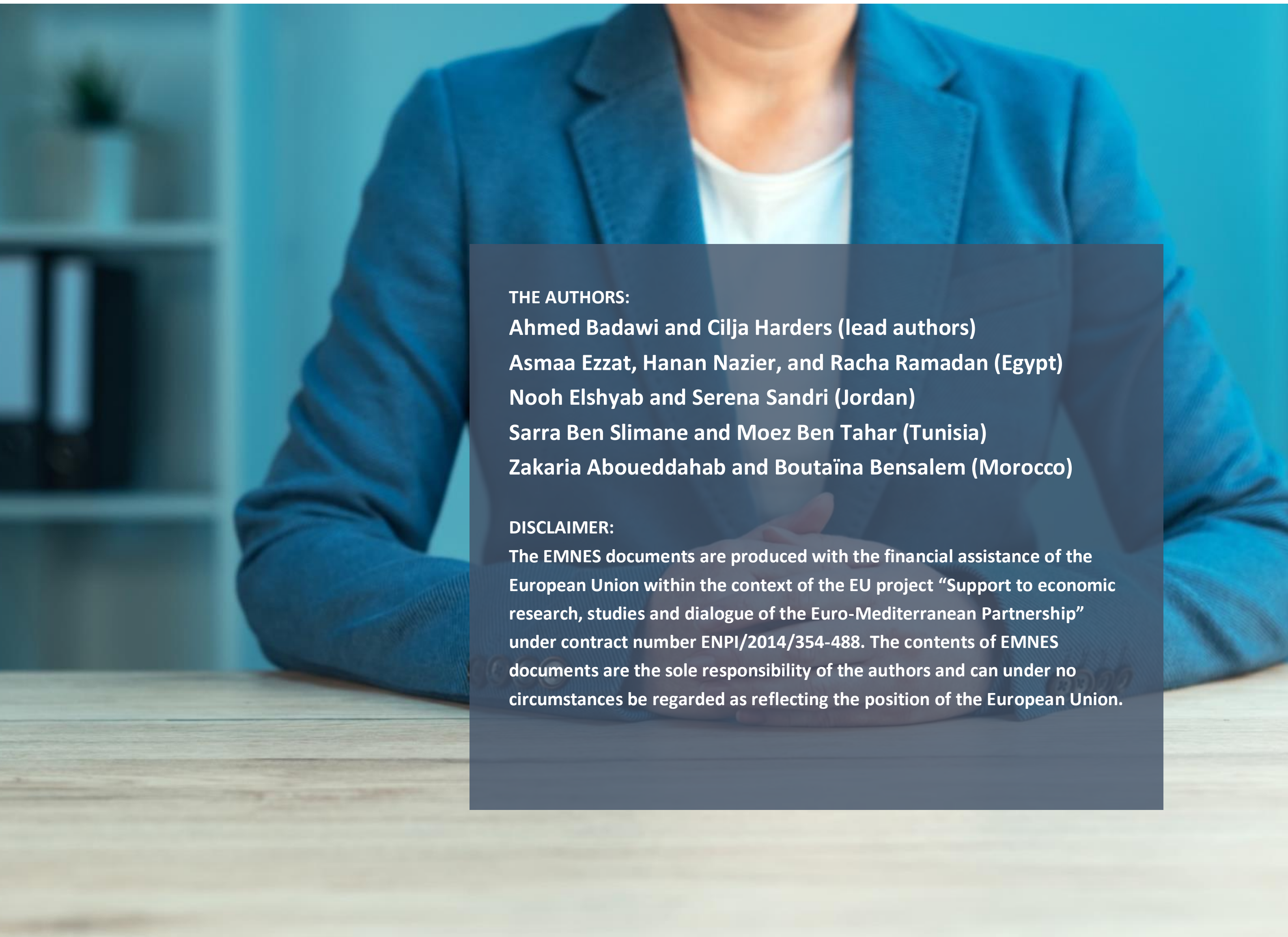
INSTITUTIONS AND LABOUR MARKETS IN THE SOUTHERN MEDITERRANEAN COUNTRIES

A SURVEY OF EGYPT, JORDAN, MOROCCO & TUNISIA



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ABOUT THIS STUDY

This study is produced by the team of Research Area 1 of the Euro-Mediterranean Network of Economic Studies (EMNES). The EMNES project is funded by a grant from the European Commission (ENPV/2O14/354-488). The aim of the project is to provide a renewed vision for socio-economic development in the Mediterranean region, mainly focusing on employment creation, social inclusion, and sustainable development.

Research Area 1 focuses on institutional reforms and their necessary sequencing to improve the economic and political governance in the region - a precondition for creating a healthy investment environment for both domestic and foreign investors and to tackle unemployment and inequality. To achieve this objective, in the first phase of the project's implementation, the focus has been narrowed down to examine those institutions that have a direct effect on the functioning of labour markets in the four countries included in the project: Egypt, Jordan, Morocco and Tunisia.

This initial study provides a snap shot of employment and labour market institutions in these four countries. It will be used as a baseline for constructing a robust research agenda that ultimately aims at providing sound recommendations for policy makers to improve developmental outcomes, especially concerning employment and social justice.

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The team wishes to thank Rym Ayadi, Jacques Charmes and Jamel Trabelsi for their valuable comments on this study.

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EXECUTIVE SUMMARY

This study focuses on employment and labour market institutions in Egypt, Jordan, Morocco and Tunisia. In 2015, the populations of these four countries represented around 36% of the total population of the Arab world region, down from around 42% in 1991. But while the population has been growing less rapidly, unemployment in the four countries has been persistently high since 2000. Only in Morocco has there been a steady decline in employment but the rate, nevertheless, remains high, just below 10% in 2016. In Jordan, unemployment reached a peak in 2004 (22%), following the US-led invasion of Iraq and the influx of refugees that followed. Then, it started to decline until it reached about 13.2% in 2016. Whilst unemployment was high, but relatively stable, in Egypt and Tunisia until 2011, it markedly increased following the uprisings in both countries and the political and economic instability that ensued, in 2016 reaching 12.1% in Egypt and 14.7% in Tunisia.

There are large gender and generational variations in the levels of unemployment in the four countries: the levels of unemployment among females and youth in the age range 15-24 are higher than the national unemployment averages, with female youth unemployment reaching a staggering 57% in Egypt in 2015, one of the highest rates in the world. Also, noticeable in all four countries is that educational attainment does not lead to higher levels of employment, an indication of a significant mismatch between labour supply and demand.

Another important feature of the labour markets in Egypt, Jordan, Morocco and Tunisia is the higher levels of informal employment. In Egypt in 2012, about 58.8% of females and 40.1% of males were informally employed. In Jordan and Tunisia, slightly less than half of total employment is informal. And in Morocco, the shadow economy has been estimated to generate about 43% of GDP in 2015.

Institutions (constitutions, laws, regulations, customs, traditions, social norms, etc.) have a direct and an indirect effect on the rate of employment. Indirectly, institutions contribute to total factor productivity in the economy which is a key component in economic growth, without which societies would not be able to produce enough jobs to absorb new entrants to the labour market.

Directly, institutions affect employment by providing the governance structure of the labour market which, when effectively enforced, shapes the behaviour of employers and employees vis-à-vis each other. But the impact of institutions on employment is still largely unclear. Institutions are pervasive. They exist on many different levels and little is known especially about the impact of informal rules on the levels of employment in the developing world, including the four countries covered in this study.

A significant feature of the institutional environment in Egypt, Jordan, Morocco and Tunisia is the weak capacity of the state to enforce formal institutions. All four countries, for example, have constitutions that emphasise various rights, including the right to work and to social justice. But just having a constitution is in itself no guarantee that these rights are respected, when a state has either no will or capacity to enforce law and order in a fair and indiscriminate manner. As a result, these constitutions have become little more than impressive texts. They are either not enforced, or enforced in a selective and random manner at the behest, and for the benefit, of the political and economic elite. Moreover, many of the provisions of rights in these constitutions are written in a vague language and their exact interpretation is left to legislation. This is the main loophole that permits the executive power to maintain a certain status quo and even oversee the adoption of laws that contravene the spirit of the constitution itself.

Similarly, all four countries have labour laws and various regulations for their labour markets. But here again, problems of design and weak enforcement have contributed to the spread of informality, with the concomitant deterioration of levels of welfare of those who work without enjoying the protection of formal contracts and social services provisions from their employers or from the state.

The withdrawal of the state in the four countries, a process that has gathered pace since the 1980's and the vacuum created by the inadequate coverage of labour laws and regulations, sometimes gets filled with short-term opportunistic arrangements. For example, many firms in the MENA region prefer to enter into dismissal agreements directly with workers, without involving commissions with control over dismissals. Consequently, many private enterprises avoid drawing up contracts with employees, in order to avoid incurring dismissal costs and also to evade social security contributions. Employees, on the other hand, accept a job without a contract for three reasons: firstly, to avoid paying social security contributions which, for them, represent a considerable part of a salary which is already low; secondly, because they do not see that the health or retirement system would genuinely benefit them; and finally, because they are ensured greater mobility as far as obtaining better working conditions is concerned. These informal practical norms contribute to a deterioration of social justice in society.

This brings into sharp focus some of the dysfunctions of the judicial system in the four countries included in this study. Such dysfunctions can have a serious negative impact on employment growth and law enforcement in the labour market. Courts, especially in Morocco and Egypt, suffer from a shortage of materials and human resources and many judges lack the necessary judicial training. The qualities of court decisions have been reported to be in need of improvement whilst judicial procedures are often complicated and lengthy. Besides, there is a need for more transparency and an effective disciplinary system for judicial misconduct. Finally, judges do not always keep themselves updated regarding new legislation and the judicial education does not focus on specialisation.

Consequently, judges have poor commercial knowledge and they mostly rely on experts without being able to understand the expert's reports.

The focus on formal labour regulations leads to an uneven playing field since they are applied to formal sector workers only. Their coverage is, therefore, limited as informal employment represents a significant share of total employment in most of the MENA region. Moreover, the regulations are not enforced consistently, even for formal firms. Pending more rigorous research, it is possible to argue that labour regulations are not likely to be the main cause of unemployment. But they contribute to the high level of informality and job insecurity and to the focus of the economy toward low-skilled jobs.

The problem of enforcement has significant implications for designing new institutions, for example when an activist state wishes to decrease unemployment through providing incentives for young entrepreneurs to start their own private business. Such Active Labour Market Policies (ALMP) programmes have been attempted in the four case studies included in this report, but their impact has been quite modest, either because of bad design or enforcement failure. Understanding the dynamics of enforcement, as a specific example of the wider problem of institutional failure in many parts of the developing world, is highlighted in the concluding section of this report as one of the main areas worthy of future research.

INTRODUCTION

Political instability in the poorer countries of the Middle East and North Africa region, but also in the richer oil-producing countries, is largely driven by bad governance, social exclusion, distributive injustice and lack of opportunities, especially for young men and women. And these are no longer local problems that can be contained and prevented from spilling over. Dramatic scenes of millions of Middle Eastern migrants flocking to Europe in the last few years and the rise of radical Islamist terrorism, both in the region and abroad, should be regarded as a wake-up call to the international development community. Urgent and effective solutions are needed to solve what is truly becoming a real threat to international, and particularly European, security.

But first, the problems must be rigorously diagnosed. Since the beginning of the 1980s, the proponents of the resurgent liberal development policy paradigm, in academia and in policy making circles, have pointed the finger of blame in two directions: despotic systems of rule and illiberal economies. Yet while the major donors have only paid lip service to tackling the deficit of political freedom in the region, they have been active in propelling it towards greater economic openness, mainly through imposing structural economic reforms. Many countries succumbed to the dictates of the organisations of the Washington consensus. And during the 2000s, regimes in Egypt, Tunisia, Morocco and even Syria and Libya earned the praise of the international community for their impressive gains in terms of economic growth and trade liberalisation. But the glee was short-lived. Economic liberalisation, under conditions of bad governance, only benefited a few and led to a further deterioration in the quality of life for the majority. The dramatic political disruptions that started in 2010/2011 are far from abating. The international community can ill afford to continue down the path of economic reforms while ignoring the political context in which these reforms take place.

But politicising foreign aid packages has always been problematic, mostly due to the principle of sovereignty that continues to dominate relations between nation states. Moreover, most rulers in the developing world, including in the MENA region, have managed to insert themselves in global trans-national elite networks. Some provide vital security services to major world powers, whilst others ensure the steady flow of essential primary commodities. In exchange for these favours, major donors have chosen to keep propping up some of the most authoritarian and inept regimes in the world, in a typical patron-client type of relationship. But these regimes have proved to be unsustainable and their collapse has created formidable problems that are making their impact felt all over the world.

A new socio-economic developmental model is, therefore, urgently needed; one that does not ignore politics and which places economic growth, job creation and social justice in proportionate measure, at the core of its concern rather than the single-minded focus on conjuring up free markets, as if out of a magician's hat, everywhere and at any cost.

In the first phase of research, the focus is on employment and the institutions which govern the labour market in four countries: Egypt, Jordan, Morocco and Tunisia. These institutions (laws and regulations) are usually enacted to protect workers' rights. First, they aim at reducing exploitation of workers by providing them with some basic rights, for example maternity leaves and minimum wages, in addition to empowering labour unions in defending workers' rights. Second, labour laws specify hiring and firing regulations that govern the employment relationship. Finally, through these laws and regulations, governments provide social insurance against illness, unemployment and retirement (Abdelgouad 2014).

Nevertheless, those laws and regulations, through their attempt to protect workers, may result in increasing the costs of formal labour and, hence, can negatively affect labour market flexibility. Specifically, their rigidity might affect the speed with which labour markets adapt to fluctuations and changes in society and the economy. Hence, they can reduce the likelihood of adjustment in response to positive or negative shocks either at company or sectoral levels. They can also discourage firms from contracting formal employment, which reduces the demand for labour and diminishes their ability to suitably allocate and employ labour (Sharma 2009).

This complex relationship between institutions and labour markets is a good example of the policy dilemma of how to balance *equity* and *efficiency* especially under conditions of uncertainty and political instability. Many scholars have taken the side of efficiency by arguing that labour market laws and regulations are the main constraints on the demand for labour and, thus, labour markets should be further deregulated. This view started to dominate academic and policy debates following the restructuring of advanced economies in the 1970s. But there are counter arguments. It is the relatively new phenomenon of jobless growth that is the real culprit in the unemployment story, rather than restrictions on capital. This, however, does not mean that institutions do not matter. They do, but perhaps in ways that are not yet fully understood by the scholarly community.

Institutions are pervasive. Not only are there so many of them, but they operate on many levels, as will be explained in Part 2 below. They matter for employment in two ways: directly, in the form of laws and regulations that provide the incentive structure for employers and employees in the labour market and indirectly, in the form of the rules governing the political field in which vital policy decisions are made - with significant distributional outcomes - and which have a bearing on a country's growth trajectory.

