs policy actors, including at high and technical level, and to establish public private dialogue platforms that are representative of various types of SMES and entrepreneurs (e.g. Algeria and Tunisia, although still at an early stage). Moreover, some countries are also putting in place the building blocks of comprehensive SMEs policies (Israel and Morocco), while others are making progress in developing a SMEs strategy (Jordan).

Actions have been taken to **improve the business environment**, especially to ease the time and cost of starting a business (Morocco, Tunisia, Egypt), introducing one-stop registration, simplifying bankruptcy procedures and using e-government technologies. Measures have been also taken to allow better access to finance, expanding mobile banking and providing special programmes for women (eg. Jordan). However, access to funds remains a major impediment to set up a business in the region. A number of measures have also been adopted to foster SMEs growth, such as the expansion of business development services in Lebanon and Palestine, the introduction of comprehensive programmes for entrepreneurship (Morocco) and the facilitation of SMEs access to public procurement and exports.

Several initiatives have also been taken to **increase exports and market diversification**, including the adoption of exports strategies (e.g. Algeria, Egypt, Palestine), the signature of new agreements (e.g. the EU-Jordan agreement on rules of origin), the adoption of measures to finance SMEs (Israel) and to digitalise trade procedures (Morocco). Together with the signature of the 2018 agreement to establish the African Continental Free Trade Area (ACFTA)⁷, these actions are recognizing the importance of trade for growth and job creation.

Countries are also progressing well in developing policy frameworks to develop an **entrepreneurial human capital**, with the acknowledgement that improving youth employability and promoting entrepreneurship through education could boost employment and generate more jobs. In particular entrepreneurial learning – although still focused on the development of business skills rather than considered as a key competence – has been introduced in different countries, such as in Jordan (“My Entrepreneurial Project”), Tunisia (ongoing production of a national Entrepreneurial Learning Charter) and Israel (guidelines for teachers). Special prominence has been devoted to **women entrepreneurship** in Algeria, Jordan and Lebanon, where specific actions to promote women entrepreneurs have been included in major policy documents and governments’ plans. Specific training and support for women have been developed in Egypt (as part of the Women’s Strategy 2030), Tunisia, Israel and Morocco.

⁷ The ACFTA was signed in 2018 by 44 African countries to establish a continental free trade area, which – if ratified - would create the largest free trade agreement aimed at liberalizing intra-African trade of goods and services.

TRANSFORMING CHALLENGES INTO OPPORTUNITIES

Boosting private sector development and supporting job creation require a large range of economic and social policies and the involvement of a broad number of actors. A **comprehensive approach to job creation** includes actions aimed at increasing labour demand, improving the quality of the labour supply (and the employability of the workforce) and enhancing the matching between the available jobs and skills, while supporting overall the transition toward the formal economy.

Youth in the region and women have a tremendous potential to boost growth if given the opportunity. The stronger global economy also offers a window of opportunity to the region, as more sustained growth rates are expected in the coming years. However, stronger action is needed from the side of Governments and other actors to adopt and implement reforms. Making the region more competitive and resilient, fostering expansion of the private sector and promoting policy dialogue among public and private actors require strong political will and readiness to change socio-economic structures in the countries. Education and training are important elements to generate good jobs, build stronger economies and develop an entrepreneurial mindset.

Demand side policies

Greater regional integration could facilitate intraregional trade and exchanges and could, in turn, generate millions of jobs and support entrepreneurs scaling up their businesses. Companies across the region would greatly benefit from easier access to neighbouring markets, while improving their market position. This would make the region more attractive to foreign direct investments, increase the efficiency of resource allocation, reduce the costs of intraregional trade, and also make countries more resilient to exogenous shocks (IMF, 2019). Greater regional integration could also facilitate greater integration in GVC, with SMEs being able to upgrade their position in the chain, while generating jobs.

Promotion of competitiveness: this would require a considerable amount of reforms in the business environment of SEMED economies, in addition to supporting easier financing and to reducing entry barriers. Alternative funding sources, such as venture capital funds, angel investors, crowdfunding and accelerator programmes could also be explored to support business growth. Leveraging technology and innovation could potentially attract foreign investments to diversify national economies.

