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**Economic Growth, Employment and Poverty in
the Middle East and North Africa**

Mahmood Messkoub

Employment and
Poverty
Programme

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Abstract:

This paper provides an assessment of economic growth, employment and poverty reduction in the Arab Middle East and North Africa (MENA) region. Despite steady economic growth in most Arab MENA countries the region achieved very modest gains in reducing poverty or increasing employment. Poverty and unemployment, especially among the young, are widespread in the region. Employment per se has shown to be a partial answer to the question of poverty. The majority of the poor (using the static concept of poverty line, e.g., \$1 per head per day) are working in rural areas and in low productivity activities. The 'growth-employment-poverty nexus' has not been sufficiently successful in alleviating poverty in the Arab MENA mainly because of low growth elasticities of employment and low integration of the poor, because of for example lack of skill, in the labour markets where new jobs are created. Yet the importance of employment and secure return to labour (whether it is termed a decent wage or a living income) cannot be over-estimated. What is needed above all is an employment policy that puts the emphasis on strengthening the growth-employment nexus by promoting job creation and improving the access of the poor to such jobs. At the same time more targeted poverty reduction policies are needed that should not only improve the income earning opportunities of the poor but also raise their incomes. Anti-poverty policies should also be put in place to provide support for a large number of people who are just above poverty line and thus vulnerable to poverty in case of minor deterioration in the macroeconomic conditions or their poverty stricken household economy. MENA countries that have been successful in tackling poverty and vulnerability have relied on a range of policies: macroeconomic stability, pro-poor short-term employment policies (through labour intensive public work projects and by focusing on sectors where poor are concentrated) and improving opportunities for the poor in order that they would benefit from employment growth (improving 'integrability' of the poor). These countries have also improved the health, education, housing and sanitary conditions of the poor by increasing their social expenditure, and by putting in place income support measures and by maintaining subsidies on goods consumed by the poor. Finally successful anti-poverty policies have also improved the access of the poor to financial (through micro finance) and other productive resources such as land.

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Preface

The primary goal of the ILO is to contribute with member States to achieve full and productive employment and decent work for all, including women and young people, a goal which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,¹ in the Employment Policy Convention, 1964 (No. 122),² and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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¹ See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

² In 1964, ILO Members adopted Convention No. 122 on employment policy which states that "With a view to stimulating economic growth and development, raising levels of living, meeting manpower requirements and overcoming unemployment and underemployment, each Member shall declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment".

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

The role of productive employment in reducing poverty through a better transmission of the benefits of economic growth to the poor is widely recognized. Recent studies (both within and outside the ILO) provide a good deal of empirical evidence on the nexus of economic growth, employment and poverty reduction. And yet, for many countries and regions of the world, there is an absence of such studies. The countries of the Middle East and North Africa (MENA) region fall in that category. The purpose of the present paper is to contribute towards filling this gap by presenting an empirical analysis of the linkage between growth, employment and poverty reduction in selected countries of that region.

The paper finds that the elasticity of employment with respect to economic growth has been generally low in the MENA region. It also points out that employment per se would be only a partial answer to the issue of poverty unless productivity and returns associated with the jobs are improved. In addition, the access of the poor to better jobs would need to be ensured through access to financial and other productive assets (e.g., land) and through education and skill development. The paper also points out that a large proportion of the non-poor are found just above the poverty line who are vulnerable to shocks of various kinds that affect the macro-economy and the households. Policies are needed to address the needs of such groups as well.

The present paper forms part of the outputs of a joint ILO-UNDP programme on “Employment for Poverty Reduction”. Funding provided by the UNDP for activities under that programme is gratefully acknowledged.

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1. Introduction

This paper is concerned with the role of economic growth and its employment outcomes in providing solutions to the problems of poverty and unemployment in the Arab regions of Middle East and North Africa. It starts with an overview of macroeconomic condition, poverty and vulnerability in the MENA region. It then goes into a brief discussion of the labour market situation in the region looking at factors affecting labour supply and demand and the problem of unemployment, and youth unemployment in particular, in the MENA region. It will be argued that whilst unemployment is high in the region, it does not necessarily mean that all the unemployed are poor. To the extent that poverty is caused by lack of employment or poor returns to labour as a result of low productivity an employment policy of job creation that is combined with improving productivity and increasing return to labour could reduce poverty. However, an employment policy on its own will not be sufficient to tackle other deep rooted problems of poverty, deprivation and vulnerability. The fourth section discusses issues related to the links between economic growth, employment and poverty reduction, the so called ‘employment-poverty nexus’. It will be argued that the ‘employment-poverty nexus’ critically depends on employment elasticities in various sectors. It will be shown that the current data on the impact of growth on employment reveals that employment has responded very slowly to growth and that governments can not rely on growth alone to solve either the problem of employment or poverty and vulnerability. This of course does not mean that economic growth has no role to play in the reduction of unemployment, poverty and vulnerability. In other words economic growth is necessary, but it is not sufficient to rely on economic growth to achieve the multiple objectives of unemployment, poverty and vulnerability. Some of the current policies in the MENA countries to tackle unemployment and poverty will be discussed in section five, and an attempt will be made to provide a summary of best practices.

While looking at the experience of Arab MENA countries in dealing with unemployment and poverty, one should, at the outset, bear in mind their diversity and heterogeneity. The Arab and other MENA countries contain a diverse set of economic, geographic and political entities that share a cultural heritage, some prominent features of which are a common language and religion (mainly Islam, though not exclusively so). This diversity and heterogeneity requires country specific approaches to the design and implementation of employment and anti-poverty policies – ‘a one size fit all’ approach should be avoided.

2. Economic growth, poverty and inequality: An overview

This section reviews the main macroeconomic developments in the Arab MENA countries with a focus on key macro indicators, structural transformation and poverty indicators. The MENA region is comprised of a range of countries with diverse social and economic histories and resource base. Taxonomy of economic development and structural transformation of these countries would provide a helpful framework for the policy options discussions that will come later in the paper. A framework that lays down the markers for the constraints

that Arab MENA countries face for finding solutions for problems of unemployment and poverty.

A useful taxonomy of MENA region countries has been provided by Richards and Waterbury (1996). Their taxonomy also covers countries that are not in list of Arab MENA that would be interesting to keep in the background for comparative purposes. Their taxonomy is fundamentally based on the resources – natural and human - available in the country. Let us begin with (1) Small countries that are only rich in oil: Libya, Kuwait, Oman, UAE, Bahrain and Qatar. These have very small markets and little resources to diversify their economies, notwithstanding the fact that Dubai in UAE has been successful in developing a vibrant entrepot sector and, more recently, a tourist industry. Immigrant labour from poorer countries of the region as well as the Indian subcontinent has been crucial to the development of these sectors in Dubai as well as the economy of this group of countries. (2) The oil industrialising countries of Iran, Algeria, Saudi Arabia and Iraq (whose fortune has dramatically changed since its change of regime a few years ago) that have substantial oil reserves and other natural resources as well as sufficiently large population allowing them to diversify their economies. Iran and Algeria have been more successful industrialisers than other countries in this group though they still rely heavily on oil for their export earnings. (3) The ‘small’ natural resource poor countries of Israel, Jordan, Syria and Tunisia that have been relatively successful in diversifying their economies through education and skill development and developing a sizable manufacturing sector. (4) The newly industrialising countries (NICs) of Turkey, Egypt and Morocco have either no oil (Turkey and Morocco) or insufficient amount (Egypt) that cannot be relied on for long term growth strategy. All have sizable populations and reasonably strong agricultural sector with potential for future growth. (5) In the poorest category are Sudan and Yemen that rely on mainly agriculture and some oil export as in the case of Sudan or on agriculture and worker remittances who work in the oil rich countries of the region as in the case of Yemen.

It has to be reiterated that the above taxonomy should *not* be treated like a map with clear demarcated boundaries, but as a general guide as to the constraints facing the Arab MENA countries. Let us now turn to a macroeconomic view of these countries.

Appendix table one provides a snapshot view of recent (since 1980) macroeconomic situation in a selected numbers of MENA countries for which consistent data have been available. Most countries except Algeria and Sudan have experienced a steady real GDP growth for much of the past 20 years. If we ignore the exceptionally high growth rates of 1980 for Egypt, Jordan and Syria, the average annual growth rates were in the range of 4 – 6 per cent. These are respectable rates of growth that should have helped the countries in question to attend to some of the urgent needs of the population such as provision employment and alleviation of poverty.

As will be demonstrated later, these countries achieved very modest gains in reducing poverty or increasing employment. For example, whilst real GDP per capita recorded modest increases from 1980 to 2003, the real GDP per person employed have been far more modest in most countries. In fact, the growth of real GDP per person employed were very low or even negative in some countries (see Appendix Table 2).

With regard to other basic macroeconomic indicators, real per capita GDP in constant US dollar has also increased in all countries, with inflation being brought down from double digit figures of the early 1980s to a single digit by 2000.