To put institutions in their proper analytical place, consider the following counterfactual: suppose the government of Egypt announced that it would fully deregulate its labour market. Would that lead to the creation of more jobs? Without investments aimed at increasing the productivity of the economy, especially in those labour intensive, high value-added sectors such as manufacturing, it is likely that the gains in employment resulting from full deregulation of the labour market would be minimal because of the following two reasons:

1. There is a bias in the literature in favour of formal institutions, even though they seem to be the least significant in terms of explaining the behaviour of agents in the labour markets of the developing world, or any other market for that matter. Countries in the region and in the rest of the developing world have a limited capacity to enforce formal rules (laws, regulations, etc.) and to effectively implement policy. And the large informal employment markets in the developing world indicate that formal institutions do not prevent employers from hiring. But because they are inadequately enforced, they only provide them with the opportunity to shirk and do their hiring informally.
2. Informal labour markets are not devoid of institutions. They have their own self-enforced informal rules and practical norms (the distinction between these two terms will be explained in Part 2 below). No government can dismantle this non-formal incentive structure, which currently provides jobs to millions, without enforcing something else in its place. But with pervasive institutional failure, i.e. the failure to enforce the law in a credible manner, it is little wonder that sub-optimal, non-formal labour arrangements continue to thrive in almost all the developing world.

These statements about institutions cannot be seen yet as stylized facts, but rather as hypotheses to be tested in different cases. Although heterodox economists have always recognised the key role that institutions, both formal and non-formal, play in the process of economic development, the adoption of this research programme by the mainstream economic profession is a much more recent phenomenon and more research is required to begin to recognise consistent empirical findings and broad generalisations. And because of the nature of institutions as discursive rather than countable material entities, attempts to operationalise them and analyse their causal impact on different aspects of the economic development process, using the standard tools of liberal economic analysis, have so far not been very convincing.

With these provisos in mind, the report sets out to describe the condition of employment and the institutions that underpin it in Egypt, Jordan, Morocco and Tunisia. They are non-oil dependent economies. Two are Republics that are going through political transition, albeit in seemingly opposite directions, following a rapid punctuation of their post-independence political equilibrium. The other two are relatively more stable kingdoms that have embarked on swift political reforms in the last few years to avoid the prospect of forceful regime removal. They are on the southern borders of Europe and problems in them can easily spill over to their more affluent northern neighbours in more ways than one.

Part 1 of the report presents some of the key demographic and labour market trends in these four countries, as well as some relevant data that can allow the reader to gauge how these countries fare in comparison with the rest of the world, in terms of economic growth and employment creation. Part 2 takes a step back and provides a theoretical and a comparative historical context for the link between employment and institutions. It introduces a definition of institutions and explains the different levels on which they ought to be analysed. Then, Part 3 zooms in again on reality and describes the myriad of formal and non-formal (i.e. informal rules and practical norms) institutions that have an impact on labour market behaviour. Enforcement, or rather the lack thereof, is also highlighted and identified as a problem. Finally, the report concludes with a discussion and an outline of a future research agenda.

PART 1: EMPLOYMENT TRENDS IN EGYPT, JORDAN, MOROCCO AND TUNISIA

As Table 1 shows, in 2015 the populations of Egypt, Jordan, Morocco and Tunisia represented around 36% of the total population of the Arab world region, down from around 42% in 1991. In all four countries, the annual population growth rate has been steadily declining. But whereas in Egypt the decline has been rather modest, only 0.1%, in Morocco and Tunisia impressive gains have been made. This is because since the 1960s, especially in Tunisia, the drive towards modernisation, supported from the top of the political leadership, has created a climate supportive of the idea that population pressure is a constraint on economic development which must be controlled to meet the basic health, education and employment needs of the population. Thus, Tunisia has initiated an early family planning programme which helped reduce an already low annual rate of population growth.

Table 1: Age structure and annual growth rates of the population, 1991 and 2015

Country	Total Population		Annual Population Growth		Population Ages 0-14		Population Ages 15-64	
	1991	2015	1991	2015	1991	2015	1991	2015
Egypt	57,689,828	91,508,084	2.2	2.1	40.9	33.1	54.2	61.6
Jordan	3,538,663	7,594,547	5.2	2.3	44.9	35.5	51.8	60.6
Morocco	25,410,178	34,377,511	1.8	1.3	39.1	27.2	56.7	66.6
Tunisia	8,318,200	11,107,800	1.9	1	36.6	23.3	58.3	69
Arab World	228,171,034	392,022,276	2.7	2	42.5	33.2	53.7	62.4

Source: World Development Indicators

Another important demographic feature in these four countries is that while the percentage of the population in the age range 0-14 has been declining, the percentage of the population in the age range that is relevant for employment, 15-64, has been increasing and will continue to do so in the coming years. A report published in 2013 predicts that by 2030, the population of the Southern and Eastern Mediterranean countries is expected to grow from 280 million to around 349 – 362 million (Groenewold and de Beer 2013). This represents both an opportunity and a challenge. Having such a young population provides a pool of human capital that can become a significant factor in growth and development, a "demographic dividend" (Bloom et. al. 2003). However, this depends on the ability to develop a skilled population that can generate income and lower the dependency rates. Therefore, the future stability of these four countries depends on their ability to combat youth unemployment through effective strategies and real reforms that would enable the creation of sufficient meaningful jobs. This puts even more pressure on already crowded labour markets: in Egypt, for example, it is estimated that around 600,000 – 700,000 new jobs must be created every year for at least the next decade, to absorb the new entrants to the labour market and reduce the number of those that are currently unemployed. (Amin 2014)

As for labour force participation rates, they are rather similar in all four countries, except for Jordan (slightly lower). They have remained relatively constant over the 1990-2014 period, hovering around the region's average (see Table 2). What is noticeable is that the labour force participation rate is very different for males and females: females are barely involved in the labour market, most notably in Jordan, with most of them staying economically inactive throughout their lives.

Table 2: Labour force participation rates, 1990-2016

Region/Country		1990	1995	2000	2005	2010	2016
Arab World	Total	49,16	48,76	48,22	48,32	49,10	49,84
	Male	76,26	75,64	74,71	74,34	74,48	75,00
	Female	21,03	20,58	20,62	20,85	21,66	22,55
Egypt	Total	50,02	46,42	45,88	47,83	49,12	49,58
	Male	74,68	72,35	72,51	75,31	75,56	76,18
	Female	25,99	20,89	19,60	20,47	22,66	22,93
Jordan	Total	39,22	42,24	41,93	41,10	42,44	40,06
	Male	65,60	68,83	68,48	67,64	67,64	64,43
	Female	9,24	11,90	12,58	12,26	15,44	14,39
Morocco	Total	53,15	53,72	53,21	51,66	49,66	49,34
	Male	80,27	80,62	78,88	77,17	75,24	74,43
	Female	26,94	27,91	28,79	27,65	25,65	25,46
Tunisia	Total	48,16	48,37	47,43	45,68	46,66	47,68
	Male	75,97	74,16	71,56	67,96	69,67	71,29
	Female	20,47	22,54	23,51	23,99	24,46	25,12

Source: World Development Indicators

There is considerable variation in the distribution of employment by sector and type of employer in the four countries. As Table 3 shows, in 2010, Tunisia had the highest rate of industrial employment, 32%, while Jordan had the lowest rate. On the other hand, almost 80% of the labour force in Jordan worked in the service sector, compared to about 40-50% in the other three countries. And Jordan also stands out as the country with the lowest rate of employment in agriculture, only 2%, while Morocco has the highest rate, almost 40%. Historical trends are difficult to gauge in all four countries due to the unavailability of data. In Egypt, between 2010-2015, there has been a slight shift of employment away from agriculture and mostly to the service sector, whereas in Morocco, there has been a steady decline of employment in industry and services, coupled with an increase in the number of those employed in agriculture. On the other hand, the public sector in Egypt and Jordan employs around 35% of the labour force, in Tunisia about 20% and in Morocco less than 5% (Larbi 2016: 25) (more on this below).

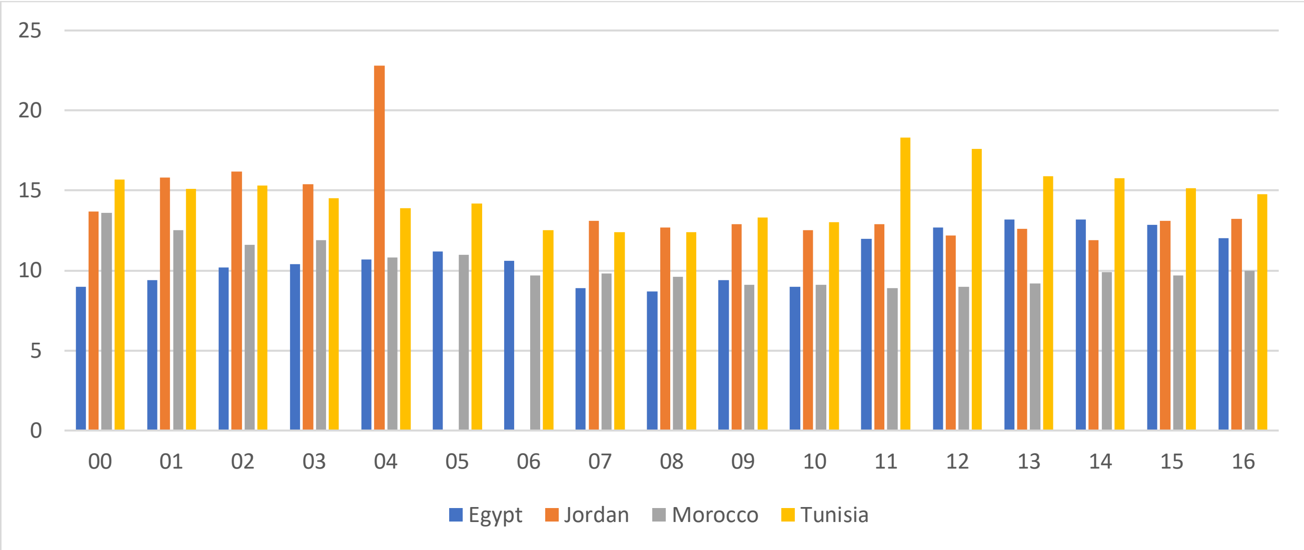
Table 3: Employment by sector, 2010 and 2015

		2010	**2015**
Egypt	Industry	25.3	25.1
	Services	44.4	49.1
	Agriculture	25.3	25.8
Jordan	Industry	17.5	18.7*
	Services	80.5	79.3*
	Agriculture	2	2*
Morocco	Industry	21.7	17.7
	Services	31.7	44.9
	Agriculture	40.5	37.2
Tunisia	Industry	32.7	32.8
	Services	48.8	52.1
	Agriculture	17.6	15

***data for 2012 - Source: International Labour Organization, Key Indicators of the Labour Market database**

Unemployment in the four countries has been persistently high since 2000 (see Figure 1). Only in Morocco has there been a steady decline but the rate, nevertheless, remains high, more than 9% in 2013. In Jordan, unemployment reached a peak in 2004 (22%), following the US-led invasion of Iraq and the influx of refugees that followed. Then, it started to decline until it reached about 12% in 2013, only slightly lower than in 2000. On the other hand, unemployment has been high, but relatively stable, in Egypt and Tunisia until 2011 where it markedly increased following the uprisings in both countries and the political and economic instability that has ensued.

Figure 1: Unemployment rate 2000-2016



Source: International Labour Organization, Key Indicators of the Labour Market Database

There are large gender and generational variations in the levels of unemployment in the four countries: the levels of unemployment among females and youth in the age range 15-24 are higher than the national unemployment average, with female youth unemployment reaching a staggering 57% in Egypt in 2015, one of the highest rates in the world.

Table 4: Youth and female unemployment, 2012 and 2015

Country	Total		Female		Male		Youth Total		Fem. Youth		Male Youth	
	2012	2015	2012	2015	2012	2015	2012	2015	2012	2015	2012	2015
Egypt	12.7	12.8	24.1	24.5	9.3	9.4	34.7	33.9	57.1	57.1	28.1	41.4
Jordan	12.2	13.1	19.9	23.8	10.4	10.9	29.3	34	48.8	56.7	25.2	28.8
Morocco	9	9.7	9.9	20.4	8.7	9.5	18.6	20.4	19.2	20.2	18.4	20.8
Tunisia	17.6	15.2	25.6	36.1	14.6	12.8	37.6	36.1	41.8	35	35.7	38.5

Source: International Labour Organization, Key Indicators of the Labour Market Database

Another feature of unemployment in the four countries, and in the region, is that it is highest among those with tertiary (university) education. In Egypt, for example, as Table 5 shows, in 2014 the unemployment rate was much higher for graduates of intermediate and university levels while the lowest unemployment rate was among illiterates and those who could read and write. This is true for both males and females. However, the impact of education is more pronounced for females: The unemployment rate for females with general secondary education is 28.1% (compared to 13.1% for males), 34.5% for intermediate education (11.1% for males), and 31.6% for university and above university graduates (13.7% for males). Consequently, one could conclude that education barely changes employment prospects - the main determinant is gender rather than education. In fact, the figures indicate a negative relationship between higher levels of education and prospects for employment in Egypt. The situation is similar in the other three countries.

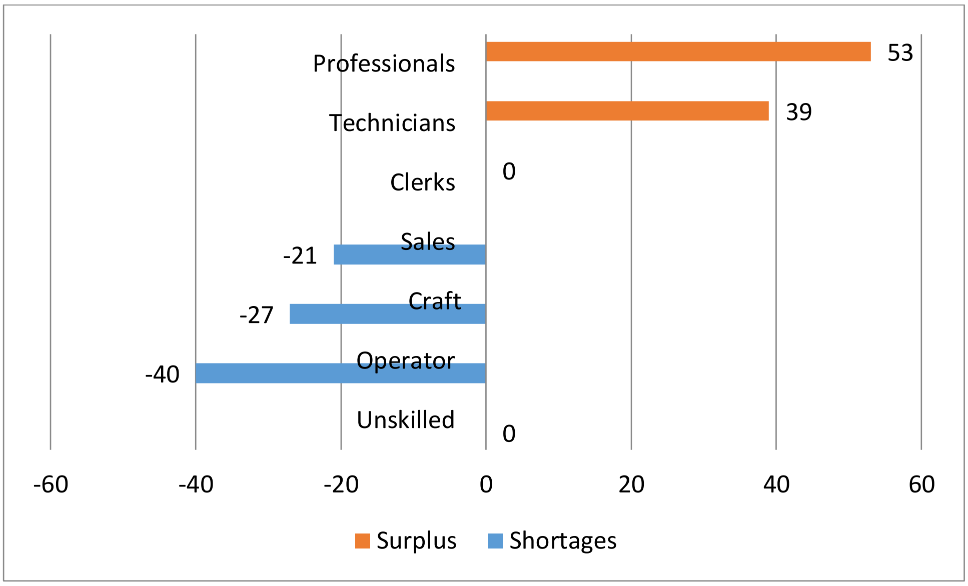
Table 5: Unemployment rates by gender and educational status in 2014 (Egypt)

	Illiterate	Read and write	Lower Than Intermediate	General & Azhar Secondary	Intermediate	Upper Than Intermediate & Lower than University	University & Above University	Total
Total	5.8	8.7	11.6	14.5	16.4	11.5	20	13
Males	4.2	8.4	11.4	13.1	11.1	7.7	13.7	9.6
Females	9.6	12.2	13	28.1	34.5	23.1	31.6	24

Source: CAPMAS (2015)

This points to another feature of the labour markets in the region: a significant mismatch between labour supply and demand. There is a notable surplus of skilled labour and a shortage of unskilled and semi-skilled labour. In Tunisia, for example, as Figure 2 shows, the occupational structure of unemployment is different from that of employment or jobs being created (that is, labour demand). This implies that there will still be excess supply of highly educated workers because, currently, the economy demands mostly less skilled manual labour. (World Bank 2014)

Figure 2: Labor surplus and shortage by occupation in Tunisia (2011)



Source: World Bank (2014: 57)

Also in Jordan, the authorities are aware that there are "too many academically qualified Jordanians while the market asks for lower skilled labour and technicians" (E-TVET Council 2014: 9). The profile of university graduates in Jordan is not providing the practical skills required by the labour market. "Their education does not match with the demands of the industry even in the corresponding professions as the skilled learned are too academic and not sufficiently practical" (E-TVET Council 2014: 9). This clearly emerges from the employment and unemployment survey, according to which, in 2015, almost 50% of unemployed Jordanians have secondary education or higher, whereas 35.8% of the unemployed have a Bachelor's degree and above. The situation with females is dramatic, as 73.3% of unemployed females have a Bachelor's degree or higher (DoS 2015).