Private sector support and entrepreneurship: the private sector can play a vital role to provide access to market for youth and women. Many positive examples exist already, but need to be further boosted to bring reforms forward. Efforts need to be devoted to improve the working conditions and standards in the private sector (ie. through labour legislation and social dialogue), so to make it more attractive. Specific counselling services and training programmes, together with management and finance support, mentoring and hiring incentives could be set up to support the entry in the labour markets of young entrepreneurs and during the start-up phase of their companies, to avoid their early mortality and losses.

Investments in key economic sectors: investing in specific economic sectors entails strategic choices that go beyond the mandate of employment and labour authorities, as it requires decisions linked to the broader national development strategies. Whether a country decides to support job rich sectors (e.g. agriculture, retail, hospitality, textile, etc.) or sectors with the highest potential for growth (ICT, health care, green economy, etc.) or both, pros and cons need to be considered and actions

need to be foreseen to respond to the challenges that they generate (ie. incentives, working arrangements, wages, new curricula, reskilling, adaptation, etc.).

Promoting women employment: the economic potential of widening women's inclusion in the labour market is wide. Strengthening institutional and legal rights (and making them effectively applicable), ensuring access to finance and targeted support, fighting stereotypes about the role of women in the economy, providing tax incentives, and ensuring better childcare facilities could all be important measures to reduce the gender gap and promote the role of women as business leaders and employers. However, holistic approaches need to be developed to support women's entrepreneurship. These would include also the collection of gender disaggregated data on women to allow the design of tailored policies, and specific mentorship, coaching, and network support.

Supply side policies

Enhanced dialogue with education authorities based on reliable and transparent information: close dialogue between employment and education stakeholders is fundamental to co-design policies and curricula that are in line with labour market needs and that can ensure that young people are ready to adapt to changing contexts and evolving labour market requirements. Strong monitoring of economies, labour markets and education systems is needed to increase the relevance of education and training, so to prevent skills depletion, underutilisation and brain drain.

Entrepreneurial learning: education is key to foster socio-cultural changes to set up pro-entrepreneurship eco-systems. More efforts should be devoted to include entrepreneurship in all curricula as a key competence, to instil in all people an entrepreneurial attitude characterised by a sense of initiative and proactivity. The European Entrepreneurship Key Competence Framework (EntreComp) could be a valuable tool to inspire policies and training measures at national level.

Matching and intermediation policies

Improved job intermediation and Active Labour Market Policies (ALMPs): in a context of multiple transitions, the role of intermediation services becomes more and more important, not only to guide and advice youth entry in the labour market but also to provide specific support throughout adult life. Innovative forms of placement services could be explored, to accompany and complement the work of public employment agencies. Stronger ties between job seekers and employers' could be established, to allow minimization of job mismatch and smoother recruitment procedures. Among ALMPs, entrepreneurship support programmes could receive special attention, particularly through continuous businesses' support.

Horizontal issues

Transition toward formalisation: given the lack of formal employment opportunities, informal employment is for many (but not for all) a survival strategy against poverty. However, more needs to be done to facilitate formalisation, including a broad range of actions such as financial incentives, review of labour inspections and training opportunities for informal workers. Holistic approaches have to be explored, with a renewed attention to skills development in the informal economy, as a tool to build "virtuous circles" to fuel innovation, technological change, enterprise development and competitiveness. Deeper understanding about different groups of informal workers and their determinants would be important to develop targeted training.

Strengthened partnership: due to its complexity, employment creation requires well structured institutional frameworks and strong mechanisms of policy coordination and consultation. This entails cooperation between governments' entities and agencies, with the close involvement of social partners and the private sector, in particular. The role of social partners is crucial to develop joint development strategies and visions, aiming also at promoting the progressive formalisation of the national economies. Comprehensive public private dialogue platforms could be established to allow the participation of private sector associations, non-governmental actors, donors' agencies and other actors that could contribute to policy change and implementation.

ISSUES FOR REFLECTION

- How could countries balance between the need to support economic sectors which are job-reach and others which are more innovative and have a greater growth potential but generate fewer jobs?
- How can good entrepreneurship practices at local level be streamlined to generate impact at system level?
- What is the role of social partners in boosting job creation and supporting the transition toward the formal economy?