In broad terms, the macroeconomic situation looks rather healthy. There is no runaway inflation in the countries under study, public finances seem to be under control and under the guidance and pressure of international financial institutions and sections of the local elite, all countries have opened up (*Infitah*)⁵ their economies, in various degrees, to market forces at internal and international levels. Given the increasing role of private sector and integration of MENA countries in the world economy it would be useful to consider forces that shape this opening up. According to Richards and Waterbury (1990) 'Infitah' should be seen as the outcome of three interacting set of forces: class actors, often fostered by earlier state-led growth policies; serious economic difficulties, generated both by state-led growth policies and by the international conjuncture; and pressure from international actors...[that] does not mean that the public sector is about to be dismantled...[nor] state ceding to "civil society". Rather than a *retreat* of the state, *infitah* is better conceived as a *restructuring* of state activity, always mediating between society and international actors, still responsible for the basic welfare of the population, and continuing to formulate the goals and strategy of economic development and structural change.' (261)

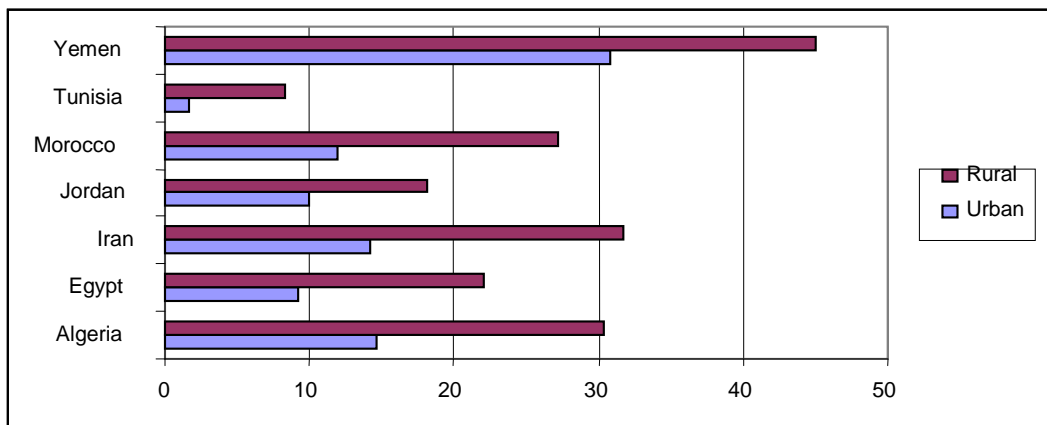
These developments have taken place against the background of structural transformation of Arab MENA that has been under way for quite some time. Industry and service sectors have long replaced agriculture as the main source of contribution to GDP. By 2004 the share of agriculture in GDP in most countries under study had dropped to less than 20 per cent. Agriculture in Sudan had the highest share – 39 per cent, followed by Syria – 23 per cent (see Appendix Table 3). But in most countries agriculture employs a sizable proportion of the labour force despite its low contribution to GDP. In Egypt, for example, about 27 per cent of the labour force were employed in agriculture in 2002, whilst agriculture accounted for only 15 per cent of GDP (see Appendix Tables 7 and 12). The corresponding figures for Morocco were 43.9 per cent (share of employment) and 16 per cent (share of GDP). In Syria, the figures are 30.3 per cent (share of employment) and 27 per cent (share of GDP). Among the Arab MENA countries, Yemen has the highest percentage of labour force working in agriculture – 54.1 per cent with a low contribution of agriculture to GDP – 14 per cent. In Jordan, agriculture accounted for only 3 per cent of GDP in 2004 but employed 11 per cent of the labour force (ILO, 2006, and see Appendix Table 3 and 4). In Algeria, agriculture accounted for 10 per cent of GDP in 2004 but 12.2 per cent of employment.

The upshot of the above figures is that a large proportion of population working in agriculture has to rely on a proportionately low share of GDP for its livelihood, and that would have implications for the incidence of poverty among the rural population. The data on poverty reveals that in most countries under study poverty rates are higher in rural areas than in urban areas.

⁵ For an excellent discussion of comparative macroeconomic study of *Infitah* and other macroeconomic issues of MENA see Richards and Waterbury (1990).

Appendix table 3 provides data on poor population for some of the Arab MENA countries and their distribution between rural and urban areas. According to the national poverty line, 22 per cent of Algerians were considered to be poor in 1998. According to a similar indicator in Egypt 16 per cent of population were poor in 2000. Corresponding figures in other countries were: 19 per cent in Morocco in 1999, 35.4 per cent in Yemen in 1998 and 7.6 per cent in Tunisia in 1995. In all countries a larger proportion of the poor were living in rural than in urban areas. In Tunisia, for example, four times as many poor were living in rural areas than in urban areas. In Morocco, more than twice as many poor were living in rural areas in 1999 than in urban areas. (See Figure 1)

Figure 1: Rural versus Urban Poverty Rates in Selected MENA Countries, 2000.



Source: Iqbal, F (2005) Sustaining Gains in Poverty Reduction and Human Development in the Middle East and North Africa. World Bank. Figure 1.9, P. 18.

The scale of poverty in some of these countries increases if we use an international poverty line of the percentage of people below \$2 a day. The percentage of people below poverty line in Egypt in 2000 jumps dramatically to 43.90. The corresponding figure for Tunisia in 1995 is 12.7 per cent. But in other countries, apparently there is not much of a gap between the national and international criteria since the percentage of population who are poor does not change much when the international poverty line is used.

As far as Jordan is concerned, only studies that use international poverty line are available. According to the \$2 criterion, proportion of the population who were poor in Jordan in 1997 were 7.4 per cent, but another source (ILO, 2006) reports a higher poverty rate of 21.3 per cent for 1997. The same source also reports a higher incidence of rural poverty compared with urban areas, as observed in other countries. Despite the difference in headcount poverty rates, both sources agree on the reduction in poverty – by 2002 Jordan experienced a 33 per cent drop in poverty rate.

An important aspect of the inter-relationship between poverty and employment in the developing world is the poverty of the employed people whose earnings are not sufficient to provide them for their most basic - survival - needs of nutrition, sanitation and health (that is usually measured by an absolute poverty line of say \$1 or \$2 per day). The number of the working poor rises if we use the more appropriate measure of relative of poverty (that takes account of distribution of income and expenditure as well as capability to participate in the society by having a voice in the running of ones' affairs). In this paper the

absolute poverty measures are used since the relative poverty measures that are country specific are not available for all countries concerned.

In contrast, poverty in the developed world is more often than not associated with unemployment. However, in the 1990s in the developed world liberalisation of labour markets led to major and fundamental changes in the labour market that shifted the balance of power against labour and in favour of capital. Whilst some of the consequences of liberalisation of the labour market like reduced job security and the casualisation of work may not necessarily affect wages, they nevertheless increase the vulnerability of the employed people and affect their bargaining position that in low skill and low wage sectors could easily lead to poverty level wages, especially if household circumstances are also taken into account. For example, the poor households in the UK in the 1990s were female headed and those with low income (often single parents) and large families.

In the developing countries any employment policy must take into account return to labour if it were to have a poverty reduction objective. Evidence on the working poor in the Arab MENA is quite striking.

Appendix table 3 also provides the evidence on working poor – proportion of employed persons living in a household whose members are estimated to be below the poverty line (\$2/day). Among the Arab MENA countries in the late 1990s, Egypt and Yemen had the highest share of the working population who were poor: 71.5 per cent (in 1999) and 73.70 per cent (in 1998) respectively. In the case of Yemen there was a doubling of the share of the working poor since 1995. The lowest percentage of the working poor belongs to Tunisia at 11.90 per cent in 2000 and Jordan at 12.80 per cent; and those figures were lower than the corresponding figures in the early 1990s. Morocco and Algeria, in contrast, recorded quite high percentage of working poor – 23.50 per cent (in 1998) and 30.50 per cent (in 1995) respectively.

The poverty of the employed people could be due to many factors such as labour market conditions as well as low productivity and poor skills that in turn lead to low return to labour. An excess supply of labour often pushes wages down, which, in the absence of minimum wage regulation, could lead to the poverty of the employed people, though minimum wage is often set at too low a level to prevent people falling below the poverty line. Low productivity could also result in low returns to labour that may well push the employed people into poverty. This is often the case of the working poor who eke out a meagre living in the informal sector.

An important aspect of measurement of poverty based on poverty line is the treatment of those who are just above the poverty line. These are the people who are vulnerable to poverty because any changes in the economy (e.g. increase in inflation that will have price and income effects) would push them below the poverty line. Any anti-poverty policy that is based solely on a poverty line and does not address the problem of vulnerability fails to address the structural causes of poverty that are related to, for example, to distribution of assets, human capital and skills, ethnic/race/caste and gender discriminations.