1.1 Informal Employment

Like other developing countries, a significant portion of employment in the MENA is informal (World Bank 2011). Measuring the size of the informal economy and its contribution to employment and to employment quality is difficult though crucial. The presence of an informal economy has several negative effects for a country, as it reduces fiscal revenues and, in addition, may bias the administration of welfare provisions away from subjects active in the informal economy. On the other hand, the job generation of informal activities cannot be forgotten and states should be encouraged to find ways to integrate informal activities so that they become part of the formal economy.

There are two definitions of employment in the informal economy, both endorsed by the International Conference of Labour Statistics in its 15th (1993) and 17th (2003) Conventions. The earlier definition states that employment in the informal sector is constituted by those who work in "units engaged in the production of goods and services with the primary objective of generating employment and income to the persons concerned." (ILO 1993) These units are usually informal own-account enterprises, i.e. enterprises that are not-registered with any element of the national legal system. However, this definition, which takes the "enterprise" as the basic unit of observation, excludes many workers who are, for example, self-employed or who are informally working in formal, i.e. legally-established enterprises (Hussmanns 2004). Therefore, a newer definition has been coined. It takes the "job" as the basic unit of observation and states that informal employment (rather than employment in the informal sector) "comprises the total number of informal jobs […] whether carried-out in formal sector enterprises, informal sector enterprises, or households, during a given reference period." (ILO 2003) As per this definition, informal labour may be classed as employees of informal economic units, domestic workers without working contracts, occasional, temporary, and part-time workers without a fixed and working contract, even if they work for formal-registered enterprises.

In Egypt, according to the Egypt Labour Market Panel Survey, over the past decade, informal employment has represented a very important share of total employment. While the role of the state as an employer has declined, private formal employment has not increased rapidly enough to provide employment for labour market entrants who lack public sector opportunities. As a result, jobs have been dominated by informal private employment. And as Table 6 shows, here there is also a disparity between the rates for males and females: in 2012, 58.4% of employed females were informally employed, compared to 40.1% in the case of males.

Table 6: Informal employment in Egypt by gender, 1998-2012

	1998			2006			2012		
	Total	Male	Females	Total	Male	Females	Total	Male	Females
Formal	47.5	49.7	37.6	56	55.9	56.2	56.4	59.9	41.6
Informal	52.5	50.3	62.4	44	44.1	43.8	43.6	40.1	58.4

Source: Authors' calculation based on Egyptian Labour Market Panel Survey, Economic Research Forum

In Jordan, the first official survey on informality was completed in 2008. The study specifically targeted female employment in the informal sector, concentrating on the Greater Amman area, where 3500 households were surveyed. The results revealed a significant contribution of informal activities to female employment (Al Budirate 2009). And a survey published in 2013 by the UNDP estimated that in 2010 the number of workers in the informal sector in the Jordanian labour market was 487,861 versus a total of 744,724 workers in the formal sector (UNDP 2013). The survey accordingly concluded that informal employment represented about 44% of total employment in Jordan. The survey reported that informal employment was widespread in all economic sectors, but was particularly high in agriculture, construction, wholesale and retail trade and repair of motor vehicles.

A further important investigation of informality in Jordan and in other Southern Mediterranean countries was carried out in 2011 by the World Bank. The results revealed a relationship between the size of the informal sector, natural resources and the labour force. In particular, countries with abundant labour and natural resources (Iran, Syria and Yemen) were characterized by high rates of informal employment (80-90% of the labour force contributing an output of 20-25% of GDP), whereas in countries poor in natural resources and with lower unemployment rates (Jordan, Tunisia and Morocco) informal activities employed a lower percentage of the labour force (45% to 67%), but generated a larger share of output (36% to 40% of GDP) (World Bank 2011).

Relying on the Multiple Indicator-Multiple Cause (MIMIC) methodology, a study by the IMF (Abdih 2011) estimated the size of the shadow economy in the Jordanian economy represented 26% of GDP. The massive inflow of Syrian refugees not holding working permits and, thus, who were not allowed to work in Jordan could be expected to have an impact on the size (both in terms of job creation and of output) of the shadow economy. Nevertheless, there is still no definitive evidence on that (Abdih et al. 2014).

In Morocco, the shadow economy is large. It accounted for approximately 40% of GDP in 2014 and 43% of GDP in 2015 (Othmane and Mama 2016). Studies concur that the informal sector in Morocco is attracting young people unable to find job opportunities in the formal sector of the economy. Indeed, a large percentage of job seekers join the informal economy for different reasons: small businesses prefer to operate in the informal sector to avoid taxes and complicated bureaucratic procedures, whereas young people, living in rural areas and experiencing difficulty finding work, tend to work in the informal sector instead of remaining unemployed, for example, working as small traders, street vendors or domestic workers. (Othmane and Mama 2016; AFDB 2015)

Males represent the largest proportion of workers in the non-agricultural informal sector, which is predominantly in the rural areas, perhaps because of the lack of economic structures and law enforcement in these areas (Departement de la Prevision Economique et du Plan 2003).

One of the most important characteristics of the non-agricultural informal sector is self-employment, estimated to be 69% of total employment in the informal sector (Departement de la Prevision Economique et du Plan 2003). And generally, the production units in this sector are small with almost three quarters of them employing a single person (HCP 2007). There are often familial ties between the employer and employee in this sector and the units of production do not have enough capital to expand their businesses because of tight funding conditions. Capital is often provided by the family. In addition, informal sector businesses often ignore the minimum wage (IBP 2015).

On the other hand, the youth, those aged less than 35 years, represent the largest share of workers in the non-agricultural informal sector. A survey conducted by the Department of Economic Provision in 1999/2000 revealed that most of the employees in the informal sector have little or no education. (Departement de la Prevision Economique et du plan 2003)

The informal economy may provide the government with an outlet for releasing economic pressure (Departement de la Prevision Economique et du Plan 2003). But this solution is temporary. The informal sector is evolving in a difficult economic context and it often faces difficulties generating more trading opportunities or financial support. Workers employed in the informal sector are excluded from the protection of labour laws, which leads them to make increasing demands on the state for solutions.

As for Tunisia, there is a scarcity of studies and statistics concerning informal employment and its role in the overall economy. Only three studies can be referenced. The first was commissioned by the Industry, Trade and Handcrafts Federation in 2012 (De Soto 2012), the second by the World Bank (2013), and the last by the Centre for Social Research and Studies in 2015 (Ben Chiekh and Charmes 2016).

Until 2010, Tunisia registered the lowest informal employment rate among the countries of North Africa: 35% in 2002 and 36.8 % in 2007. After the revolution, the rate of informal employment declined in 2012 (33.9%) but has been steadily increasing since then: in 2013 (37.8%), 2014 (38.8%) and 2015 (40.8% 2015) (Ben Cheikh and Charmes 2015).

Employment in the Tunisian informal economy is counter-cyclical, in the sense that it tends to grow in the periods of crisis and sluggish economic growth and to decline in the periods of rapid economic growth. During the period of structural adjustment (slow economic growth), the informal employment rate rose from 35% to 39.3% between the periods 1980-84 and 1985-89. During the period between 1995-99 and 2000-04 (rapid economic growth) the informal employment rate declined from 47.1% to 35%.

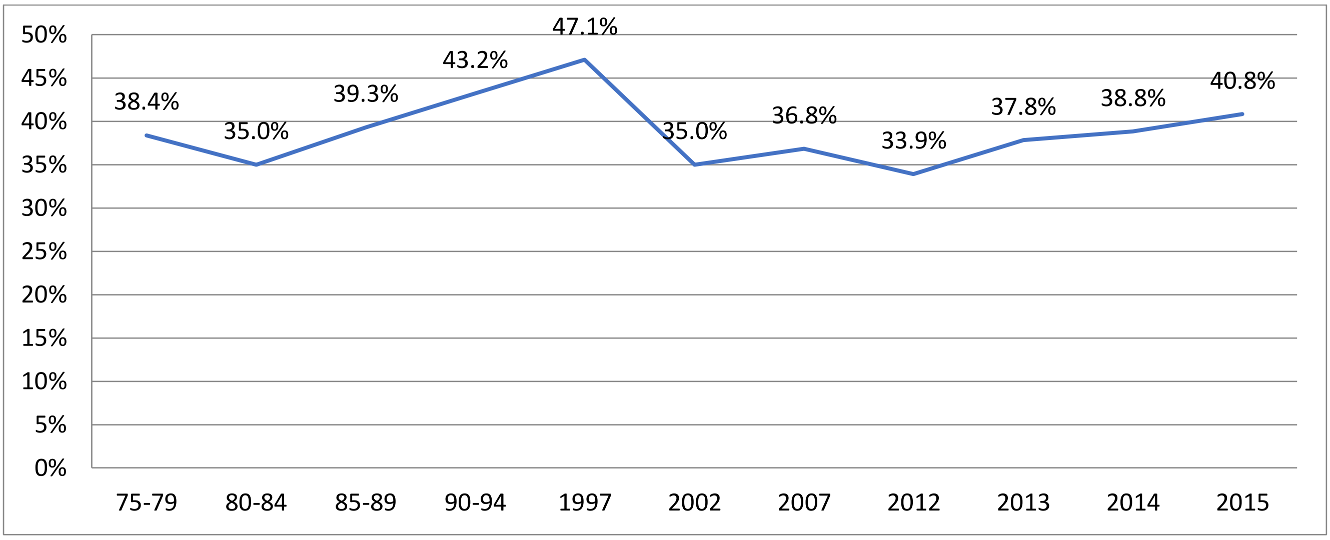
In 2010, there were 961,275 workers in the informal sector, representing 37% of the private sector workforce. This rate increased to 52% in the agricultural sector (de Soto 2012). The informal sector represented more than two-thirds (69.1%) of employment in the informal economy. Self-employment represented 42.9% compared with 57.1% for wage employees.

On the other hand, women accounted for 27.4% of employment in the informal economy, a proportion slightly higher than their participation rate in the labour market (25%). They represented only 19.3% of employment in the informal sector, but 45.8% of informal employment outside the informal sector (Ben Cheikh and Charmes 2015).

Data on employment in the informal sector is important as it enables a quantification of the contribution of the sector to the national economy. The contribution of economic activities undertaken in the informal sector to total GDP provides a key indicator for measuring the performance of the informal economy, and indeed the economy as a whole.

The informal economy represented 30% of GDP in 2010, which increased to 38% in 2013. In 2012, some 524,000 out of 616,000 businesses (85%) operated in the informal sector. The World Bank's study shows that the informal economy contributed 1.2 billion Dinars in annual losses to the Tunisian budget, which represented 7% of the government's fiscal revenues. This badly impacted public spending in terms of investments and impeded the realization of economic and social rights (World Bank 2013).

Figure 3: Informal employment as percentage of non-agricultural employment in Tunisia (1975-2015)



Source: Ben Cheikh and Charmes (2015)

PART 2: INSTITUTIONS AND LABOUR MARKETS

2.1 The Global and Historical Context

Dating back to the 1970s, both at the heart of the global economy and in its periphery, unemployment has been persistently high. In the advanced capitalist economies, during the 1950s and 1960s, rapid and sustained economic growth in the post-World War II period led to historically low levels of unemployment. In the 1960-1972 period, levels of unemployment ranged between zero in the case of Switzerland, to 2.7% in the case of Spain (exceptions were Canada, Italy, Ireland and the United States with relatively higher levels of unemployment hovering around the 4-5% mark) (Nickel 2003: 14). In the Arab world, the level of unemployment was low and not markedly different to that of advanced industrial economies (Yousef 2004: 96). Moreover, the welfare state secured many distributional gains for workers such as social security, health insurance, reduction of working hours and an increased share in the national income. But by the end of the 1960s and throughout the 1970s, labour gains began to recede amidst growing rates of unemployment.

Explanations from that period as to why this was the case, both from the Left and the Right, pointed to the onset of crisis, whether this was a “fiscal crisis of the state” (O’Conner 1973), a “systemic crisis” (Offe 1984), or a “crisis of democracy” (Huntington 1975): the deepening of democracy empowered social groups to make excessive demands on the State. These demands led to the expansion of the State and its financial commitments. But with economic slow-down at the end of the 1960s, exacerbated by the two oil shocks of the 1970s, advanced economies entered into a long recession and the state was forced to cut back its largesse. And while demand for labour fell, wages remained high due to the bargaining power of labour unions who refused to give up any of the institutional gains that labour had made in the previous two decades. With rising unemployment, the advanced capitalist state found itself obliged to compensate the losers and that led to a downward spiral of decreased productivity, less income for government, less government spending, which led to a further decrease in economic activity and rising unemployment.

But after the economic recovery which started in the 1980s and continued despite brief hiccups until 2008, unemployment remained high, leading to the widely-observed trend of “jobless growth”. Recent explanations point the finger of blame to labour market rigidities (Nickell 1997; Siebert 1997; Helpman and Itshoki 2009). On the one hand, these keep the cost of employment higher than its economically accepted equilibrium and, on the other hand, generous unemployment benefits discourage many laid off workers from actively seeking jobs. This has created an incentive for capital to increase its ratio in economic output relative to labour, basically by substituting it with technology. This trend is likely to continue, especially with the impressive advances made in recent years in the field of artificial intelligence and robotisation. This has led some scholars to predict that not only manual workers but even white-collar workers will be dispensable, both in manufacturing and in the service sector. And possibly within a generation or two most of the work that is now done by humans will be done by machines, more efficiently and less costly (but see Ayadi et. al. 2017).

While such explanations might be partly helpful in the case of an advanced capitalist economy (see the counter-arguments in Oswald 1997; Blanchard and Wolfers 1999, 2000), for several reasons they are not convincing when applied to the case of the MENA region.