To have a measure of vulnerability in the MENA region, let us look at the percentage of poor in population at different poverty lines of \$1, \$2, \$3 and \$4 (figure 1). Sharp increases in the percentage of the poor can be observed as we move up from \$1. The jump is most dramatic in cases of Egypt and Yemen

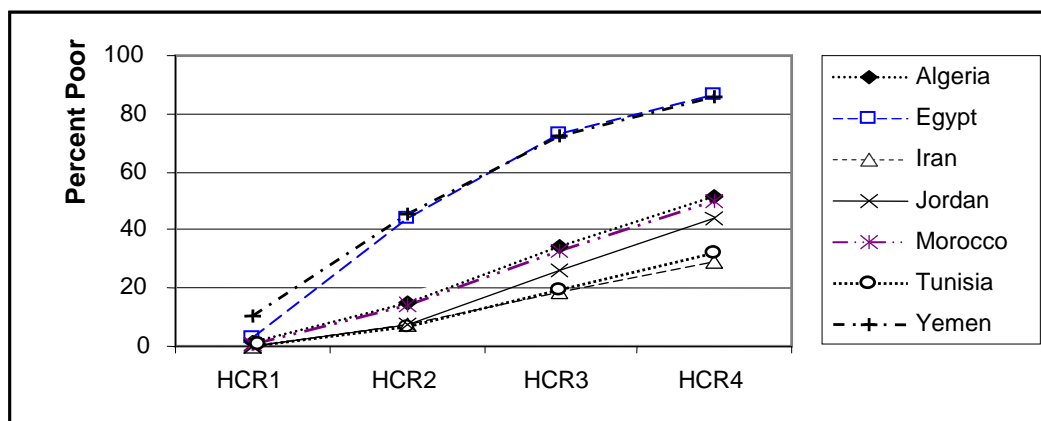
where the rates of poverty at \$1 are respectively about 3 and 10 per cents that increases to about 42 per cent for both countries at \$2. Further jumps in the percentage of the poor can be observed at \$3 and \$4 but the rate of increase declines. For the richer MENA countries the jump in the percentage of the poor is lower as we move up from \$1 to \$2 than it is for a move from \$2 to \$3 and from \$3 to \$4. In Jordan, for example, the percentage of the poor is below 5 per cent at \$1 and goes up to about 5 per cent at \$2, but then jumps to about 22 per cent at \$3 and 42 per cent at \$4.

The difference in the rate of increase of poverty in the poorer and richer group of countries may well be attributed to difference in per capita income. The higher the per capita income the sharper is the increase in the percentage of the poor as the poverty line is moved up.

The Arab MENA countries not only need anti-poverty policies to deal with the sizable number of the poor, they also need to have policies that would monitor and provide cover for the substantial number of people who are just above poverty, whatever the threshold, who could join the ranks of the poor with slightest shifts in the economy. In Syria, for example, Islam (2006) estimates that about 19 per cent are considered vulnerable and go through periods of poverty that is almost double the percentage of the people who are poor - 11 per cent (p. 27) In Egypt, in 2001, the number of the poor at \$2 was 28.6 millions that would jump to 47.6 at \$3. (See table 4 for the size of the vulnerable people in other countries). This vulnerable population of just under 20 million people should be taken into account in the design of pro-poor social policies in Egypt. At MENA level, with the use of higher threshold of poverty line - at \$3 – the number of poor rises to 95.3 million, indicating that the vulnerable population at the lower poverty line of \$2 is 43 millions.

Given that the vulnerable population in Egypt accounts for about half the vulnerable population in the MENA region, Egypt should have a strategic position in regional poverty alleviation programmes of international organizations working in the region.

Figure 2: Percentage Poor at Alternative Poverty Lines



Source: Iqbal, F (2005) Sustaining Gains in Poverty Reduction and Human Development in the Middle East and North Africa. World Bank. Figure 1.8, P. 17.

Table 1: Numbers Poor at Alternative Poverty Lines, 1987, 2001

	Numbers poor at \$2 (in millions)		Numbers poor at \$3 (in millions)	
	1987	2001	1987	2001
Algeria	2.3	5.1	6.4	11.2
Egypt	24.2	28.6	38.0	47.6
Iran	7.0	3.5	13.9	10.1
Jordan	0.1	0.3	0.3	1.1
Morocco	3.0	4.1	7.8	9.5
Tunisia	1.3	0.5	2.7	1.7
Yemen	2.2	9.5	4.4	14.1
Total	40.1	51.6	73.5	95.3

Source: Iqbal, F (2005) Sustaining Gains in Poverty Reduction and Human Development in the Middle East and North Africa. World Bank. Table 1.5, P. 17.

3. Employment and labour markets

High natural growth of population in the region has ensured a rising labour supply that has outstripped labour demand in all Arab MENA countries. Despite the recent decline in fertility rates, the population momentum has kept the labour supply on the increase – the labour force in the region has been growing at an annual rate of 3-4 per cent since the mid-1980s. High population growth of the recent past also accounts for the young age structure of the population. At least 30 per cent of population in the Arab MENA countries are below the age of 15 - a critical challenge in the region is to increase labour demand in public and private sector.

Unemployment has been a major problem in the region. In countries for which data are available the aggregate unemployment rate for males in 2003 varies between a rather low figure of 7.3 per cent in Egypt to a high of 23.4 per cent in Algeria. In between are Morocco with 11.5 per cent and Jordan with 14.7 per cent. The aggregate rates for females are in most cases higher than that for males with unemployment rate in Algeria being 25.4 per cent, in Egypt 23.2 per cent, in Morocco 13.0 per cent, and in Jordan 19.7 per cent. (See Appendix Table 4) A similar picture emerges in Syria where female unemployment is slightly higher than male unemployment, with the largest gap being at the 20-24 age group. (Islam, 2005, figure 2, p. 39)

Since 1980 the trend in male unemployment rate has been on the increase in Egypt and Jordan while that in Morocco has been relatively stable. Interestingly enough, female unemployment either has been relatively stable as in the case of Egypt or has had a moderate downward trend as in Algeria, Morocco and Jordan.

An important feature of unemployment in the region is a very high rate of youth (those in the 15-24 age group) unemployment. ILO's KILM only provides data on youth unemployment for a couple of countries in the region. In Morocco youth unemployment rates are respectively 17.4 per cent for males and 15.9 per cent for females. In Jordan youth unemployment rates are respectively 28.0 per cent for males and 43.2 per cent for females. ILO Country studies reveal that a large proportion of the young unemployed people are educated at least to secondary level. In some cases the higher the level of education the higher the unemployment rate. In Jordan female unemployment rate has been highest for those with a bachelor degree (ILO, 2006, p. 3). In Egypt both males and females

with 'intermediate' education had the highest rates of unemployment. (Laitly and El Ehwany, 2006, appendix table 9, p. 10)

Both supply and demand factors have been responsible for the rise in unemployment. On the supply side rapid population growth of earlier periods has increased the size of the labour force, especially the young, and on the demand side, economic growth and job creation have fallen far behind the labour supply. An interesting feature of labour supply in the Arab MENA is the decline or stability of male labour force participation rate (LFPR) in most countries, as against the rise, albeit modest, of the female LFPR. This is the pattern in Algeria, Morocco, Tunisia and Syria (See Appendix Table 4) that poses an important question regarding the problem of female unemployment in these countries. Labour market and job creation policies in the MENA region rarely take note of such gender difference in unemployment rates.

On the demand side it is important know growth of employment by sector in order to investigate whether sectoral distribution of employment has changed and whether a shift of labour from sectors with low productivity to those with higher productivity has been taking place, that could, in turn, help in reducing poverty. As noted earlier there has been a sectoral shift away from agriculture, but the gain in employment in the industrial sector has been very modest in most MENA countries for which data is available. Within the industrial sector the manufacturing sector employment has had a very disappointing employment record. KILM provides data for the manufacturing employment in very few (Egypt, Iran, Morocco) of the larger countries of the MENA region. In all of them, the share of manufacturing in total employment as well as the volume of employment in the manufacturing sector has been stagnant over the years. The data indicates that whatever productivity gain might have taken place in these countries, it has come about more from higher sectoral productivities (that is people in different sectors have been increasing their productivity through the use of more capital and other resources) than a shift from low productivity to high productivity sectors. But it is interesting to note that female employment in manufacturing has gone up, albeit modestly in all the countries concerned.

The service sector, which has absorbed much of the increase in the labour force in the MENA region, is composed of a diverse range of activities _ ranging from high productivity and high return sectors such as banking, insurance and finance at one extreme to very low productivity and low return street vendors on the other. To investigate whether the service sector can or will be able to play a major role in poverty reduction we need to see which sub-sectors of the service sector have been growing and have the potential to provide high productivity and high wage jobs to the unemployed and under-employed labour force. The available data for the larger countries of MENA that have the most serious unemployment and poverty problems indicate that the high productivity, high return sectors are a very small sub-set of the growing service sector, and have also been growing very slowly. The trade and small scale repair shops (motor as well as household goods) are the only sub-sectors that have been showing some sign of growth. A large proportion of this sub-sector could be considered informal with low productivity and low returns. However, it would be of interest to know the composition of this sector both in terms of products and skills as well as its linkages with other sectors in order to investigate its potential for productivity growth. Very little information is available on these aspects of the informal sector.

Finally, we should consider the labour demand of the public and private sector and its change over time. There is a large variation in the MENA region in the share of public sector employment in total employment. On the high end of the spectrum are Egypt (with a figure of 60 per cent in 1998) and Jordan (with a figure of 56 per cent in 1998), and on the low end are Algeria (with a figure of 25 per cent in 2004), Syria (with a figure of 26 per cent in 2003) and Yemen (with a figure of 11 per cent in the 2003). In all these countries the share of public sector employment has either been falling over the years or, at best, it has been fairly stable (as is the case in Syria and Jordan). The mirror image of the these figures is the private sector employment that would employ 89 per cent of the labour force in Yemen, at one extreme, and 40 per cent in Egypt, at the other. (See appendix table 19) This raises very important questions with regard to the role of public and private sectors in creating good quality jobs in the future, in particular, when one considers the pressures on the public sector finances. How to improve the capacity of the private sector to increase its supply of high quality jobs would depend on a range of factors: level of demand in the economy, government tax and subsidy policies, labour market rules and regulations, and complementarity between public sector investment (in particular in the area of education and infrastructure) and private sector investment.