First, the economies in the region lag behind those of the West in terms of reliance on technology. They have no robust industrial policies, usually seen as a prerequisite for breaking through the technological frontier (Amsden 1998). And in manufacturing, these economies, despite considerable inflows of foreign direct investment in recent years and possible technological spill-overs, are still relatively more dependent on labour intensive production, employing mainly low-skilled labour, which could explain the lower demand for high-skilled labour in the region (those with graduate or post-graduate degrees).

Second, these economies occupy a different structural position in the global economy. As peripheral countries, they are more susceptible to pressure from international organisations, such as the World Bank and the International Monetary Fund, to make their economies more market friendly. So rather than labour market rigidities, the story of unemployment in the Southern Mediterranean region could largely be explained by the changes in economic policy, from the 1980s onwards, inspired by the so-called Washington consensus with its focus on restraining government spending, privatisation of government-owned firms and controlling inflation. This policy mix is positively correlated with the historic trend of the rise of unemployment and is probably responsible for preventing it from falling (Zaki 2001). This may be considered by some as sound economics: in Egypt, for example, some studies have shown that the current level of actual employment does not significantly diverge from its equilibrium level. (CBE 2011) But even though the current level of unemployment may make sense from the perspective of supply-side economics it is, in fact, a political powder keg waiting to explode again, as it did just a few years ago in what came to be known as the Arab Spring.

The third and, perhaps, most significant difference between the stories of unemployment in an advanced capitalist economy, on the one hand, and in the developing economies of the Southern Mediterranean region, on the other hand, is that labour market institutions hardly exist in the latter; and if they do exist, virtually everywhere they are very loosely enforced.

This doesn't mean that institutions are irrelevant in explaining regional unemployment. Indeed, they do matter, but perhaps in different ways to how they matter in an advanced capitalist economy. In the Southern Mediterranean region, badly enforced labour market institutions may thwart employers from firing, but that does not prevent them from hiring. They do, but most of this hiring is done informally, beyond the reach of the law, giving rise to higher incentives for opportunistic behaviour by both employers and employees. Precarious forms of employment, typified by bad quality and without robust protection for workers, are widespread in the region. In other words, institutions in the region are not merely significant in explaining the level of unemployment, albeit in different ways to how institutions explain unemployment in the West, they are actually equally important in explaining the quality of employment and the welfare of workers, or rather the lack of it.

This has important policy implications. Adopting European-style labour laws, following the advice of the Washington consensus organisations, may lead to a deterioration of the problem, not its solution, as we have seen elsewhere in the world. (Cabarello and Hammour 1997: 3) What is needed is a new model of institutional development, a "Middle East Consensus", to replace the now-widely discredited Washington consensus.

It is important to be clear on why such a new model is needed and why employment growth should be at its heart. The region has a noticeable youth bulge coupled with unsustainable levels of unemployment, not among unskilled workers as is the case in the West, but among the educated middle-class youth. This is exactly the same social category that took to the streets in 2011 and which eventually brought down the regimes in Tunisia, Libya, Egypt and Yemen, and which are now forming the backbone of the civil war in Syria. They also incorporate most of those refugees who are knocking on the gates of Europe. The choice for policy makers and advisors in Europe is simple. They could continue to defend and impose a developmental model that might be sound in terms of neoclassical economic theory and ideologically appealing to those who believe in it. But this would bring the risk of more political instability in the region that will sooner or later spill over to Europe. Alternatively, they could acknowledge past policy mistakes in order to go beyond the limits of the current, largely ineffective policy consensus, in order to come up with a set of policies that can actually work, i.e. deliver sustainable growth, job creation and social justice.

2.2 Institutions: Theoretical Considerations

Institutions have a direct and an indirect effect on the rate of employment. Indirectly, institutions contribute to total factor productivity in the economy which is a key component in economic growth. For example, without secure property rights, gains from investment and trade would not materialise, with detrimental impact on growth. Without economic growth, societies in the developing world, almost all of which are characterised by positive population growth rates, would not be able to produce enough jobs to absorb the new entrants to the labour market.

Directly, institutions affect employment by providing the governance structure of the labour market which, when effectively enforced, shapes the behaviour of employers and employees vis-à-vis each other, both inside and outside the business. For example, without a governance structure that ensures mutual and secure gain for employers and employees, companies may find it difficult to retain workers long enough and to invest in them in order to increase their tacit knowledge and for them to acquire firm-specific skills that can greatly enhance the efficiency of production (Williamson 2005: 55). This direct effect of institutions on employment and the quality of that employment is the focus of this report.

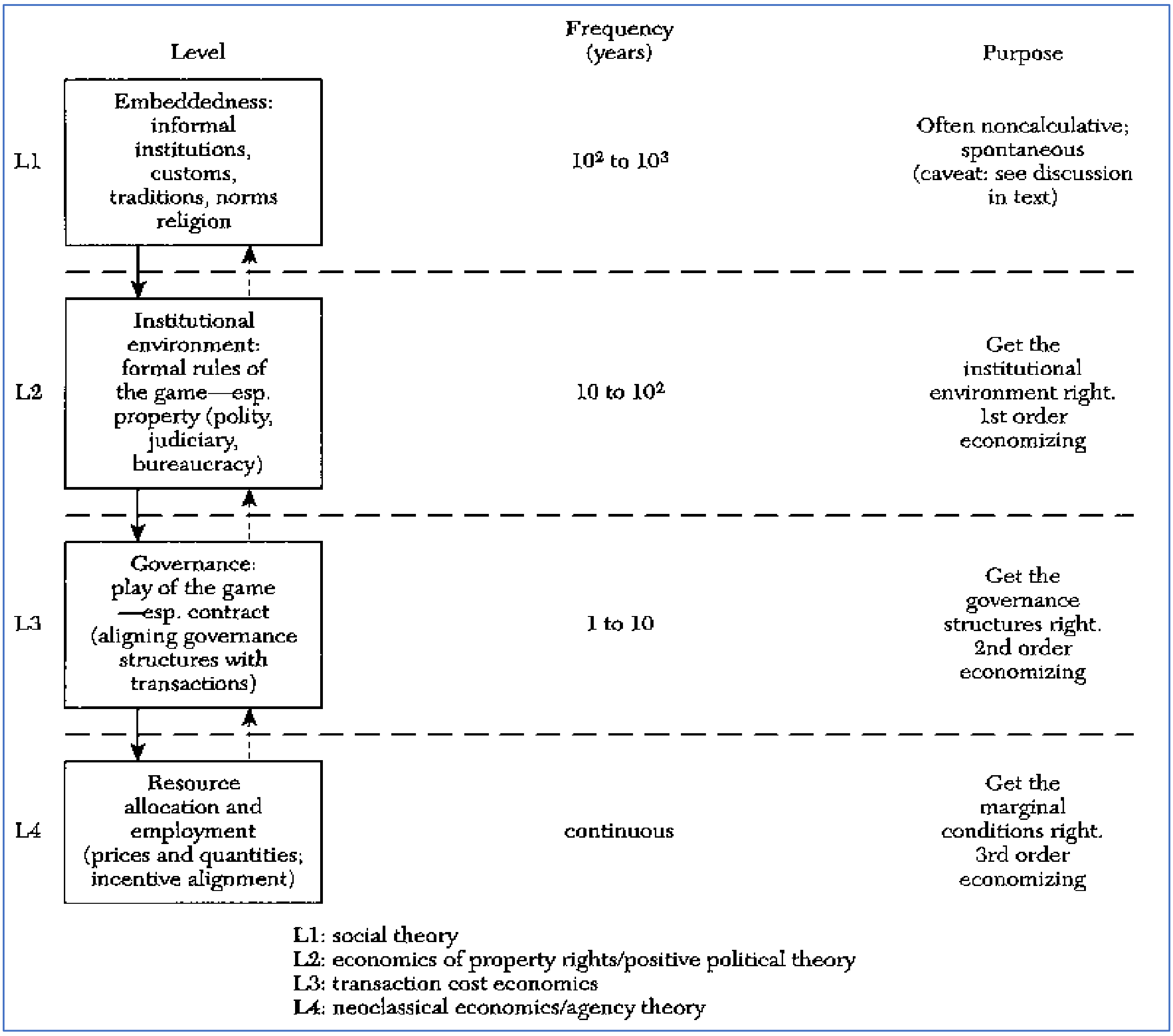
But first, what are institutions, where do they come from, and how do they change? Institutionalist social scientists, both old and new, have developed three complementary approaches to explain what institutions are. As Crawford and Ostrom (1995) explain, the first approach views institutions as equilibria to games of cooperation in a society. With repeated exchange, those involved – the players or participants – reach a common understanding of their respective preferences and learn to optimise their collective behaviour. Over time, a stable equilibrium is reached, when no one participant can improve his or her gains by adopting a different strategy of action. This equilibrium becomes an institution, one that is self-enforced rather than requiring a third party to enforce it. In terms of where such self-enforcing institutions come from and how they change, Hayek (1982), one of the influential proponents of this view, argues that this is a spontaneous order that evolves over time through trial and error and not through design.

While the *institutions-as-equilibria* approach and the approach of *institutions-as-norms* emphasise the voluntary and spontaneous evolution of stable patterns of behaviour, they differ in the ground upon which they build their explanations. As clarified by Crawford and Ostrom (ibid.), the former approach assumes that participants are rational maximisers and their behaviour is driven by a means-to-end calculation, while the latter posits that institutions-as-norms arise to reflect a shared belief among participants of what is considered a normative moral, religious or any other kind of social obligation. On the other hand, the first and the third approach, *institutions-as-rules*, agree in their assumption of individual rational behaviour (although they might differ on how “bounded” this rationality is). They, however, differ in one major respect. Because institutions have asymmetrical distributional outcomes, the third approach allows for institutional design, i.e. it assumes that some institutions are *constructed* in order to allow a group of participants to capture a profit, without necessarily assuming that the resulting equilibrium is stable. Much here depends on the relative balance of power among participants, as reflected in their bargaining strength while deliberating to design a particular institutional arrangement.

These three approaches to the study of institutions are amalgamated in the widely-cited definition of institutions provided by North (1990): institutions are the humanly devised constraints on behaviour. They are made up of formal rules, informal norms and their enforcement characteristics. What is particularly useful about this definition is that it focuses our attention on enforcement, a problem that has been neglected by mainstream economic theory and by previous generations of institutionalists: A frictionless world of zero transaction costs, where contracts are effortlessly enforced among non-opportunistic participants and where, in the absence of agency costs, enforcement would be costless. But in real life, this is not the case and sometimes the political and economic costs of enforcing rules become too prohibitive which might lead to a breakdown in exchange.

As useful as this definition might be, it stops short of providing a useful framework for subsuming the variety of levels of institutional analysis, particularly outside advanced capitalist economies. In these economies, and in the theoretical and empirical literature in new institutional economics, there is a bias towards formality, no doubt driven by the specific historical experience of capitalist development and its concomitant highly regulated and formalised superstructure. In the developing world, on the other hand, including the Southern Mediterranean region, a significant amount of political and economic exchange takes place outside the purview of formal institutional arrangements. Because of this, we turn to a more nuanced scheme of institutional analysis, proposed by Williamson (2000), to serve as the framework guiding the empirical section of this report (see Figure 4).

Figure 4: Levels of institutional analysis



Source: Williamson (2000: 597)

Arranged from higher to lower, where the higher level imposes constraints on the levels below it, at Level 1 we find what Williamson calls the "social embeddedness" level. At this level, we find the informal norms, customs, traditions, etc., referred to by North in his definition of institutions. But, in addition, we find other highly formal structures such as religions, which in some developing societies (including in the MENA region) serve as the ultimate constraint for many participants. Institutions on this level sometimes persist for millennia and are difficult to change. They have mostly evolved spontaneously in the distant past and have since then been "locked-in", either because they still serve some functional role or because of their acquired symbolic significance. They serve as the cultural "tool kit" from which society draws most of its ideology and lower-level institutional arrangements and various other strategies of collective social action. (Swidler 1986)

At Level 2, according to Williamson (ibid.), we find the "institutional environment" (see also North 1971; Davis and North 1970). At this level, the fundamental rules of the game exist in a society, for example constitutions, which serve as the rules for creating other rules throughout the institutional chain. Although easier to alter than Level 1 institutions, the institutional environment changes rather slowly, over a period of decades, sometimes even centuries as is the case, for example, with the U.S. Constitution. It is at this level of institutional environment that we find society's political settlement, or the fundamental balance of power among social forces (Khan 1995, Poulantzas 1973). Because of these power dynamics, change at this level usually happens after a crisis, when windows of opportunities open to alter the fundamental structure of property rights in society, the main source from which groups draw their relative power. Such crises include revolutions, wars, financial crises, coups, etc.

Below this, we come to Level 3, the "institutions of governance". Here we find the plethora of laws governing the day to day political and economic exchange in society. For example, most of the theoretical and empirical literature on the links between institutions and employment carry out their analysis at this level, where formal labour market institutions are found. Institutions at this level may change more rapidly, possibly with each change of government. But they may also suffer from inertia due to their ex-post distributional implications. In advanced capitalist societies, where the main form of authority (*Herrschaft*) is of the rational bureaucratic variety, we find that this level is occupied by formal institutions. In other parts of the world, and under different types of authority, formal rules, informal constraints and "practical norms" (more on this distinction between informal rules and practical norms below), might carry more or less equal weight as determinants of behaviour.

Finally, we arrive at Level 4, the "business end" of the various political, economic and social games that we play. This is the level of actual contractual arrangements between principals and agents at the micro-level of the household, the firm or a government agency. Both formal and informal rules provide the incentive structure at this level of analysis, and these rules may change relatively rapidly.

These four levels of analysis, together with their enforcement characteristics, provide a sufficiently adequate framework to capture the extent to which rules and norms permeate society. They will serve as a road map to guide the empirical part of this report. But before proceeding, a few remarks are in order.

First, these four levels of analysis are complementary. The lower levels are embedded in the levels above them. A "good fit" between these levels is a healthy feature in any society. This means that the incentives for action provided by all four levels reinforce each other. Lack of fit, on the other hand, can be very problematic, as this means that there are incompatible incentives operating in society (Helmke and Levitsky 2003). A good example is the debate about interest rates in some Islamic societies: religious teachings (Level 1) prohibit certain forms of interest. This, however, contradicts modern banking practices (Levels 3 and 4) that have become unavoidable in this day and age. One of the problems of the developing world, including the countries in the Southern Mediterranean region, is this problem of lack of fit and the existence of incompatible incentives in society.

This is a problem of long-term historical development. In the original model of capitalist transformation, in Western Europe and the United States in the 18th and 19th centuries, the process of institution building was mostly bottom-up: technological change, coupled with wealth accumulation from trade, led to developments in the means of production. The new relations of production that evolved as a result created new practical norms at the household level and increased the bargaining strength of, first, the emerging capitalist class and, later, the army of labour after it learned to organise in factories. The ensuing class conflict led to the creation of a new institutional structure to protect the property rights of capitalists and reduce the rates of worker exploitation. With the maturity of this process of structural transformation, one finds an institutional architecture in which the formal and informal rules are complementary to one another, in their function as incentives for capital accumulation.

In most of the developing world, this process was turned on its head. It did not evolve gradually from below, but was violently imposed from above, either by Western colonial rule or by ambitious local leaders who desperately wanted to catch up with the West. Before the development of the material base, as was the case in the original model of capitalist transformation, what happened instead was that a set of formal institutional arrangements was hastily borrowed from the original model, initially in the form of modern armies, bureaucracies and even limited forms of political representation, but not factories. Over time, the new formal rules governing exchange among the elite and their foreign patrons began to diverge from the rules of exchange governing those segments of the population that continued their pre-modern existence. In some cases, the state managed to credibly enforce the formal rules long enough for them to change the more stable informal institutions and supplant them with a set of incentives and constraints more conducive to economic growth. But in most other cases, including in the MENA region (perhaps with the exception of Tunisia), the post-colonial state proved too fragile to complete the task of structural transformation. We are, therefore, left with what could be described as a “disjointed institutional structure” in these societies, where different levels of institutions provide incompatible incentives for political and economic participants, with stunted development and widespread lack of social cohesion as a result.

Second, and as mentioned already, most of the theoretical and empirical literature on the relationship between institutions and employment focuses its analysis on Level 3. But in the MENA region, as in many other parts of the developing world, all four levels are relevant. For example, as we will see below, many Jordanian university graduates refuse to accept employment that they perceive to be degrading. On the one hand, certain societal norms (Level 1), for example norms of respectability, constrain them from doing manual work. On the other hand, strong family ties and dense social networks, including material flows from the head of the family to its unemployed members, may act in a way similar to the way generous unemployment benefits may prevent laid off workers in some capitalist economies from seeking employment, even when such formal institutional welfare provisions (Level 3) do not exist in Jordanian society.

Third, there is a great deal of confusion in the literature around the term "informal institutions". The first source of confusion is how to distinguish between informal and formal institutions. Some scholars have argued that formality and informality is a matter of degree and that the boundaries between them are fuzzy (Bouziane 2013). This might be so, but we are still left with the problem of demarcation: when do formal institutions end and informal rules begin, or vice versa? A more fruitful approach is to distinguish between formal and informal rules according to two criteria. 1) informal rules have obscure origins. For example, no one could really say when did the practice of female circumcision in some African societies begin, or who started it. But a labour law that is enforced in a certain country has a known origin and one or more authors. 2) informal rules are either self-enforced or socially-sanctioned, whereas formal rules are usually enforced by a third party, mainly the firm or a state which, for all analytical purposes, could be seen as a "super firm" (Coase 1960).

The second source of confusion is that "informal institutions" has now almost become a catch all term describing any arrangement that is not formal - from an age-old cultural norm, to a practice such as a bribery exchange, to informal employment contracts. Obviously, these are radically different issues, both analytically and in terms of their policy implications and subsuming all of them under one term can be confusing. Therefore, in this report we retain the term "informal rules" to describe those norms, customs, traditions, etc., that exist on Level 1 as described above, and that are self-enforced or socially-sanctioned. For those other shorter-term arrangements, which are mostly pathological in nature (corruption for example) and which are also self-enforced, we use the terms "practical norms" and "sub-formal arrangements" interchangeably. (See Olivier de Sardan 2013)

Finally, a note about enforcement. In the MENA region, as in many parts of the developing world, one can find constitutions, laws and most of the institutional architecture of a modern state. But these are mostly impressive texts and not much more. They are either not enforced, or enforced in a selective and random manner at the behest, and for the benefit, of the political and economic elite (UNDP 2005). When studying this phenomenon, it is important to ascertain the causes of this enforcement failure. For example, are rules not enforced because the resources (personnel, finance, etc.) required for effective enforcement are lacking, or are they not enforced, or enforced in a selective manner, because powerful participants are benefiting from this? The difference has implications for the choice of intervention strategy. In the former case, technical assistance and capacity building programmes ought to be sufficient to solve the problem. But in the latter case, no amount of technical assistance can solve the problem of selective enforcement in the absence of political will. In this case and, until there is a political will to take rule enforcement seriously, resources are better shifted elsewhere, rather than squandering them in interventions that are doomed to fail.

This problem of enforcement has significant implications for designing new institutions, for example when an activist state wishes to decrease unemployment through providing incentives for young entrepreneurs to start their own private business. As we will see in the empirical part below, such Active Labour Market Policies (ALMP) programmes have been attempted in the four case studies included in this report, but their impact has been quite modest because of either bad design or enforcement failure. Understanding the dynamics of enforcement, as a specific example of the wider problem of institutional failure in many parts of the developing world, is highlighted in the concluding section of this report as one of the main areas worthy of future research.

PART 3: LABOUR MARKET INSTITUTIONS IN EGYPT, JORDAN, MOROCCO AND TUNISIA

Well-paid formal jobs are important to provide individuals with income commensurate with living decently in good conditions. Moreover, they permit families to escape the poverty trap by providing good education and health care to their children. As described by the UNDP Human Development Report (2015: 1): "Work can enhance human development when policies are taken to expand productive, remunerative and satisfying work opportunities; enhance workers' skills and potentials; and ensure their rights, safety, and wellbeing".

There is an important link between work and social justice. However, the link can be broken in cases of exploitative work that is done under hazardous conditions, where labour rights are not guaranteed or protected, where social protection measures are not in place and when unequal opportunities and work-related discrimination increase and perpetuate socio-economic inequality. (UNDP 2015: 29)

The institutional structure in a society - including laws, regulations, culture and norms - plays an important role in ensuring rights, safety and wellbeing of the employees as well as the employers. This part of the report provides a description of the key elements of the institutions, both formal and informal, that directly affect labour markets in Egypt, Jordan, Morocco and Tunisia. It concludes with a critical overview of some of the active labour market policy programmes in these countries.

3.1. The Institutional Environment

All four countries have constitutions that emphasise various rights, including the right to work and to social justice. But, as will be argued below, just having a constitution is in itself no guarantee that these rights are respected when a state has either no will or capacity to enforce law and order, in a fair and indiscriminate manner.

In **Egypt**, a new constitution was written and ratified in 2013/14. Article 12 of the new constitution states that work is both a right and a duty, and there can be no forced labour, except in special cases, in compliance with the law and for performing a public service for a defined period of time and in return for a fair wage, without any violation to the basic rights of those assigned to the work. In addition, Article 13 stipulates that the state is responsible for protecting workers' rights, developing more balanced work relationships between the different parties to production, ensuring means for collective wage bargaining, protecting workers from risks of work, ensuring appropriate conditions for the health, safety and security of workers in the workplace, and prohibiting arbitrary dismissal. The constitution also provides the right to a reasonable standard of living for all citizens and guarantees the provision of social security services for the elderly, the unemployed and the disabled (Article 17). Article 42 states that workers should have a share in the management of projects and are entitled to a fair share of their profits. The Egyptian Constitution also stresses the importance of public employment and civil service recruitment. According to Article 14, the state is obliged to provide public posts for citizens on the basis of merit, with no favouritism, and to ensure the rights and protection of civil servants.

Similarly, the constitution in **Jordan**, adopted in 1952 but amended many times since then, establishes a right for Jordanians to work and provides some basic guidelines and some essential principles that should inspire labour legislation: It states that (Article 23):

- Work is the right of all citizens, and the State shall avail it to Jordanians by directing and improving the national economy.
- The State shall protect labour and enact legislation therefore based on the following principles:

    a. Giving the worker a wage commensurate with the quantity and quality of his work.

    b. Defining weekly work hours and granting workers weekly and annual paid rest days.

    c. Specifying special compensation to workers supporting families and in the cases of dismissal, illness, disability and emergencies arising out of work.

    d. Establishing special conditions for the work of women and juveniles.

    e. Subjection of factories to health safeguards.

    f. Free trade union within the limits of the law.

The new constitution in **Morocco**, promulgated in 2011, also guarantees social justice and respect for rule of law. For instance, it guarantees the right of workers to strike and the right to education. Article 31 ensures the right to health care and adequate living, highlighting the role of the state in helping workers to find a job or secure self-employment. In addition, the constitution guarantees freedom of association and assembly, of peaceful demonstration, together with freedom to belong to a trade union (article 29): it is worth noting that the new constitution strengthened the role of trade unions as social and democratic players, maintaining a quota for their representation in the second Chamber of the parliament.

Finally, in **Tunisia,** the new constitution of 2014 guarantees the right to join and form trade unions, the right to work and the right to strike. According to article 40, employment is a constitutional right. Every citizen is entitled to a job. The state is obliged to take the necessary measures to ensure that jobs are allocated on the basis of merit and fairness. All citizens are entitled to work under good conditions for fair pay.

But there is more to constitutions than their texts. An analysis of the constitution making process itself and the degree to which constitutions are enforced can reveal a great deal about political dynamics in a country, including its level of political stability, changes in its socio-economic realities and the balance of power among social forces. A decrease or an increase in these factors affects levels of employment indirectly due to its effect on investment, trade and, generally, on the prospects of either economic growth or decline. The following remarks are therefore in order.

First, as Elster observes (1995: 370-371), the need for a new constitution or major constitutional amendments only arises as a result of eight types of crisis or exceptional circumstances in state and society: 1) a deep social and economic crisis, 2) a revolution, 3) regime collapse, 4) fear of regime collapse, 5) defeat in war, 6) post-conflict reconstruction, 7) the creation of a new state and, finally, 8) liberation from colonial rule.

Constitution making and constitutional amendments in Egypt, Jordan, Morocco and Tunisia are not exceptions to these general conditions. Since 2011, a period characterised by a deterioration of political stability in all four countries, there has been massive constitutional change. In the last five years, there has been regime change: once in Tunisia and twice in Egypt. As a result, both countries discarded their old constitutions and embarked on a process, highly acrimonious at times, of writing new constitutions. However, given the fear of a similar outcome in Jordan and Morocco, i.e. regime change, prompted the monarchs there to initiate swift constitutional changes. In Morocco, a referendum on a new constitution to replace the old constitution of 1962 was held on July 1, 2011. This could be seen as part of the Kingdom's long-term strategy to implement gradual reforms mainly aimed at strengthening the rule of King Mohamed VI while at the same time providing a limited political opening and expanding the scope of government, in order to cut unemployment and economic stagnation which were fuelling unrest in the rest of the region.

As for Jordan, no new constitution was written after 2011. However, massive amendments were made in 2011 and most recently in 2016 to this kingdom's constitution of 1952, which has its origins in an Organic Law promulgated under British colonial rule in 1928, thus making it perhaps the oldest running constitution in the Arab world.

Despite the constitutional changes in these four countries, there has been a noticeable deterioration in the level of their political stability. What is interesting, though, is that this deterioration has been steeper in the two republics as opposed to the two kingdoms in our sample of cases, which raises various questions about regime types in the Arab world and how they produce different political and economic outcomes.

The second observation is that the new constitutions in Egypt, Jordan, Morocco and Tunisia guarantee the right to work and social justice, but in the context of a liberal economic constitutional order relative to their older versions. This reflects two important interrelated features of these economies that have become apparent at least since the 1980s: the first is the higher influence of the free market ideology of the international financial institutions on them; and the second is the rise in the relative social power of a class of capitalists, mostly of the predatory variety, that has grown in a close symbiotic relationship with the state. This alliance between state and an emerging capitalist class has resulted in new constitutional arrangements that have deprived workers from the gains they had secured in the post-independence period.

Nowhere is this more obvious than in the case of Egypt. The language and the content of the articles of its 1971 constitution are unmistakably socialist in nature. For example, according to this constitution, a quota of 50% of parliamentary tickets was reserved for workers and farmers (Article 87) and the national economy was geared to ensure social justice for workers through national development plans that aimed at the elimination of unemployment and setting minimum and maximum wages, in such a way as to bridge income gaps in society (Article 23). The constitution also did not rule out nationalisation of private property (Article 35) and placed limits on the ownership of agricultural lands while guaranteeing the protection of workers and farmers against exploitation (Article 37).

The final and most significant observation is that these constitutions are not much more than exercises in rhetoric. They are empty discursive structures. In a damning critique by the authors of the UNDP's Arab Human Development Report (2005: 116), they argue that:

> Where the constitutional text […] provides rights and freedoms – notwithstanding that they may at times be inadequate – it simultaneously deprives them of much of their worth, turning them into a mere façade before the international community in a display that is empty of any real substance. In other words, the constitution becomes the front for the legislative violation of freedoms and human rights.

All the new constitutions, if correctly implemented, would enhance efforts to increase political and economic freedom in society while safeguarding social justice. However, many of the provisions of rights in these constitutions are written in a vague language and their exact interpretation is left to legislation. This is the main loophole that permits the executive power to maintain a certain status quo and even oversee the adoption of laws that contravene the spirit of the constitution itself. (Mecherfi 2015).

Egypt provides other examples. Although Article 15 of the Constitution stipulates that striking peacefully is a right 'organized by law', the wording of this provision leaves it ineffective in countering the group of increasingly repressive laws that have been adopted in recent years criminalizing demonstrations and strikes (e.g. Law 107/2013 on Public Meetings, Processions, and Peaceful Demonstrations). Similarly, in light of the proliferation of independent trade unions after the 2011 uprising, Article 76 of the new Constitution guarantees the right to form independent syndicates, federations and unions. In Article 77, it is stated that the establishment and administration of trade unions shall be regulated by law. However, it is still unclear how this provision is going to function, since the draft law regulating the formation of workers' unions and associations has been postponed several times. Further, this article states that there may be only one syndicate per profession. Not recognizing the plurality of unions is particularly troubling given Egypt's history of corrupt, state-controlled unions.

There are many other examples from across the Arab world that leave no doubt that there is a serious flaw in the way constitutional arrangements are understood, designed and implemented (see UNDP 2005: Chapter Four). While the institutional environment, i.e. the constitution, does not affect employment and social justice directly, it does so indirectly through impacting the overall political and economic environment in a country: in the absence of respect for the rule of law, there is likely to be deterioration in the level of political stability. This, in turn, creates a climate that is not conducive to attracting domestic and foreign investment, with the consequent negative impact on economic growth, job creation and the provision of vital services such as health care and education. And the picture is largely similar when we turn to an examination of those institutions that directly affect job creation and social justice, namely the laws and regulations of the labour market.

3.2. Labour Legislation

The Labour Law No. 12 for 2003 is the main legislation regulating the labour market in **Egypt**. It was drafted by a committee composed of representatives of the Ministry of Manpower and Migration, business organizations, the Egyptian Trade Union Federation, and the local legal community. Moreover, the ILO was responsible for ensuring that this law would not contradict Egypt's participation in international agreements. This 2003 Labour Law applies to all types of enterprises, except the self-employed.

The Labour Law of 2003 replaced the previous legislation of 1981 that had been relatively rigid for both employers and workers. For example, the previous law prohibited employers from recruiting workers directly and they were only allowed to recruit them through local employment offices. Also, employers were not allowed to terminate the contract of a worker after a certain probation period.

But the risk of having workers with low productivity selected by the employment offices led the employers to develop a practical norm according to which workers had to sign a resignation letter before being regularly hired. On the side of the workers, they were not allowed to engage in collective bargaining or to go on strike in defence of their professional, economic and social interests or against hard working conditions.