4. The linkages between growth, employment and poverty

An understanding of the relationship between output growth, employment and poverty reduction – the so called ‘employment-poverty nexus’- is important for the design of employment policies to tackle poverty. The impact of output growth on poverty is mediated through several channels working at the macro level. Output growth could potentially increase government tax revenue and therefore its capacity to raise expenditure on the goods and services that are essential for poverty alleviation. In other words growth of output underpins the sustainability of a pro-poor social policy. Another macro level channel is the relationship between output growth and employment. If more people are employed to increase output, the growth in employment could take people out of poverty if it were due to unemployment. Moreover, growth in output and general improvement of the economy would lead to increased demand for goods and services that in turn raise the demand for labour and more job creation and employment.

In so far as the impact of output growth on employment is concerned the current literature tries to address the seemingly two contradictory objectives: increasing productivity or increasing employment (see, for example, Khan, 2001, Osmani, 2003, 2005, Islam, 2004). Higher productivity may indeed imply that output growth would not be linked to employment growth, other things being equal. In such circumstances, the employed poor would be paid more for producing more, with little impact on level and growth of employment. On the other hand, increasing employment could be at the expense of higher productivity. In the face of high number of the unemployed people, some of whom may not be poor, there is pressure on governments to increase employment (for example through output growth) in order to reduce open unemployment. There is of course no guarantee that the poor would have access to the newly created jobs because of their lack of skills or discrimination against them, or, in general, because of their poor integration in the labour market (Osmani, 2003).

There are, however, other forces at work. In the short run, output growth may not be associated with higher employment but over time the multiplier impact of growth on spending (on the demand side of the goods market) as well as improved profitability because of higher productivity (only part of the productivity gain is passed on to workers as an increase in return to labour, while the rest is retained as profits) would lead to increase investment and higher demand for labour, leading to higher employment.

At a more general level the response of employment to growth should also be taken into account. So long as the elasticity of employment with respect to growth of output is less than unity, job creation need not be at the expense of productivity growth. What emerges from the data on the response of employment to growth, i.e. the growth elasticity of employment, confirms the complexity of the growth-employment nexus. Everywhere in the MENA region, except Syria, growth elasticity of employment are less than unity indicating that growth of employment has lagged behind output growth (see appendix Table 8). This may not be considered a bad news from the point of view of growth in labour productivity. A closer inspection of employment elasticities reveal that agriculture in general has a better performance in generating employment than other sectors. In six countries employment elasticities in agricultural sector are larger than those in other sectors whilst in five countries (Algeria, Iran, Tunisia, Syria and Yemen) they are in fact larger than unity. This is a positive development because poverty in MENA region, as noted earlier, has a strong rural bias. However, the question remains as to whether such rates of growth of employment, on their own, are sufficient to tackle deep rooted poverty in rural and urban areas.⁶

A couple of points are in order with respect to sectoral elasticities, with important policy implication for employment creation. In agriculture, an employment elasticity greater than unity may well reflect the supply side of labour market that combined with a labour intensive agricultural techniques means higher labour inputs and higher output. In this situation, higher output results from the application of the abundant input – labour – to fixed inputs – capital and land – that at best yields higher output at a constant level of productivity (under the condition of constant returns to scale). In this context a labour intensive employment policy will not necessarily improve living standards as output per head will not increase. Here a combined policy of improving agricultural technology and channelling a rising rural labour supply to more productive sector in urban areas or non-farm sector in rural areas would be able to achieve both objectives of increasing employment and productivity (Auer and Islam, 2006).

The second point is related to the employment elasticity in the manufacturing sector. This is a reflection of demand for labour in this sector. In the presence of excess capacity in manufacturing it is more likely than not that output growth could take place without sizable increase in demand for labour and increased employment. The challenge for policy makers is to raise employment intensity of this sector while trying to maintain and increase labour productivity.

⁶ For a discussion of some of the limitations of using employment elasticities see KILM (2005), Ch. 8.

Current evidence on the impact of growth on poverty in developing and transition countries suggests that for growth to make an impact on poverty through the medium of employment, several conditions have to be in place. Growth must be oriented towards sectors with high poverty rates, the so called elasticity condition. The poor in these sectors must be in a position to take advantage of employment and increased remuneration for their labour, the so called integrability condition. If created jobs are skill intensive and poor lack these skills then obviously the poor will not be the direct beneficiaries of jobs created. Or if growth takes place in sectors where the poor are not economically active they will not be the direct beneficiaries. Growth based in the manufacturing sector will not benefit the agricultural sector directly, though over time higher return to labour in the manufacturing sector could attract labour from the agricultural sector and eventually increase returns to labour engaged in agriculture.

Another issue related to the impact of growth on poverty is changes in the returns to labour and degree to which developments in labour productivity are translated into higher returns to labour. Whilst increased labour productivity could potentially lead to higher economic growth but this does not necessary lead to higher returns to labour. It all depends on whether labour can claim a share of the expanding output.

Trends in real wages are not available for all the MENA countries and where they exist they are limited to the manufacturing sector. The available evidence suggests a declining or at best a modest increase in real wages in the 1990s and early 21st century. In the case of Algeria (1992-1996), Egypt (1982-2003), and Jordan (1995-2001) real wage registered a decline whilst in Iran there has been a modest increase between 1995 and 2001 (see Appendix Table 16). We should be cautious not to generalise on the basis of the limited evidence on return to labour, yet these trends in real wages are hardly encouraging, in particular when data on real GDP per employed persons are considered. In Egypt, for example, the index of real GDP per person has gone up by 40 per cent between 1980 and 2003. That, compared with the decline in real wages over the same period, clearly indicates that the growth of the economy has hardly been reflected in the growth of real wages. In Iran the real GDP per person employed grew by about 20 per cent between 1990 and 2003 whilst the index of real wages between 1994 and 2001 grew by 13 per cent. In Algeria and Jordan the real GDP per person employed declined by 30 per cent between 1980 and 2003 (see Appendix Table 1). These trends are also reflected in the indicators of inequality. The Gini index of inequality in Egypt went up from 0.32 in 1991 to 0.34 in 2000 and that in Iran registered a small rise between 1994 (0.43) and 1998 (0.44). In contrast inequality has declined in Jordan with the Gini in 1997 being 0.36 compared with 0.43 in 1992 (see Appendix Table 3). In short, the benefits of growth have not trickled down to large sections of the population and in particular to those in the potentially (in terms of productivity gain) most dynamic sector of the economy.

5. How to strengthen the link between economic growth and employment, and reduce poverty?

Improving employment and poverty reduction outcomes of economic growth is a policy objective with many dimensions: time horizon (whether short-

run or long-run); sectoral (which sector has to be targeted and for what objective – poverty alleviation through job creation or poverty alleviation through increasing productivity/return to labour); technological (how to manage the adoption of capital intensive technology to raise productivity given the relative abundance of labour and high unemployment), and labour market (how to ensure that the poor are the beneficiaries of job creation).

Distinction should be made between short run policies to alleviate poverty and vulnerability and long term policies to change the dynamics of poverty and vulnerability. Both have employment dimensions. But it has to be emphasised that the problem of poverty and vulnerability is not simply a matter of the right employment policy nor is it just a matter of economic growth. In this context we need first to distinguish between the short-run (one to two years) and long run (five to 10 years) policies and their impacts. Secondly, all macro-, meso- or micro-economic policies should be designed with a short-run or long-run policy objectives in mind. This is important because it is quite possible that the long-run objectives could clash with short-run impacts of a policy. For example, a long-run policy of diversification of the economic structure towards a more productive industrial and agricultural sector will not necessarily boost employment in the short-run.

In other words, there may not be much of an ‘growth-employment nexus’ in the short-run, but gradually the demand for labour pick up as the diversification of the economy takes root, growth is consolidated and demand for labour shifts to a higher level with the expansion of service and manufacturing sectors.

Such time frames are also present, implicitly or explicitly, in the policy recommendations of the country studies that the ILO initiated on the Arab MENA to alleviate poverty and increase employment. The other notable lesson of these studies is their heterodox approach to solving the problems of unemployment and poverty.

At macro level fiscal and monetary policies should be growth orientated, counter-cyclical and designed with employment and stability of prices and real incomes. Such a macroeconomic policy framework is as much as about the capacity of the state to finance its anti-poverty and vulnerability policies as it is about providing a stable macroeconomic environment that protects people’s real incomes and provides the backdrop to private sector economic activities and job creation. These objectives have not been fulfilled by the adoption of tight fiscal and monetary policies that have been based on neoclassical economic approach to the underlying causes of economic imbalance in developing countries. For example a strict monetarist approach to the problem of inflation views inflation as the result of a lax fiscal and monetary policy, paying little attention to the underlying structural features of many developing countries that have been behind the inflationary experiences of in the developing world. (Eshag, 1981) The rich literature on the debate between structuralist and monetarist approaches to the problems of inflation and other macroeconomic imbalances, has in the least established that the application of ‘one size fits all’ approach of the IMF-World Bank in the 1980s has failed to achieve the twin objectives of growth and price stability in most developing countries.

The experience of orthodox stabilisation and structural adjustment programmes of the 1980s have shown that a more nuanced approach to the problem of macroeconomic imbalance is needed, that at the theoretical level one should draw on more than one perspective whilst paying attention to the

economic and social structure of any country. This has led to the emergence of heterodox approach that has combined various elements of neoclassical, Keynesian, post-Keynesian and other perspectives to come up with practical solutions to tackle the problems of high inflation, unemployment, low growth, and balance of payments deficit.