The new labour law aims at increasing private sector involvement and, at the same time, achieving a balance between employees' and employers' rights. It provides more flexibility for firms in the hiring/firing process, which has been a major obstacle for job creation in the Egyptian labour market. For example, the new labour law addresses the right of an employer to fire an employee and the conditions pertaining to this. It also allows employers to recruit workers directly and not only through the public employment services. Yet, employers must still notify the available vacancies to local employment offices, but they are free to recruit workers directly if the employment offices do not find suitable candidates within a week.

In addition, the new law grants the employees, for the first time, the right to strike peacefully through their labour unions, although this right is restricted to specific conditions which may make it difficult to exercise (Nesporova and Gobbi 2005). Also, there is a provision in the law for an obligatory annual increase of a minimum of 7% in the employees' basic salaries. According to the law, the Minister of Manpower and Migration may also select certain activities which cannot be exercised by foreigners in Egypt (Riad 2004). Nevertheless, these new rights granted for workers still make public employment a more preferred option and do not make private employment more attractive than it was before. This is because public employment still offers better guarantees against dismissal, ensures the benefits of social insurance, vacations and periodical wage increases for employers and workers, and its fixed and limited working hours allows employees to have second jobs, thus increasing their incomes (Wahba 2009).

The new law contains a new procedure for dispute settlement. In case a dispute arises concerning work conditions, terms or employment provisions, both the employer and the employee have the right to ask the competent administrative authorities (public employment offices) to start informal negotiations to settle the dispute. If no solution is reached within 10 days from the date of the request submitted for the administrative authorities to intervene, both the employer and the employee can resort to a "judicial committee" within 45 days of the dispute (Abdelgouad 2014): in the new law, the jurisdiction to view the legal actions relating to the employment relationships has been transferred from the regular judicial courts, to judicial committees composed of two judges, a civil servant (a representative of the Ministry of Manpower and Migration), a member representing the concerned labour union, and a member representing the concerned employer's syndicate. The decisions of those judicial committees may be subject to appeal in the Court of Cassation, in accordance with the general rules of Egyptian Law (Riad 2004).

The labour law of 2003 stipulates that there are two types of labour contracts: for an indefinite period and fixed-term. The latter includes labour contracts with a fixed term as well as contracts related to the accomplishment of a specific task. The maximum duration of a fixed-term contract is five years. A fixed-term contract is considered renewed for an indefinite period if both parties continue to stick to it after its expiry date, although there is an exception for foreign workers. With the agreement of the two parties, the fixed-term contract could be renewed several times. Concerning the working hours, as stated in the 2003 labour law, employees are not supposed to work more than eight hours per day or 48 hours over a six-day working week. If the working hours exceeded this limit, or the employees are required to work during official holidays, they must be paid overtime. Each employee has the right to have a minimum annual paid leave of 21 days for every full year of service. If the employee has worked for 10 consecutive years in the same place or if he/she is over 50 years old, the annual leave is increased to one month. On the other hand, part-time work adds more flexibility to the labour market, since some of the government employees work as part-timers in micro as well as small and medium-sized enterprises, while they are still employed by the government to increase their earnings (Handoussa and El Oraby 2004).

Concerning **wage policies**, the Ministry of Manpower and Migration supervises and monitors collective negotiations and agreements. The wage setting mechanisms are defined by law and the Egyptian government is responsible for setting wages, benefits and job classifications for public sector and government employees.

The legislative framework of the wages system in the government sector is very complicated, as it is regulated by more than 40 laws and decrees issued between 1942 –2008. Employers must pay social insurance contributions with respect to their Egyptian employees to the Ministry of Social Insurance and Social Affairs. Also, Egyptian employees are legally responsible for contributions. The employer withholds the employees' contributions from their salaries and wages each month and they are paid, together with the employer's own contributions, to the ministry within the first two weeks of the following month (Abdelgouad 2014). Social insurance contributions paid by employers are made at rates of 26% of basic wage and 24% of variable wage. Employees pay at rates of 14% and 11% respectively. A cap on the pensionable salary was introduced by Social Insurance Law no. 135, in 2010, as well as a reduction in the contribution rates on basic wages to 19.5% for the employer and 11% for the employee (compared to the former 26% and 14% respectively). The Law also foresees regular adjustment of pensions for inflation and changing the retirement age to 65 years instead of 60. The law introduces 15% of the national average wage as a minimum pension for all people, aged 65 or over, who do not have another form of old-age support (Said 2015).

Labour Law 2003 sets the minimum wage and wage increases in relation to the cost of living. It sets wage levels according to the different job categories, field of specialization and describes the required qualifications to receive a specific salary. Moreover, promotion and incentive mechanisms are precisely defined in the Law. A maximum amount to be granted for overtime, incentives and allowances is also set by the Law. In 1987, public enterprises were granted a greater degree of freedom in setting rules on incentives. The national labour law only sets the minimum wage, special wage increases, and social insurance, along with living-cost allowances.

These rules of wage determination have usually been ignored by private employers. On the other hand, the workers cannot impose the implementation of these rules, due to their low level of unionization. In the private sector, wages are set almost randomly, depending on personal skills and degree of specialization. Also, labour demand and supply play an important role in determining wages in the formal private sector. The basic wage of any employee consists of basic salary and all other fixed allowances, while the variable wage consists of bonuses and incentives that could be paid infrequently by the employer (Abdelgouad 2014).

In 1984, a minimum monthly wage level of LE 35 was set to serve as the basic wage (it represented 60% of GDP per capita) upon which incentives are added bringing the total to LE 394 in the public sector. In the private sector, this amount was about LE 158. However, it is worth mentioning that employers in the private sector do not usually adhere to the minimum wage, even in the formal sector (Abdelgouad 2014).

Within the framework of the Labour Law no. 12, a National Council for Wages was established in 2003 to set and revise the minimum wage level through tripartite dialogue every three years, to carry out studies on minimum wages, establish national wage policy and study reports issued from Arab and international organizations. This Council has been revising the minimum wage level, so as to provide better levels of income for a larger proportion of society. The minimum wage reached LE 214 in 2005/2006. According to the Annual Bulletin of Employment, Wages and Working Hours, the average weekly wage was LE 252 in 2007, with the average weekly wage being LE 214 in the private sector and LE 308 in the public sector. The Wage Council was considering raising the minimum wage to LE 250, to be compatible with the poverty line that was estimated by the World Bank and the Ministry of Economic Development to be LE 155 per individual per month (Wahba 2009). In fact, the Wage Council only held a few meeting sessions, hence preventing regular adjustments to be done. As a result, a court case was initiated by a local NGO and a tribunal decision was made, during late 2010, forcing the Wage Council to hold a session. Thus, the minimum wage was set by the Council at LE 400 LE (ENCC 2013). Before July 2011, the minimum wage of the lowest grade of any government employee increased from LE 400 to LE 700. In January 2014, the minimum wage of public sector employees was set at LE 1200, and pensions have been raised by 10%. As for the private sector, discussions between employees and employer representatives related to minimum wages are being held. Nevertheless, these wage policies have no effect on those working in the informal sector (Said 2015).

It is clear that the minimum wage in Egypt is not only very low, but it is also poorly enforced. Yet, it is worth mentioning that a sound and effective minimum wage policy is very essential for Egypt to grow on a more equitable, sustained and balanced basis. If this minimum wage is set at a reasonable level, while being adjusted regularly, this would send a strong signal to labour markets and, thus, would help in stabilizing expectations. Thus, a new and reasonable minimum wage rate should be introduced and well enforced. Also, the minimum wage-setting mechanism should be in compliance with the ILO Minimum Wage Fixing Convention no. 131, ratified by Egypt. Moreover, the mechanisms and definition of minimum wages ought to be simple and just, transparent to workers, easy for employers to abide by and to enforce. It should take into consideration the workers and their families' needs, in addition to economic factors such as impact on price inflation and employment, taking into account the limited capacity of small and medium enterprises to pay for a high minimum wage in the formal economy. In addition, thorough consideration should be paid to the lack of progressivity in the taxation as well as social insurance contribution systems, which were considered to be too high which encouraged under-reporting of actual wages. Concerning the debate on having one single minimum wage rate versus multiple minimum wage rates, the ILO mentioned that it is preferable to have a single minimum wage rate across the whole country, at least at the present stage. On the other hand, setting industry-specific minimum wages would need highly disaggregated wage and productivity statistics that are currently unavailable, given the limitations and shortcomings of the existing official wage statistics (ENCC 2013).

As for the structured wage bargaining process, it is considered underdeveloped in Egypt. Additionally, the social partners (e.g. trade unions) are not well-equipped to engage in effective collective bargaining. Collective bargaining on wages and other work conditions should be carried out in the framework of social dialogue (ENCC 2013).

As for **unemployment benefit schemes**, since 1982 till now, the government has not been committed to providing unemployment insurance benefits against unemployment for workers in the private sector. However, the government continues to apply the law requiring employers to pay 2% of salaries paid to all workers for unemployment insurance. Law no. 79 for 1975 is the main legislation regulating unemployment benefits. It stipulates that these benefits should correspond to 60% of the last salary received by the dismissed worker and are granted for a maximum period of 28 weeks after dismissal. These unemployment benefits are financed through an employers' contribution, equal to 2% of their workers' wages, as well as through the revenues made from the investment of such contributions. On the other hand, the Social Insurance Law no. 135 for 2010 extends unemployment insurance to all workers who contributed to social insurance for at least 12 months (Abdelgouad 2014).

As a result of the absence of an effective unemployment benefit scheme, the Workers Emergency Aid Fund was created, which is regulated by Law no. 156 for 2002. The main aim of this Fund was to alleviate the negative effects of privatization, economic liberalization and adoption of the new Labour Law, which gives employers more flexibility to dismiss, to adopt fixed-term contracts and to change the conditions of the labour relationship. It provides some financial support to workers who were dismissed from work due to the partial or total closure of the enterprise where they were employed, or due to a process of staff reduction. But for workers to receive this financial support from the fund, they must be part of the official insurance system and should not be receiving any unemployment benefits. Moreover, the worker must have been employed for at least one year in the same enterprise. A fee of about 1% of basic workers' wages is the main source of finance for this Fund. The financial support received by the dismissed worker corresponds to 75% of his highest salary and ranges between LE 150 and LE 1,000 per month and it can be provided for a maximum period of six months (Abdelgouad 2014).

In **Jordan**, the labour market is regulated by three main documents: 1) Labour Law No 8 of 1996 and its amendments, 2) Social Security Law of 2014 and 3) Civil Service Regulations No 30 of 2007 and its amendments (the last one was in November 2014). According to the Ministry of Labour, further related laws are the Investment Law No. 30 of 2014, the Prevention of Human Trafficking Act No. 9 of 2009, the Law of Employment, Vocational and Technical Education and Training Council No. 46 of 2008, the Law on the Rights of Persons with Disabilities No. 31 of 2007 and its amendments, the Law of Development and Employment Fund No. 33 of 1992, the Vocational Training Corporation Law No. 11 of 1985 and its amendments and the Law of Residence and Foreigners and its amendments No. 24 of 1973.[1] (home page of the Ministry of Labour, http://www.mol.gov.jo)

Important issues concerning labour regulation include the existence of a probation period of a maximum of three months, the list of reasons for extraordinary termination of contract, and sickness leave regulation. The legal working time is forty-eight hours during a six-day week and annual paid leave is fourteen days per year and twenty-one days after five years of employment. Maternity leave is fully paid for ten weeks (and is compulsory for six weeks) and can be extended unpaid for a maximum of one year.

Among the amendments to the Labour Law, that of August 2002 should be mentioned. The amendment has extended the coverage of the labour law to some categories of workers in the agriculture sector that were previously excluded, regulated and strengthened the supervising authority by the Ministry of Labour for private employment offices recruiting foreign domestic workers, reinforced protection of workers from dismissal for economic and technical reasons, regulated working

[1] See the homepage of the Jordanian Ministry of Labor http://www.mol.gov.jo.

hours, and addressed the modalities of interaction between employers' and workers' organizations (Bitar n.d.).

The social contract in Jordan had long been based on public sector employment and this has been reflected in a stronger focus placed by the legislators on public sector employment. In other words, for a long time, labour market legislation did "not fully address current realities and the institutions responsible for designing and implementing employment policy needed to enhance their capacity further (for example, the public employment services)" (Majcher-Teleon and Ben Slimène 2009).

Wages are regulated for the private sector by the National Tripartite Wage Committee, which fixes a minimum wage for all workers in the private sector. Public sector wages are a responsibility of the Civil Service Bureau, in general, and of the Ministry of Municipal Affairs and of the Jordanian Armed Forces respectively for the employees in the municipalities and in the army. The minimum wage is currently set at 190 JD, even though less than 8% of Jordanians are actually earning less than 200 JD per month (DoS 2014).

Labour regulations in **Morocco** are governed by the labour code of 2003, together with various decrees. The code was designed to modernize Moroccan labour relations making them more flexible. It has been inspired by the recommendations and conventions of the International Labour Organization.

The new Labour Code governs specific employment issues, including conditions of employment and work, employment contracts, and termination of employment and dismissal. It also regulates terms of work and wages, such as minimum wages, maternity protection, hours of work and over time, paid annual and holiday leave, policies for social categories of workers and health protection.

Moroccan law recognises three types of contracts: First, indefinite duration contracts, which are considered by job seekers to be a real guarantee of permanent and well-paid jobs. Second, fixed term contracts, mainly used by firms to recruit workers when there is a temporary increase in the company's activity, or for seasonal jobs. In the agricultural sector fixed term contracts are for six months with an option of renewal for a total duration of two years, after which the contract becomes indefinite. In other sectors, this kind of contract has a maximum duration of one year and can only be renewed once. Again, after the two years' period the contract becomes indefinite. Finally, there is the third type of contract for carrying out a specific task that offers only a temporary solution for unemployment.

When it comes to wage equity, the issue of the reduction of an employee's wage is a common concern in labour relations in Morocco. "The labour code set stipulates that a company may reduce work hours after consulting with the employee delegates and union representatives for a period of no more than 60 days during the year, as a result of economic reasons or factors beyond the control of the company. However, this period might be longer upon the agreement between the company the employee delegates and, as applicable, union representatives. Any corresponding reduction must not be more than 50% of the regular salary, except under conditions more favourable for the employee" (OBG 2009: 242)

As for hiring and firing procedures, labour regulations are strict in Morocco. For example, terminating a contract of an employee for economic reasons is prohibited, only a serious breach of the contract from the worker can allow the employer to engage in a firing procedure against the worker. Yet the sacked worker has the possibility of going to court to contest the employer decision and ask for the payment of damages. And, in order to avoid a long and complicated judicial procedure, the employer usually tries to solve the situation with the laid off worker through direct agreement. Likewise, firing procedures are both complex and costly. For example, "in the cases were the dismissal results from technological, structural or economic reasons, it must first be approved by the governor of the relevant region. Only then would employers be relieved from paying damages, but must still pay severance and notice indemnities. Failure to obtain such approval can be very costly to employers" (OBG 2009: 242).

Labour market observers point out that the strict labour regulations especially with regards to firing procedures hamper labour demand and dissuade firms from investing in the human capital of their workforce by encouraging temporary contracts. However, protective firing regulations are, in a certain part, justified due to the lack of an unemployment insurance scheme in Morocco. It is worth noting that even though the Moroccan government introduced unemployment benefits in 2014, the access conditions are very strict and only a very small number of those who lost their jobs can benefit from it.