The question of macroeconomic stability requires a clear understanding of price formation and inflationary pressure. If, as in Yemen, the source of inflationary pressure is in the agricultural sector, with food prices leading price rises in other sectors (McKinley and Mehran, 2006), a simple control of money supply will not achieve its anti-inflationary objective, whilst it may well exacerbate the unemployment problem. McKinley and Mehran (2006) have suggested a short run policy of stabilising food prices in order to dampen inflationary pressures and maintain real incomes and improve international competitiveness of Yemen in the non-oil sector. Their long run policy takes a more structuralist approach of tackling the structural bottlenecks in production through investment in infrastructure in particular, and in agriculture, to raise productivity and income.

The short-run negative impact of tight fiscal and monetary policies on employment is well known. The neoclassical orthodoxy suggests that a rising unemployment is the price of past irresponsible expansionary fiscal and monetary policies. Whilst the imprudence of populist expansionary fiscal and monetary policies cannot be denied, a simple tightening of the belt of public finance and money supply could plunge the country into severe recession as well as fail to reduce inflation. It is, therefore, advisable to rely on a more targeted approach in the short-run: control food prices but offer subsidies to producers to maintain profitability of agriculture.

Control of public finances is an issue of public expenditure as well as public income (taxes, foreign exchange earnings, etc.). Typical low ratio of tax to total government revenue in many countries (in the range of 10 – 20 per cent) is cause for concern. Tax on goods and services on the other hand provides a substantial part of the government revenue in many MENA countries – e.g., 46 per cent in Lebanon and 40 per cent in Morocco in 2004 (see table 17). Notwithstanding the regressive nature of taxes on goods and services, it is imperative that MENA countries revise and strengthen their direct taxation policy in order to increase their tax yield and invest the money on essential infrastructure schemes as well as on their prop-poor welfare projects. Poverty reduction cannot be achieved without a strong involvement of the state. The stronger state finances, the more power it has to tackle the problems of poverty and vulnerability. A more general rethinking about allocation of state expenditure should also be put on the agenda. The most important item on state expenditure that should come under scrutiny is the defence expenditure; its decline would release resources for other sectors, the social sector in particular.

As far as the ‘employment-poverty nexus’ is concerned the issues of elasticity and integrability have to be addressed in order to ensure that benefits of growth reach the poorer sections of the population. Here again, a distinction should be drawn between the short and long run objectives, and also, note should be taken of the more strategic issue of reducing poverty among the working poor by increasing their labour productivity. The conflict between maximisation of employment and maximisation of output in the short-run has been one of the dilemmas of development economics for decades.

In the short-run, as many of the country studies argue, labour intensive and low skill public work projects that would satisfy both the elasticity and integrability conditions should be on the agenda. Public works however have in general been temporary activities with the objective of alleviating social and economic distress. Besides offering temporary employment and income, particularly important during periods of distress in the region caused by, for example, floods and draughts, public works, if properly planned and implemented, will improve local infrastructure and lead to the growth and development of a region, thus leading to long term investment and job creation. Another region-wide effect of public work is the impact they have on general level of wages. Even a temporary increase in demand for labour as a result of public work projects may well lead to a tightening of labour market in the area, and that, in turn, could improve the bargaining position of the workers.

In general, successful public works projects that have the objective of providing some basic financial support to the poor should be based on two principles of self-selectivity of the poor and maximising the labour input of the project. Its timing should also be a factor. Setting the wage at or just below the minimum-wage in the area may well ensure that the non-poor would not be attracted to the project, and using labour intensive techniques would maximise the labour demand of the project. International standards require 40-50 per cent of the total costs of road projects to be devoted to labour, while the figure for road or drainage maintenance to be in the region of 70-80 per cent (Subbarao, 2003). For water, the experience of such projects in the MENA region is varied in terms of reaching the poor. In some countries like Yemen and Morocco, labour content has been as low as 30 per cent and skilled labour from outside the region has been the main beneficiary (Iqbal, 2005). However, the use of targeted public work projects has been recommended for Yemen to alleviate poverty in rural areas. McKinley and Mehran (2005) recommend targeting of small scale and labour intensive public works on rural roads and irrigation projects that, while offering some temporary respite to the poor, would improve rural infrastructure. At the same time investment in rural area in other public goods such as storage, transportation network and water management, combined with rural micro-credit projects, would also help the poor farmers (pp. 15-16).

Whilst there may be a case to make public works a permanent feature of government job creation for the poor (as in Morocco and Tunisia with recurrent drought), in the long run, creation of jobs with high productivity should be the aim, and that requires strategic decisions at national level with regard to the industrial and agricultural policies. In agriculture in particular, productivity increase and increasing the value added of agricultural products should be on the agenda of rural development and rural employment policies. Promotion of agro-industries (like food processing) and other off farm activities would help reduce rural poverty. Such activities could be assisted through direct subsidies as well as market information and general support by governments.

The issue of support for the private sector has to go beyond the agricultural sector and cover the large and burgeoning urban informal sector, where the great majority of the urban poor eke out a living, as well as sectors, that rely on temporary or semi-permanent unskilled labour of the poor. The construction and service sectors are the most prominent examples of temporary employers of unskilled labour. With the service sector employing nearly half of the employed population in MENA region (ILO, 2005, Box 4.b), this sector has to come for

special attention for any policy that aims at improving the living standard of the working poor.⁷

This is all the more important if we consider the fact that the urban private sector in some of the MENA region is dominated by establishments that employ less than 10 people. According to some estimates, such micro and small enterprises comprised about 95 per cent of the non-agricultural private sector firms in Egypt, employing about 80 per cent of private sector employment in the 1990s (Laithy and el Ehwany, 2006, p. 32). In Yemen such enterprises employed about 50 per cent of those in paid employment in 2002, if we include the next category of small firms employing 10-19 workers (McKinley and Mehran, 2005, p. 8). Despite their contribution to employment, these enterprises make a very small contribution to GDP, reflecting their very low labour productivity. Another characteristic of these establishments is their lack of stability and growth – they either cannot survive the competition or are stuck in stagnant economic activities. In Yemen the micro enterprises (those employing less than 5 workers) had the largest loss of employment in 2002 (*ibid.*, p. 8). Finally, the majority of those working in the micro and small enterprises are, at best, unskilled and poorly educated who can barely make a living, and are aptly described in the Egyptian Central Bank reports as ‘economically active poor.’ (Quoted in Laithy and el Ehwany, 2006, p. 34). These conclusions are shared by reports on Egypt and Yemen and may well be applicable to other countries.

Whilst it is important **not** to undermine these small undertakings as they provide a minimum income for a large section of the population, it is wrong to assume that piecemeal approach (such as providing small loans or stopping police harassment) can solve the problem of poverty among the working poor. Let us now consider some of the policies that have been proposed in support of the micro/small/medium enterprises.

Micro-finance and facilitating the work of the micro/small/medium sized enterprises have been two of the main policy instruments for reaching the poor in the informal sector. There have been major developments in the provision and coverage (in particular of women, who comprise 60 per cent of the clients) in the MENA region. And yet, rural areas, where the majority of the poor live, have not been the main beneficiaries, except in Tunisia where 57 per cent of clients in 2003 were based in rural areas. In other countries the percentage of rural clients varies from 13 per cent in Egypt to 24 per cent in Jordan (Brandsma and Bajourjee, 2004). According to Laithy and el Ehwany (2006), lack of access to organised and formal financial markets has been a major handicap for micro/small enterprises in Egypt. Despite improvement in recent years in the availability of credit to these enterprises through the formal banking sector as well as specialised NGOs, in Egypt, the authors recommend a more market oriented approach in order to reduce the role of subsidy and improve efficiency in the provision of micro finance, while recommending that the government should create an enabling environment for the provision of micro finance. They also call for better coordination on the part of all stakeholders - i.e. the commercial banks, the Social Fund for Development, the government, and the NGOs (pp. 35-36). It is interesting to note that the micro and small enterprises themselves are conspicuously absent from this list of stakeholders that could be due to the lack

⁷ There is little information in KILM on the informal sector employment in the MENA region and on the sectors where the working poor are active.

of organisation and therefore representation of the poor at the policy table. A policy of clustering (see below) of micro/small and medium enterprises could help the poor who are working in these enterprises to organise themselves and get a voice in policy making and implementation.

Another short-run policy is to reduce the rules and regulation for the small and medium size enterprises, or where the rules exist, ensure that they are enforced in public interest (like in public health areas) or to protect the work force (e.g. in areas of social insurance). Enforcement of these rules has cost implications for small enterprises, and governments could provide direct subsidy to them to reduce their operating costs. Tax policies should also be sensitive to the needs of such enterprises.

In the medium and long-run, state intervention is needed to increase the access of small and medium enterprises to technology and training in order to improve their productivity. It should be noted that without increasing the return to labour of the working poor, the anti-poverty policy will not be sustainable. The linkages between these enterprises and other sectors should be another area for policy makers. As the experience of East Asian newly industrialised countries shows, increasing the locally sourced inputs in the large enterprises increases the link between large and small/medium enterprises and expands the demand for their goods and services. Governments should provide information on potential linkages as well as offer incentives to encourage such linkages. Government's purchase policies can play an important role in strengthening the link between small/medium and large enterprises.