Another point of contention in Morocco's labour market regulation is forced work. The 2003 labour code forbids employers from forcibly subjugating workers to perform work. The violation of this provision is sanctioned with financial penalties. But Moroccan authorities do not have the resources to inspect work places to ensure that forced labour is not being used. This is particularly problematic when it comes to hiring child domestic workers, which is a form of involuntary labour that is socially accepted and unregulated in Morocco. Domestic workers are considered the most vulnerable workers' group in Morocco. Before 2016, they were not included in the labour code although the reform of the labour code (Article 4 and 143) empowers inspectors to file charges against those employing children under the age of 15. (DoL 2004) However, a new law concerning domestic workers' rights was adopted by the Moroccan parliament on 26 July 2016. It regulated domestic workers' relations with their employers setting, for example, the limited age for working to 18 years old and limiting the daily working hours. The new law also requires from now onwards a written contract between domestic workers and their employers. It is worth noting, that even if the new law is considered a breakthrough, some civil associations affirm that the reform is not sufficient. Besides, the challenge will be the enforcement of this new reform.

Another problem is the decree of 1958 concerning the general conditions of employment of the Public Service, which can be considered as a form of obligatory service. This decree gives the right to a government agency to accept or reject public servants' resignation. On the grounds of an agency's needs, for instance, a resignation can be rejected if a qualified replacement is not available. However, the civil servant whose resignation was denied has the right to appeal before the competent jurisdiction for abuse of authority. (DoL 2004)

But this brings into sharp focus some of the dysfunctions of the judicial system in Morocco and also in the other three countries included in this survey. Such dysfunctions can have a serious negative impact on employment growth and law enforcement in the labour market. Courts, especially in Morocco and Egypt, suffer from a shortage of materials and human resources and many judges lack the necessary judicial training. The qualities of court decisions have been reported to be in need of improvement and judicial procedures are often complicated and lengthy. Besides, there is a need for more transparency and an effective disciplinary system for judicial misconduct. Finally, judges do not always keep themselves updated regarding new legislation and the judicial education does not focus on specialisation. Consequently, judges have poor commercial knowledge and they mostly rely on experts without being able to understand the expert's reports. (EBRD 2013: 36-39)

As for wage regulation in Morocco, the labour code sets a minimum wage, although this is not uniform across regions and generations: there are different wage floors for urban and rural labour markets and for different age categories. (Agénor and Aynaoui 2003)**.** In principle, minimum wages are revised according to a formal price indexation mechanism. Nevertheless, revisions are irregular and independent of the indexation rule in practice. In fact, they are most of the time the result of confrontation between trade unions and political and economic powers (Agénor and Aynaoui 2003). For instance, in 2001 trade unions succeeded in negotiating a 10% increase in the minimum wage in the public sector despite tight budget constraints. The labour code requires that the most representative trade unions and the employers' organizations associations must be consulted in setting each minimum wage.

In **Tunisia,** to achieve greater flexibility in the labour market, amendments to the Labour Code were adopted in 1994 and 1996 to improve freedom of hiring and firing, to index wages to productivity and to decentralize wage negotiations. These reforms introduced specific provisions for both definite and indefinite contracts, as well as the notion of part-time work. Labour laws from 1994 and 1996 allow greater flexibility in three areas (Zouari 2014):

- *Recruitment:* Employers may hire directly (are not required to hire through employment agencies), may choose their future employees without any constraint and may use the model (fixed-term or permanent contract) they prefer when hiring people.
- L*ayoffs*: When employers dismiss workers, with or without due cause, the process is lengthy and expensive. Nevertheless, layoffs due to serious misconduct can be considered a flexible option as they offer the possibility of dismissing workers more easily.
- *Working hours*: Part-time workers find this option convenient, especially women in the clothing and textile sector where female labour is widely used. However, the option is still under-used because of the lack of suitable and clear regulations for working conditions and social protection.

The most recent amendments to articles in the labour laws of 1994 and 1996 (Law 2006-18 of 2 May 2006) mainly concern the creation, composition and functioning of employment tribunals. Any employer who intends to dismiss a worker is required to indicate the reasons for dismissal in a letter giving advance notice. Dismissals without real or serious justification and dismissals that fail to respect legal procedures are considered abusive. Although recognized, dismissal for economic or technological reasons is complex, with a panoply of wage protection measures, conditions and administrative procedures to be respected. Consequently, dismissal is both bureaucratic and costly. The labour code thus remains overprotective of those within the labour system (World Bank 2014).

Some provisions in the Tunisian Labour Code, such as working time arrangements, are relatively flexible. Also some entitlements such as annual and maternity leave in Tunisia are below internationally accepted ILO standards. However, several other provisions, especially administrative arrangements for contract termination, regulations on fixed-term contracts, and the collective wage agreements might need revisions. High payroll taxes and rigid dismissal procedures may be affecting the ability of firms to manage human resources efficiently and giving them incentives to use mainly fixed-term contracts and/or to hire workers informally. In addition, collective wage agreements in certain industries and sectors set wages that can be high relative to labour productivity, constraining labour demand for high-skilled youth. Moreover, and as will be discussed below, active labour market programmes, on the other hand, have been ineffective and the government has been trying to address these shortcomings (World Bank 2014).

According to Chemingui and Colton (2005), the new labour code does not facilitate the adaptation and restructuring of Tunisian enterprises, so that they can face the challenges imposed by trade liberalization. The rigidity of the law has led to two important responses in Tunisia: firstly, enterprises are increasingly hesitant to dismiss workers in the interest of avoiding administrative complications; and secondly, enterprises prefer to enter into dismissal agreements directly with workers, without involving commissions with control over dismissals. Consequently, many private enterprises avoid drawing up contracts with employees in order to avoid incurring dismissal costs and also to evade social security contributions. Employees, on the other hand, accept a job without a contract for three reasons: firstly, to avoid paying social security contributions, which for them represent a considerable part of a salary which is already low; secondly, because they do not see that the health or retirement system will genuinely benefit them; and finally, because they are ensured greater mobility as far as obtaining better working conditions is concerned.

Labour market regulation is not restricted to labour acts. Regulations on minimum wages, taxes on labour, and social security contributions also have a significant impact on employment. The minimum wage plays an important role in protecting workers in labour markets that are not perfectly competitive and where employers have market power and are able to impose wages that are too low relative to productivity.

Tunisia has official mechanisms for setting minimum wages in the private sector. The minimum wage for formal sector workers in non-farm activities is modest by international standards. Today, the minimum wage represents only 24 percent of value added per worker, a low ratio compared to countries such as Jordan and Morocco. Even so, there are many workers in the private sector who earn less than this minimum, presumably, workers in low-productivity firms (World Bank 2015).

Collective wage agreements are wage matrices that set pay brackets for workers for a certain level of competence, responsibility level, educational level, experience, or a combination of these factors. In several countries, these agreements have priority over the labour code. In Tunisia, unions and employers agree on a pay scale with wage floors for different professional levels in around 70 sectors and industries. Sectoral collective agreements are often negotiated between the UTICA (employer representation) and the UGTT (general trade union).

The Tunisian social protection system consists of: 1) social insurance schemes for workers, and 2) social assistance programmes for the inactive and workers' ineligible for social insurance schemes. Three major national agencies manage social insurance for workers in Tunisia. The Tunisian National Social Security Fund (founded in 1960) oversees insurance such as old age, disability, survivor pensions, and death and family allowances for workers (as well as unemployment support for workers in the private sector). The scheme has both contributory and non-contributory elements. The National Pension and Social Providence Fund (founded in 1975) is responsible for social protection in the public sector and also has both contributory and non-contributory elements. Finally, the Tunisian National Health Insurance Fund, which was founded in 2004 in order to unify schemes for workers in the private and public sectors, is responsible for insurance such as health, maternity benefits, and insurance for occupational accidents and diseases.

As for social assistance programmes, they mainly include cash benefits, free or low-cost health care, and housing subsidies. In Tunisia, unemployment support is also included as a part of social assistance. The Ministry of Social Affairs is in charge of the dispersal of social assistance funds (with the exception of unemployment support), but the funds originate from various sources such as the State, social protection institutions, and private donations.

The social insurance system fails to protect workers because of the way it has been designed. In terms of workers' protection, current programmes have failed to reach around 50 percent of workers. The ability of the system, particularly pensions, to deliver benefits over the long term, is threatened because of inappropriate financing arrangements and weak management and administration. At the same time, the social insurance system is negatively affecting the ability of the economy to create good jobs because it imposes a high tax on labour, reduces incentives to offer or take formal jobs, and hinders labour mobility (World Bank 2014).

Finally, mention ought to be made of Tunisia's new *Social Pact*, a document created and signed by the government, the Tunisian General Labour Union (UGTT) and the Tunisian Confederation of Industry, Trade and Handicrafts (UTICA) on January 14th, 2013. The Pact includes statements of intent to improve economic growth and social development, employment and vocational training policy, decent work, social protection, and the institutionalization of social dialogue, in the form of establishing a National Council for Social Dialogue.

The Social Pact is an excellent document that outlines the broad approach and perimeter of reforms—its signing marked the start of a process of in-depth preparation for actual reforms. It proposes a comprehensive approach to reform labour market rules and institutions to better protect all workers, while giving firms the flexibility required to be competitive and to adjust to changing global markets (World Bank 2014).

The social Pact has a practical value with the creation of an independent council for social dialogue to ensure an active and ongoing dialogue between the three parties: the government, UGTT and UTICA. The council is an advisory structure which provides opinions on socio-economic issues and submits proposals in accordance with international labour standards. Whether it will be enforced or not, however, is another matter.

To sum up, this brief overview of labour laws and regulations in Egypt, Jordan, Morocco and Tunisia presents a mixed picture. A labour law is supposed to regulate interactions between employers, employees, and between their representative organizations: unions and employers' associations. They are designed to equalize the bargaining power between employers and employees and aim to protect workers from arbitrary, unfair, or discriminatory actions by their employers. This stems from the need to protect the worker, who is regarded – legally and socially – as being in the weaker bargaining position.

Weak enforcement of labour regulations leads to an uneven playing field since they are applied to formal sector workers only. Their coverage is, therefore, limited as *informal* employment represents a significant share of total employment in most of the MENA region. Moreover, the regulations are not enforced consistently, even for formal firms. Pending more rigorous research, it is possible to argue that labour regulations are not likely to be the main cause of unemployment. But they contribute to the high level of informality and job insecurity and to the focus of the economy toward low-skilled jobs.

3.3. Informal Rules and Practical Norms

When formal rules are inadequate in performing their function as negative or positive sanctions on behaviour in the market place, either because of problems of design, coordination or enforcement, a vacuum gets created. This vacuum is not rule-less: nothing is. It becomes filled either with informal rules such as traditional customs, cultural norms and social conventions, or with practical norms, i.e. short-term, non-formal arrangements for organising economic and political exchange (see Part 2 above). In fact, in the labour markets in the four countries included in this study, and in most of the developing world, it is not comprehensible to focus on formal institutions when sometimes up to more than half of the participants in labour markets pursue monetary or in-kind reward for the work they do outside the purview of formal labour laws, or where transactions between employers and employees are regulated by handshakes rather than legally binding contracts.

The bias for formality in economic policy analysis has only meant that we have come to know very little about how various markets actually operate in the real world because we have not got sufficient data or robust conceptual and analytical tools to assess how these markets fare in terms of efficiency versus equity equation. One could advance the hypothesis that, from the perspective of employers, non-formal labour transactions are probably more efficient, whereas from the perspective of employees, the picture is probably more complex: there is no guarantee that informal rules and practical norms are not exploitative. But in the developing world, there is also no reason to suppose that formal rules enforced in a highly random manner by predatory states are much better. On the other hand, whether exploitative or not, and given the inherent asymmetries of power between capital and disorganised labour, securing an income via an informal work arrangement is a second-best option when good employment is not available. But these remain hypotheses waiting to be rigorously tested. This section is, therefore, exploratory in nature and will raise more questions than the few answers it might provide about this parallel non-formal universe that exists in the shadow of formal labour market laws and regulations.

Informalisation of the labour market is a relatively recent phenomenon. Since the beginning of the 1980s, driven by structural adjustment policies and reforms aimed at deregulating markets, the gains made in the post-World War II period in terms of labour protection have been steadily dismantled. (Harriss-White 2010: 176) During this period, both the state and the corporate sector have increasingly casualised labour through outsourcing, sub-contracting and the like, pushing it outside the scope of social security under formal labour laws. As a result, the unorganised labour sector has rapidly grown in order to absorb most labour, especially in agriculture, construction, petty trade and a variety of unskilled services. (*Ibid*: 172) The regulatory vacuum that was created as a result was subsequently filled by informal institutions and practical norms.

In terms of informal institutions, perhaps their most significant manifestation is in the social conventions regulating gender relations. In Egypt, for example, according to the Egyptian Labour Market Panel Survey (ELMPS), the rate of unemployed females increased from 23.7% in 2006 to 27.6% in 2012 despite the fact that they only represent 23% of the labour force (Assaad and Kraft 2013). Moreover, the Egyptian women labour force participation rate is very low, hovering between 20% and 25% during the 2000s, compared to a world average of 52% (CESR 2013). Assaad (2014) explains that literature has attributed such low female labour participation rates to different factors such as: "the influence of conservative social norms and the value placed on female modesty in Islam, the effect of oil rents on raising reservation wages, sustaining the patriarchal gender contract."

Similarly, Hayo and Caris (2013) found that Islamic and cultural traditions provide robust explanations for low female labour participation rate in the MENA region. On the other hand, Nazier and Ramadan (2016) have shown that the characteristics of the community context, where a woman lives, play a significant role in affecting women's decisions in entering the labour force. For instance, a woman living in a community where a high percentage of women believe that a woman with a full-time job is not a good mother, would be less likely to enter the labour force. This same negative impact was also evident for the share of women who accept that a man could beat his wife for various reasons.

The situation is not much better in Tunisia, a country that has made admirable progress in closing gender gaps in education and health outcomes. But such investments in human development have yet to translate into higher rates of female participation in the labour market. Access to schools at all levels is equally available for males and females and the number of female students has actually become higher than the number of males. Further, more than 60 percent of university graduates are females. Nevertheless, the rate of female participation in the labour force remains much lower: 25.6% in 2013, compared to 70% for males and, when employed, they often receive lower pay. The situation is either similar or worse in the other three countries: in Morocco, the female participation rate in 2013 was 25.1% compared to 73% for males, in Egypt it was 21.9% and 72.8%, and in Jordan, 13.2% and 60.4% respectively (EBRD 2015: 25).