ILO (2005) approaches the micro/small/medium enterprises both from the point of view of improved efficiency and profitability as well as improved workers' rights, labour productivity and remuneration. The ILO recommends clustering of micro/small/medium enterprises in order to improve their productivity and competitiveness. Clustering could improve the capacity of collective bargaining of micro/small/medium sized firms for purchasing inputs, negotiating for credit as well as bidding for large contracts that are beyond the capacity of individual firms in the cluster.⁸ The applicability of general policy prescriptions of the ILO with regard to the support of micro/small/medium sized enterprises should be explored further in the MENA region and integrated in the existing debate on the employment generating potential of these enterprises in the region.

As noted earlier, the poor have very little say in the design and implementation of policies that affect them. Freedom of association, collective bargaining at social and a more general level would help the poor to organize and put their interests and demands on the policy agenda. Empowerment of the poor should be coupled with improving the security of their earnings (in such cases as illness, disability and unemployment) through social insurance programmes whilst ensuring the property rights of their enterprises (ILO, 2005).

It would be no exaggeration to state that youth unemployment is one of the most acute economic and social problems in the MENA region. This is more an issue of resource use – how to harness the skills and energy of a young

⁸ For further details see ILO (2005), ch. 5. Also see UNIDO (2001).

population? – than one of poverty alleviation, considering that the unemployed youth are not generally poor. However, surveys of youth unemployment in Egypt have revealed that the educated poor have a higher rate of unemployment than the educated non-poor. In the Egyptian context, poverty aggravates the unemployment situation of the educated poor for two reasons. Poverty is usually associated with low level of social capital (that provide a host of information networks and access to power) helping individuals from richer backgrounds to access the limited job openings (Laithy and el Ehwany, 2006). In other words educated and unemployed youth from richer backgrounds fulfil the integrability condition better than the educated youth who are poor.

Youth unemployment, of course, has been a preoccupation in many countries and international agencies like the UN and the ILO have undertaken a good deal work on causes and policy issues related to this problem. The ILO's general policy recommendations are improvement in: 'Employability: invest in education and vocational training for young people – and improve the impact of these investments; Equal opportunities: give young women the same opportunities as young men; Entrepreneurship: make it easier to start and run enterprises to provide more and better jobs for young women and men; Employment creation: place employment creation at the centre of macro-economic policy' (ILO, April 2007). To operationalise these policies, one needs detailed information on the various aspects of youth unemployment such as their skill composition and labour market conditions. This information is lacking at present and there is an urgent need to conduct studies on youth unemployment in the region. The available information from Egypt suggests that the unemployed youth are not necessarily poor and that they are better educated than the poor. The rate of job creation and the skill demand does not match the rate at which youth enter the labour market but without the right skills. It has been observed in Egypt that as the pace of privatisation quickens, the emerging private sector needs more educated and more flexible work force, especially in engineering and computer sciences that are currently in short supply (Laithy and el Ehwany, 2006). Similar concerns were also raised by participants from other MENA countries in the UNDP/ILO conference in Cairo (21-23 November 2006) about the quality of education and mismatch of skills between supply of and demand for labour.

The gender gap in youth unemployment is another concern in the MENA countries. Only in Morocco, the female youth unemployment rate is lower than that for males. The opposite has been observed in other countries. The gap in youth unemployment rates ranges from a small difference in Algeria (42.8 per cent for males and 46.3 per cent for females, in 2004) to a very large one in Egypt (21.4 per cent for males and 40.0 per cent for females, in 2002) (see appendix table 18). Whilst gender discrimination in the labour market is one factor in explaining these differences, there may well be gender differences in the type of skill supply of the young and what the labour market demands. Further research in this area should help in focusing the policy recommendations of the ILO on eliminating gender discrimination in the labour market as well as trying to deal with one of the root causes of discrimination that goes back to the gender discrimination at the level of education and skill development.

The general thrust of the policy discussion so far has been directed at the creation of jobs and improving productivity and return to labour in order to reduce poverty. The implicit assumption has been to create jobs where the poor are situated, yet current trends and history shows that migration in search of a better living, either nationally or internationally, has been a major route to

overcome poverty. In fact the structural transformation of developed countries of today would not have been possible without large scale labour migration from rural to urban areas, that provided the background for the classical theorisation of how accumulation can take place with the creation of a reserve army of labour that keeps wages down and increases profits (Marx, 1990) or an accumulation with an unlimited supply of labour that is transferred from low to high productivity sector (Lewis, 1953).

Internal migratory movements, mainly rural-urban, in the MENA region have significantly contributed to urbanisation and fast growing urban economies, particularly the service sector. The informal sector has also been one of the main recipients of migrants. International migration has also been very strong in the region – mainly from Egypt and Yemen to the oil exporting Persian Gulf states and from North African countries to France and other European countries. Most of these migratory flows have taken place without much formal organisation. It is time for the governments in the region to integrate migration in their employment and anti-poverty strategies, especially if they want to combine employment policy with a growth oriented strategy and structural transformation of the economy that would utilise labour resources in the high productivity sector.

On the internal front, development of growth poles in the country and channelling of investment by providing incentives for private capital into specific regions would provide a focus for local migratory movements that may otherwise be channelled to the bigger cities which already take the lion share of investment as well as become the main destination for migrants. Development of such growth poles of course would depend on the resource base and potential of each country and regions within them.

Development of these growth poles could also be combined with an agricultural support strategy to raise labour productivity in agriculture. In fact drawing labour from agriculture would inevitably increase labour productivity if agricultural output were to remain constant.

With regard to international migration governments should use the existing migratory networks and provide information on demand for labour and try to coordinate migratory flows based on the demand for specific skills. Through bi-lateral agreements it would be possible to reduce the illegal flows. The fact that a large number of illegal immigrants work in the recipient country should be sufficient reason for the authorities in receiving countries to cooperate with the sending countries to organise an orderly channel for international migration. Migration should be viewed more as a labour issue than a security issue which is the current view in almost all countries, where immigration matters are handled first by security forces (ministries of interior and defence who are usually in charge of borders) and ministry of justice. It would be a great step forward to free movement of labour, as part of the human rights of individuals, if migration were to be de-securitized (for the want of a better word) and let administrative structures that deal with labour matters to handle it. Some countries like the Philippines (as a major emigration country) and Spain (as an immigrant country in the late 20th century) have moved in this direction while the immigrant countries of Canada, the US and Australia have always been sensitive to the needs of the labour market and treated migration as a labour issue.

Besides easing off the problem of unemployment, immigration would also help the balance of payments deficit as well as reduce the savings gap. The

problem here is not so much to facilitate the flow of remittances but to channel the remittances into productive projects. Part of the remittances will always be consumed, but governments can provide an enabling environment through tax concessions and other policies to help channel remittances to productive investment to create jobs and improve productivity. The precise modalities of such policies require further research, and have to take account of specific country needs and institutional infrastructure.

Last but not least, governments should also increase their expenditure on activities that would increase the welfare of the poor, like health, nutrition, housing, sanitation and education. This should be possible in a climate of economic growth that provides governments with increased resources either in the form of extra tax revenue or increased export earnings in the case of oil and mineral exporting countries.

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Appendix tables

Table 1: Selected annual macroeconomic indicators, 1980-2003: Selected Middle East and North African countries

Country	Real GDP growth (%)				Inflation rate (%) ^{1/}				Per capita real GDP (2000 US\$)				Real GDP per person employed (1980=100) ^{2/}			
	1980	1990	2000	2003	1980	1990	2000	2003	1980	1990	2000	2003	1980	1990	2000	2003
Algeria	0.80	0.80	2.40	6.80	14.94 (1981)	16.40	0.30	2.55	1,841	1,804	1,759	1,916	100.00 (-1.50)	85.90 (-4.77)	67.80 (-1.31)	69.10 (2.83)
Egypt	10.00	5.70	5.10	3.20	10.11 (1981)	16.76	2.67	4.47	934	1,240	1,554	1,622	100.00 (1.40)	127.00 (3.32)	139.80 (3.13)	140.20 (1.39)
Iran	12.80	11.20	5.00	6.60	22.73 (1981)	7.41	14.42	16.51	1,278	1,196	1,511	1,715	100.00 (-6.40)	92.20 (7.96)	102.70 (1.78)	108.60 (2.74)
Morocco	3.60	4.00	1.00	5.20	12.76 (1981)	6.92	1.94	1.16	945	1,111	1,161	1,278	100.00 (-5.20)	113.30 (1.43)	111.20 (-1.33)	119.40 (2.75)
Sudan	1.50	5.50	6.50	6.00	50.00 (1989)	100.00	5.71	-	283	281	388	433	100.00 (-1.20)	85.00 (-1.20)	106.60 (7.29)	117.00 (3.28)
Tunisia	7.40	8.00	4.70	5.60	8.97 (1984)	6.45	2.88	2.67	1,353	1,503	2,036	2,215	-	-	-	-
Jordan	19.00	1.00	4.20	3.20	7.69 (1981)	16.23	0.70	2.41	1,939	1,624	1,732	1,801	100.00 (0.20)	83.40 (-4.25)	68.30 (-0.29)	69.40 (-0.29)
Lebanon	-	26.50	0.50	2.70	-	-	-	-	-	2,280	3,810	3,925	-	-	-	-
Syria	12.00	7.60	0.60	2.50	18.52 (1981)	19.38	-3.85	0.97 (2002)	1,011	902	1,115	1,135	100.00 (6.10)	90.80 (4.37)	105.30 (-3.31)	104.20 (-1.14)
Yemen	-	-	6.50	3.80	-	36.61 (1991)	4.60	10.83	-	453	538	553	100.00 (2.00)	94.30 (-3.87)	112.40 (1.90)	114.90 (0.00)

^{1/} The years directly below the rate refers to the earliest data available.

^{2/} The first line refers to the index of real GDP per annual working hours of employed persons. Directly below are the growth rate of the index.

In 1980, the growth refers to 1981.

- Data not available.

Source: 2004 Key Indicators of the Labour Market (KILM), 4th Edition (Table A.1: Macroeconomic, social and human development and Table 18a: Labour productivity, and unit labour costs, total economy)

**Table 2: Real GDP growth and real GDP growth per person employed:
Middle East and North African countries**

Country	Real GDP growth (%)				Real GDP growth per person employed (%) ^{1/}			
	1980	1990	2000	2003	1981	1990	2000	2003
Algeria	0.80	0.80	2.40	6.80	-1.50	-4.77	-1.31	2.83
Egypt	10.00	5.70	5.10	3.20	1.40	3.32	3.13	1.39
Iran	12.80	11.20	5.00	6.60	-6.40	7.96	1.78	2.74
Morocco	3.60	4.00	1.00	5.20	-5.20	1.43	-1.33	2.75
Sudan	1.50	5.50	6.50	6.00	-1.20	-1.20	7.29	3.28
Tunisia	7.40	8.00	4.70	5.60	-	-	-	-
Jordan	19.00	1.00	4.20	3.20	0.20	-4.25	-0.29	-0.29
Lebanon	-	26.50	0.50	2.70	-	-	-	-
Syria	12.00	7.60	0.60	2.50	6.10	4.37	-3.31	-1.14
Yemen	-	-	6.50	3.80	2.00	-3.87	1.90	0.00

^{1/} Computed as the ratio of real GDP growth and growth of annual working hours of employed persons.

- Data not available.

Source: 2004 Key Indicators of the Labour Market (KILM), 4th Edition (Table 1a: Macroeconomic, social and human development and Table 18a: Labour productivity and unit labour costs, total economy).

**Table 3: Selected poverty indicators, 1991-2000:
Selected Middle East and North African countries**

Country	(Survey period)	National poverty line (%)			(Survey period)	International poverty line (%)	International poverty gap (%)	Share of working poor at US\$2/day in total employment (%) ^{2/}	GINI Index
		National	Rural	Urban		(population below US\$2/day)	(population below US\$2/day) ^{1/}		
Algeria	(1995)	22.60	30.30	14.70	(1995)	15.10	3.60	30.50	35.30
	(1998)	12.20	16.60	7.30					
Egypt	(1995)	22.90	23.30	22.50	(1991)	42.60	11.40	-	32.00
	(2000)	16.70	-	-	(1995)	42.80	10.80	71.50	32.60
					(2000)	43.90	11.30	71.70 (1999)	34.40
Iran	-	-	-	-	(1994)	7.80	1.70	12.90	43.00
					(1998)	7.20	1.50	11.60	44.10
Morocco	(1991)	13.10	18.00	7.60	(1991)	7.50	1.30	-	39.20
	(1999)	19.00	27.20	12.00	(1999)	14.30	3.10	23.50 (1998)	39.50
Sudan	-	-	-	-	-	0.00	-	-	-
Tunisia	(1995)	7.60	13.90	3.60	(1995)	12.70	3.10	22.90	41.70
					(2000)	6.60	1.30	11.90	40.80
Jordan	-	-	-	-	(1992)	10.60	2.20	19.20	43.40
					(1997)	7.40	1.40	12.80	36.40
Lebanon	-	-	-	-	-	-	-	-	-
Syria	-	-	-	-	-	-	-	-	-
Yemen	(1998)		45.00	30.80	(1992)	20.70	6.10	35.00	39.50
					(1998)	45.20	15.00	73.70	33.40

^{1/} Defined as the mean shortfall from the US\$2/day (counting the non-poor as having zero shortfall), expressed as percentage of the poverty line.

^{2/} The working poor are defined as those who work and who belong to poor households (ILO definition).

- Data not available.

Sources: 2004 Key Indicators of the Labour Market (KILM), 4th Edition (Table 20: Poverty, working poverty and income distribution)

International Monetary Fund Country (IMF) Reports 2005-2006 (for employment growth)

**Table 4: Selected labour market indicators, 1980-2003:
Selected Middle East and North African countries**

Country	Total labour force (in '000)								Labour force participation rate (%)								Unemployment rate (%) ^{1/}	
	1980		1990		2000		2003		1980		1990		2000		2003		1980	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Algeria	(1985)		(1996)						(1985)		(1996)						-	-
15-24	994	171	2,020	455	-	-	-	-	45.1	8.0	65.0	15.3	-	-	-	-	-	-
25-54	2566	306	4,392	534	-	-	-	-	95.0	10.3	95.2	11.8	-	-	-	-	-	-
55-64	285	27	-	-	-	-	-	-	71.6	5.9	-	-	-	-	-	-	-	-
65 +	102	11	-	-	-	-	-	-	26.6	2.4	-	-	-	-	-	-	-	-
Egypt					(2002)								(2002)				3.9	19.2
15-24	2,160	325	2,090	1,150	2,951	1,302	-	-	51.1	8.3	40.6	25.0	39.0	19.6	-	-	-	-
25-54	2,283	309	8,088	2,738	11,119	2,942	-	-	-	-	97.0	31.6	98.3	21.8	-	-	-	-
55-64	-	-	1,145	186	1,464	99	-	-	-	-	77.2	11.4	60.6	4.0	-	-	-	-
65 +	391	114	482	86	284	15	-	-	52.7	14.7	41.5	12.7	16.3	1.4	-	-	-	-
Iran	(1982)		(1991)						(1982)		(1991)						12.9	25.5
15-24	1,346	344	3,390	657	-	-	-	-	53.9	14.1	60.8	12.4	-	-	-	-	-	(1986)
25-54	3,500	400	7,548	753	-	-	-	-	95.8	12.0	95.5	9.8	-	-	-	-	-	-
55-64	458	17	1,261	49	-	-	-	-	78.2	3.3	83.1	4.0	-	-	-	-	-	-
65 +	195	10	634	28	-	-	-	-	53.9	2.4	59.5	3.4	-	-	-	-	-	-
Morocco	(1982)				(2001)				(1982)				(2001)				13.4	18.5
15-24	1,362	419	582	296	1,983	655	1,989	748	64.9	19.6	49.6	23.0	63.6	21.2	62.0	23.8	(1987)	-
25-54	2,655	513	2,055	645	4,959	1,726	5,250	1,930	93.6	17.0	93.6	29.6	93.8	30.7	93.7	32.3	-	-
55-64	380	58	-	-	-	-	-	-	78.9	12.8	-	-	-	-	-	-	-	-
65 +	178	20	-	-	-	-	-	-	41.8	5.3	-	-	-	-	-	-	-	-

Country	Total labour force (in '000)								Labour force participation rate (%)								Unemployment rate (%) ^{1/}	
	1980		1990		2000		2003		1980		1990		2000		2003		1980	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Sudan	(1983)		(1996)						(1983)		(1996)						-	-
15-24	1,052	477	1,113	712	-	-	-	-	67.7	29.0	44.6	26.7	-	-	-	-	-	-
25-54	2,413	920	3,277	1,321	-	-	-	-	95.6	32.4	93.9	33.1	-	-	-	-	-	-
55-64	303	92	466	92	-	-	-	-	93.2	33.5	93.2	21.3	-	-	-	-	-	-
65 +	232	62	394	40	-	-	-	-	79.0	25.5	73.0	11.3	-	-	-	-	-	-
Tunisia			(1997)								(1997)						-	-
15-24	454	160	474	250	-	-	-	-	70.1	24.3	50.0	27.3	-	-	-	-	-	-
25-54	819	182	1,519	437	-	-	-	-	96.5	19.4	94.9	27.0	-	-	-	-	-	-
55-64	123	17	173	26	-	-	-	-	70.8	11.1	66.4	10.0	-	-	-	-	-	-
65 +	51	5	90	9	-	-	-	-	32.5	4.1	34.0	3.5	-	-	-	-	-	-
Jordan			(1991)						(1983)		(1991)						4.8	22.8
15-24	-	-	21	4	-	-	-	-	-	-	50.0	11.2	46.3	7.8	-	-	(1982)	-
25-54	-	-	41	6	-	-	-	-	-	-	92.4	14.0	85.1	16.9	-	-	-	-
55-64	-	-	5	0	-	-	-	-	-	-	66.1	2.4	51.5	1.0	43.2	1.3	-	-
65 +	-	-	1	0	-	-	-	-	33.8	0.9	30.5	0.9	15.2	0.3	13.9	0.4	-	-
Lebanon	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Syria	(1981)		(1994)						(1981)		(1994)						-	-
15-24	570	67	913	161	1,178	347	1235	349	65.3	8.1	64.7	11.5	62.5	18.9	60.0	18.8	-	-
25-54	1,042	84	1,853	264	2,361	578	2471	583	95.8	7.8	96.2	13.9	97.8	23.7	96.4	21.3	-	-
55-64	133	5	214	13	248	35	210	31	77.7	3.0	77.4	4.8	71.5	12.7	53.8	8.5	-	-
65 +	54	1	108	5	171	19	142	11	37.4	1.1	48.4	2.4	55.3	9.9	37.4	4.3	-	-
Yemen			(1994)								(1994)						-	-
15-24	-	-	513	164	-	-	-	-	-	-	39.5	14.0	-	-	-	-	-	-
25-54	-	-	1684	370	-	-	-	-	-	-	91.8	19.2	-	-	-	-	-	-
55-64	-	-	210	33	-	-	-	-	-	-	80.9	14.1	-	-	-	-	-	-
65 +	-	-	136	16	-	-	-	-	-	-	49.7	6.6	-	-	-	-	-	-

Country	Total labour force (in '000)								Labour force participation rate (%)								Unemployment rate (%) ^{1/}	
	1980		1990		2000		2003		1980		1990		2000		2003		1980	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female

1/ Breakdown of unemployment is available for 15-24 (youth unemployment) and adult unemployment (15 +) only. The line corresponding to 25-54 age bracket refers to 15 +.

- Data not available.

Source: 2004 Key Indicators of the Labour Market (KILM) , 4th Edition (Table 1c: Labour force participation rate. Table 8a: Unemployment and Table 9: Youth unemployment)

**Table 5: Total labour force, status in employment and real manufacturing wages, 1980-2003:
Selected Middle East and North African countries**

Percent share of total employment (%) ^{1/}										
Country	(Period)	Total labour force 15 + (in '000)	(Period)	Total employment (in '000)	Wage and salaried workers	Self-employed workers	Contributing family workers	Period	Real manufacturing wage index (1995=100)	
Algeria	(1982)	4,164	-	-	-	-	-	(1992)	126.40	
	(1996)	7,903	-	-	-	-	-	(1996)	97.90	
Egypt	(1980)	10,340	-	-	-	-	-	(1982)	166.70	
	(1990)	15,964	-	-	-	-	-	(1990)	114.90	
	(2001)	19,253	(2000)	17,203	59.90	28.50	11.50	(2002)	118.50	
Iran	(1982)	6,271	-	-	-	-	-	(1994)	113.00	
	(1986)	12,338	-	-	-	-	-	(1999)	110.70	
	(1996)	15,651	(1996)	14,572	51.7	39.7	5.5	(2001)	128.00	
Morocco	(1982)	5,585	-	-	-	-	-	-	-	
	(1990)	3,804	-	-	-	-	-	-	-	
	(2001)	10,230	-	-	-	-	-	-	-	
	(2003)	10,902	(2003)	9,603	38.10	31.10	29.70	-	-	
Sudan	(1983)	5,549	-	-	-	-	-	-	-	
	(1996)	7,415	-	-	-	-	-	-	-	
Tunisia	(1980)	1,810	(1989)	1,979	67.00	23.40	8.90	-	-	
	(1997)	2,978	(1999)	2,635	68.40	23.30	7.80	-	-	
			(2000)	2,705	68.10	23.60	7.40	-	-	
			(2003)	2,951	64.30	26.80	8.70	-	-	
Jordan	(1991)	79	-	-	-	-	-	(1994)	94.40	
								(2000)	93.60	
								(2001)	90.00	

Percent share of total employment (%) ^{1/}									
Country	(Period)	Total labour force 15 + (in '000)	(Period)	Total employment (in '000)	Wage and salaried workers	Self-employed workers	Contributing family workers	Period	Real manufacturing wage index (1995=100)
Lebanon	(1997)	1,347	-	-	-	-	-	-	-
Syria	(1981)	1,955	-	-	-	-	-	-	-
	(1994)	3,530	-	-	-	-	-	-	-
	(2000)	4,937	-	-	-	-	-	-	-
	(2003)	5,032	-	-	-	-	-	-	-
Yemen	(1994)	3,126	(1999)	3,622	41.60	58.00	0.30	-	-

^{1/} Figures will not add up to 100%. Not classified items (average of 1% of total employment) are not included in the table.

- Data not available.

Source: 2004 Key Indicators of the Labour Market (KILM), 4th Edition (Table 1c: Labour force participation and Table 15: Manufacturing wage indices)

**Table 6: Total labour force and employment by sector, 1980-2003:
Selected Middle East and North African Countries**

Country	(Period)	Total labour force		Total employment		Percent share of total employment (%) ^{1/}		
		(in '000)	(Period)	(in '000)	Agriculture	Industry	Services	
Algeria	(1982)	4,164	(1997)	5,708	15.5	20.5	64.0	
	(1996)	7,903	(2000)	5,726	15.7	24.3	59.0	
			(2001)	6,229	21.1	24.3	54.7	
Egypt	(1980)	10,340	(1980)	9,799	42.4	20.1	35.7	
	(1990)	15,964	(1990)	14,361	39.0	20.7	40.1	
	(2001)	19,253	(2000)	17,203	29.6	21.3	49.1	
			(2002)	17,856	27.5	20.6	51.9	
Iran	(1982)	6,271	(1990)	12,108	26.4	28.3	45.3	
	(1986)	12,338	(1991)	12,534	25.6	28.9	45.6	
			(1992)	12,986	24.7	29.4	45.9	
	(1996)	15,651	(1993)	13,471	23.8	30.1	46.1	
			(1994)	13,986	23.0	30.7	46.3	
			(1995)	14,542	22.1	31.4	46.5	
			(1996)	14,572	23.0	30.7	44.3	
Morocco	(1982)	5,585	-	-	-	-	-	
	(1990)	3,804	-	-	-	-	-	
	(2001)	10,230	-	-	-	-	-	
	(2003)	10,902	(2003)	9,603	43.9	20.2	35.9	
Sudan	(1983)	5,549	-	-	-	-	-	
	(1996)	7,415	-	-	-	-	-	
Tunisia	(1980)	1,810	-	-	-	-	-	
	(1997)	2,978	-	-	-	-	-	
Jordan	(1991)	79	-	-	-	-	-	

Country	(Period)	Total labour force		Total employment		Percent share of total employment (%) ^{1/}		
		(in '000)	(Period)	(in '000)	Agriculture	Industry	Services	
Lebanon	(1997)	1,347	-	-	-	-	-	-
Syria	(1981)	1,955	-	-	-	-	-	-
	(1994)	3,530	-	-	-	-	-	-
	(2000)	4,937	-	-	-	-	-	-
	(2003)	5,032	(2002)	4,822	30.3	26.9	42.8	
Yemen	(1994)	3,126	(1999)	3,622	54.1	11.1	34.7	

^{1/} Figures will not add up to 100%. Not classified items (average of 1% of total employment) are not included in the presentation..

- Data not available.

Source: 2004 Key Indicators of the Labour Market (KILM) , 4th Edition (Table 1c: Labour force participation and Table 4a: Employment by sector)

**Table 7: Real GDP growth, sectoral employment growth, employment elasticity and poverty, 1980-2003:
Selected Middle East and North African countries**

Country	Employment growth (%) ^{1/}			Sectoral value-added GDP growth and employment elasticity (1991-2003)						International poverty line (%) ^{2/} (population below US\$2/day)		
	1990	2000	2003	Agriculture		Industry		Services		Total GDP	(Period)	
				Growth	Elasticity	Growth	Elasticity	Growth	Elasticity	Growth		
Algeria	26.10	2.70	5.10	3.70	1.22	2.30	0.75	3.20	0.51	2.60	(1995)	15.10
Egypt	-	2.38	1.68	3.10	0.27	3.80	0.14	4.60	0.81	4.40	(1991)	42.60
											(1995)	42.80
											(2000)	43.90
Iran	a/	6.06	4.03	4.70	1.50	0.30	0.30	7.30	0.20	4.10	(1994)	7.80
											(1998)	7.20
Morocco	-	0.30	4.60	0.30	0.63	3.20	0.52	2.90	1.06	2.50	(1991)	7.50
											(1999)	14.30
Sudan	-	-	-	9.30	0.53	5.70	0.37	3.30	0.10	5.60	-	-
Tunisia	-	-	-	2.20	2.05	4.60	0.77	5.30	0.57	4.60	(1995)	12.70
											(2000)	6.60
Jordan	-	-	-	0.60	1.61	6.00	1.27	4.60	1.28	5.10	(1992)	10.60
											(1997)	7.40
Lebanon	-	-	-	-	-	-	-	-	-	-	-	-
Syria	-	-	-	4.20	1.89	7.30	0.63	3.40	1.50	4.40	-	-
Yemen	-	-	-	6.30	1.14	5.30	0.72	5.60	0.77	5.60	(1992)	20.70
											(1998)	45.20

^{1/} Data in the 1980s are not available.

^{2/} Data in the 1980s and 2003 are not available.

^{a/} Due to limited data, the 1990 figure refers to fiscal year 1986/1987 and 1999/2000 growth. Iranian fiscal year ends on 20 March.

Sources: 2004 Key Indicators of the Labour Market (KILM), 4th Edition (Table 19b: Sectoral employment elasticities for the period 1991-2003; Table 20: Poverty, working poverty International Monetary Fund Country (IMF) Reports 2005-2006 (for employment growth), 2006 World Bank World Development Indicators.

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