Another aspect in which informal social institutions affect labour markets is reciprocity: traditionally, members of the same social networks – relatives, friends, etc. – are expected to exchange favours as an expression of solidarity and to comply with unwritten rules of decorum and social acceptability. This is particularly the case in patron-client networks, where the patron is almost obliged to support dependents. Much of this support takes the form of providing work. While this might be accepted, even encouraged, in traditional society, it does not fit well with modern notions such as meritocracy and it gives rise to the insidious phenomenon of nepotism, or *wasta* in Arabic: a word that could be roughly translated as "the use of personal connections to get things done through favouritism" (World Bank 2013: 190). "*Wasta* plays a critical role in hiring and promotion decisions in Arab organizations. Before applying for a position, applicants may seek out a *wasta* to improve their chances of being hired. A person with poor qualifications but a strong *wasta* will be favoured over a person who is more qualified but does not have a wasta." Mohamed and Hamdy (2008: 1)

Moving from the level of social embeddedness within institutions to the lower-level realm of practical norms, the withdrawal of the state and the vacuum created by the inadequate coverage of labour laws and regulations sometimes gets filled with short-term opportunistic arrangements. For example, many firms in the MENA region prefer to enter into dismissal agreements directly with workers, without involving commissions with control over dismissals. Consequently, many private enterprises avoid drawing up contracts with employees, in order to avoid incurring dismissal costs and also to evade social security contributions. Employees, on the other hand, accept a job without a contract for three reasons: firstly, to avoid paying social security contributions which, for them, represent a considerable part of a salary which is already low; secondly, because they do not see that the health or retirement system would genuinely benefit them; and finally, because they are ensured greater mobility as far as obtaining better working conditions is concerned. These informal practical norms contribute to a deterioration of social justice in society.

Another type of informal activity moves beyond evasion of the formal law into outright violation of it. Writing about India, Harriss-White (2010: 171) observes how private firms and even government agencies knowingly break health, safety and taxation rules. Even more ominous is the widespread existence of fraudulent activities in real estate, mining for precious metals, capital flight and illegal trade in commodities such as counterfeit goods, drugs and firearms and human trafficking. Naturally, workers in all these activities are deprived of any legal or social protection. And the value of such informal activities is not small: Harriss-White cites reports which estimate the size of this black economy to be about 16% of the GDP of the European Union in 1998 and up to 40-50% of the Indian economy in the 1990s. No relevant data is readily available for the MENA region, but one can imagine the extent of the phenomenon, especially in countries where state failure has become the norm rather than the exception.

3.4. Active Labour Market Policies

State failure is felt by society when the state can no longer fulfil the terms of its implicit social contract with the people. The social contract in the post-independence Arab state was that, in exchange for political quiescence, the state would provide for society's basic human and social needs such as the need for self-realization through gainful work, mostly in the public sector, as well as free health care and education, adequate housing and subsidized food and energy (Larbi 2016). This has created various long-lasting economic and political distortions or, in other words, highly imperfect economic and political markets. In terms of the market for labour, as Assaad (2014: 2) argues, Arab governments have used them to distribute rents, in order to buy political quiet and have thus "essentially undermined the labour markets' primary function, which is to efficiently allocate human capital to its most productive uses and to signal the kind of human capital investments that are needed."

This distorted labour market could function and continue to operate while the state had sufficient financial resources. But beginning from the end of the 1970s and 1980s, the Arab state was plunged into a chronic fiscal crisis underpinned by a failed state-led developmental model. It could no longer fulfil the welfare component of the contract while it maintained its political component, mostly through the use of coercion. As a result, "the shift to a market-based economy and a partially revised social contract yielded dysfunctional institutions generating very negative impacts on people's living conditions and economic future." (Larbi 2016: 29). The final blow to the old social contract came with the uprisings of 2010/2011. But even before then, Arab governments were acutely aware of the problems, including that of unemployment, especially among the youth. While public service employment continued, it could no longer absorb every job seeker. As complementary measures, governments began introducing active employment policies and strategies.

In **Egypt**, three such policy initiatives are worth highlighting:

Youth Employment National Action Plan

Through a comprehensive consultative process launched in May 2009, the International Labour Organization (ILO), the *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) and the United Nations supported the Ministry of Manpower and Migration in developing a youth action plan. The draft version of the Youth Employment National Action Plan 2010-2015 was the outcome of this process. The main goals of this plan were to increase the employability of youth, create more decent and productive job opportunities for new entrants to the Egyptian labour market, and solve the mismatch between labour supply and demand. This plan aimed to achieve these goals through three main actions:

a) Improving the quality of the technical and vocational education and training (TVET) systems and introducing new technologies.

b) Supporting small and medium-sized enterprises (SMEs) with entrepreneurship programmes.

c) Reviewing labour regulations and developing public employment services (PES) and the Labour Market Information Unit of the Ministry of Manpower and Migration.

The expected results from the implementation of this plan include: development of labour market information; evaluation and improvement of market regulations such as minimum wages and social insurance at the macroeconomic level; improvement of the public employment offices and their services; and encouragement for the establishment of private recruitment agencies. These results were expected to give rise to about three million new jobs during the period of the five-year plan, totalling 620,000 jobs annually and, thus, reducing youth unemployment to 15%. The design and implementation of such a plan is so important to support the inclusion of youth especially the excluded ones. Nevertheless, successful youth inclusion depends on four main factors, which are: family formation, education, civic participation and employment.

The plan, however, never reached the Parliament for approval, due to the frequent cabinet changes after the revolution, although there was a financial package allocated to it in the five-year country plan and the plan was ready to be ratified by the Parliament. The ILO is currently working with the ministry to revive the plan once again through redrafting and adapting it to the new conditions, to serve as an umbrella for all interventions in the field of youth employment. Despite the fact that the priority areas of the plan would not change, financial commitments by participating international donors and ministries will have to be re-evaluated and the plan still has to be approved by the Parliament.

Egyptian Observatory for Education, Training and Employment

The Egyptian Observatory for Education, Training and Employment was created during the period 2006-2010 under the umbrella of the Information and Decision Support Centre (IDSC) affiliated to the cabinet of the Prime Minister, with support from the European Training Foundation (ETF). A Steering Committee was formed including representatives from the relevant ministries, the private sector and civil society. Moreover, through this initiative several labour market analyses and capacity-building activities were conducted and a concept for a labour market observatory was developed.

ETF ended its support for the project in 2010 and the IDSC became fully responsible for it. It finances the initiative from its own resources. Yet, absence of qualified staff, insufficient resources and lack of cooperation from other government agencies has so far prevented the project from being effective.

Since the 2011 revolution, the project is still within the IDSC, but it has no specific budget. Currently, its main activities relate to issuing reports based on IDSC data, as well as providing technical support to two pilot regional observatories that were introduced by a joint project between the Ministry of Education and GIZ, to provide the local policy level with information on current and future labour market developments.

Egyptian Forum for Youth Employment Promotion

In early 2014, an initiative, supported mainly by the ILO and GIZ with funds from Australia, Canada, and Germany, launched the Egyptian Forum for Youth Employment Promotion (Egypt-YEP). Egypt-YEP is a multi-stakeholder high level forum of national policy-makers (the ministries of Education, Planning, and Manpower and Migration), private stakeholders, trade unions, civil society organizations, experts and youth that endeavours to take collective and pragmatic actions to address the pressing labour market challenges of young people in Egypt and especially unemployment. In March 2014, at the first Forum meeting, a high-level multi-stakeholder consultation was launched. In June 2014, counselling and career guidance was the main focus of the second Forum meeting.

The Forum agreed on four priority policies for the encouragement of youth employment:

a) Providing labour market information at both national and regional levels.

b) Introducing monitoring and evaluation mechanisms for active labour market programmes.

c) Public works programmes.

d) Institutionalizing early-stage career guidance and counselling.

To further emphasize the importance of an institutionalized employment dialogue, it was foreseen to establish a Sub-Council for Youth Employment Promotion (YEP) within the Egyptian National Competitiveness Council (ENCC), which is a non-profit policy advocacy group that supports government policies to enhance Egypt’s competitiveness. This group is supposed to play a crucial role in supporting coordinated action to promote youth employment in Egypt through:

- Discussing, reviewing and developing policy recommendations by the government, donors and other stakeholders on current trends and factors that influence youth employment.
- Identifying priorities, coordinating efforts and developing a shared vision.
- Developing firm positions on obstacles that hinder youth employment and designing advocacy plans based on the creation of a critical mass of stakeholders in support of those positions.
- Inviting national and international experts to exchange and learn about experiences and approaches addressing youth unemployment and identifying success factors for Egypt.

- Assessing past and ongoing approaches in terms of efficiency and effectiveness (particularly the effects on quality, affordability, inclusiveness and sustainability).
- Formulating policy recommendations and action items to address youth employment in Egypt.
- Disseminating information on good practices and lessons learned from globally relevant employment policies and programmes.
- Accessing sources of financing identified through the early involvement of responsible governmental entities and private resources.

In **Jordan,** the government has been putting considerable efforts into facilitating the creation of small enterprises, in particular through micro-finance schemes, into enhancing the employability of youth and supporting Vocational Education and Training (VET). VET started in Jordan since 2006 and is guided by the Jordan National Employment Technical and Vocational Education and Training Strategies (E-TVET). A general problem of spreading vocational training in Jordan, however, has essentially to do with widespread aversion to manual jobs. In addition, vocational training has so far failed to systematically reach females and it has been predominantly attended by foreign workers (Fortuny and Al Husseini 2010). Further, training is mostly administered in an academic manner, thus putting much emphasis on exams and on theoretical skills, rather than on practical skills and competencies (Seyfried, 2008). And in general, VET is organized, promoted and administered by public bodies, with only a marginal role played by private firms (Fortuny and Al Husseini 2010).

Since 2006, employment and career guidance services have belonged to the activity portfolio of the Ministry of Labour. A central document coordinating the employment related policies of Jordan is the National Employment Strategy (NES). The most recent document refers to the period 2011-2020. Jordan's NES aims at addressing market demand, thus trying to improve the quality of jobs available, the mismatches of market supply (via building capability and improving vocational skills) and reducing market segmentation. Further policies that are implemented in Jordan for stimulating employment are essentially policies aimed at supporting the labour intensive industrial sector, such as the establishment of Qualified Industrial Zones with the Areas Law of 2008.

In **Morocco,** the policies adopted by successive governments to boost employment growth focus specifically on 1) inspiring qualified job seekers to consider self-employment by implementing different programmes which primarily benefit university and vocational training graduates, 2) promoting vocational training to enhance the skills of job seekers as the best way to meet labour market needs and to reduce unemployment among young workers, and 3) facilitating access to loans at preferential interest rates to young educated entrepreneurs, as well as instituting substantial tax exemptions to benefit young entrepreneurs holding vocational training diplomas.

One of the earliest active labour market policies in Morocco is the National Initiative for Human Development (NIHD). It is a long-term project launched by King Mohamed VI in 2005. It is a socio-economic initiative that aims to reduce poverty, tackle the needs of poor and vulnerable groups and create sustainable economic development projects. The NIHD also aims at assisting the government in improving inclusiveness, accountability and transparency of decision making. Through its financial support and the flexibility of its procedures, the NIHD encouraged the establishment of cooperatives. Since 2005, the NIHD has initiated more than 3,400 income-generating projects which have led to the creation of more than 40,000 jobs.

NIHD collaborates with regional authorities and universities to provide training for young people. It has been successful in creating jobs that help women and youth to join the labour market and, thus, improve the living conditions of their families, especially in rural areas (Landell Mills 2011). However, much effort still needs to be done. A recent report based on a World Bank survey assessing the work of the NIHD, found that there is a lack of information concerning the impact of the projects, with sufficient evidence that the training programmes have failed to meet their targets. Follow up was also found to be inadequate. (CESA 2013)

Another initiative is the Higher Council for Employment Promotion. The council was established in 2004 and has regional and provincial branches. It provides guidance to the government on employment strategy and is responsible for promoting and developing regional employment. It collaborates with the National Agency for Employment and Skills Promotion (ANAPEC), a public agency established in 2001. ANAPEC works as a labour market intermediary providing information on vacancies and job seekers, helping in matching the two. It has launched four programmes - Idmaj, Infitah, Ta'ehil and Mowakilati. However, studies suggest that the agency's performance is not effective as it focuses on the quantity and not the quality of employment and it targets only a limited proportion of job seekers: less than 1% of all registered job seekers in Morocco found a job through ANAPEC. It has also been found that there is a limited awareness of its existence among job seekers. (Ministère de l'emploi et des Affaires sociales 2014; Boudarbat and Egel 2016)

Another important effort is the Green Morocco plan, a national strategy supported by international development agencies that aims to boost the agricultural sector and integrate it in the global market. The plan was adopted in 2008 and, as agriculture is the leading employer in Morocco, it was designed to revitalise the sector by encouraging investments, increasing productivity and creating additional employment: 1.5 million jobs by 2020.

The Green Morocco plan has been criticized for advantaging only large producers and orienting the agricultural sector to export production, therefore neglecting domestic market needs and threatening the food security of the country. The strategy has produced a change in Morocco's agricultural production: it has diversified away from crop production, which raises concerns about the production of cereals in Morocco, an important component in the Moroccan diet. On the other hand, the liberalisation of the agricultural sector has been undertaken by the government without any policy upgrade, which has negatively affected small familial unit production, raising fears of social and economic trouble in the future. (Akesbi 2011)

The final initiative to be mentioned here is the Emergence plan, a 10-years strategy designed for industrial development. It aims to create up to 440,000 jobs and to promote Morocco's capacity to offer a welcoming and effective environment for companies seeking to relocate their services to Morocco. The industrial sectors targeted are automotive, aerospace, IT offshoring, electronic manufacturing and textile industry. In 2014, Morocco launched a new industrial strategy in line with the Emergence plan. It aims to strengthen the role of industry as a major source of employment - especially for young people - and to increase the pace of industrialisation in Morocco. A recent report by the Royal Institute for Strategic Studies notes that the sectors targeted by the Emergence plan have created approximately 9.574 permanent jobs, with IT offshoring, electronic manufacturing and the food processing industry providing more than half of these jobs. The automotive and aeronautic industries are also dynamic in creating job opportunities. However, the rate of industrial employment in Morocco increases slowly because of the crisis that has slowed down growth in the food processing industry and the loss of employment in the textile and clothing sectors. (IRES 2014: 50)

In **Tunisia**, employment policy is defined within the framework of economic and social development plans, which establish employment objectives and priorities for five-year periods, including measures for creating more jobs through investment in productive sectors, adapting education and training policies to the needs of the economy, improving qualifications at all levels through training programmes and promoting private initiatives and self-employment through an active small-and-medium enterprise policy.

To tackle the chronic problem of unemployment in Tunisia, successive governments have undertaken sweeping changes in their modes of action to move towards an active labour market policy, based on implementation of extensive enrolment and integration programmes for youth. These programmes can be divided into two categories: training and integration programmes and promoting self-employment and small businesses. Substantial funds have been allocated to promote employment under many ALMP schemes. In the 1997-2006 decade, the annual budget devoted to the implementation of ALMPs was TND 250-270 million, representing 0.8% of GDP (Haouas et al. 2012). However, due to the revolution, a total budget of TND 611 million was earmarked for ALMPs in 2012 (Rajhi 2012).

Generally speaking, labour market management in Tunisia involves different public organisations which are fragmented at both policy and operational level. These organisations can be classified according to three levels: high-level advisory boards for policy orientation, regulatory ministries at the national level and autonomous agencies working mostly at a local level.

The Tunisian Higher Council for Human Resources Development is an advisory board which issues opinions on many aspects of employment, education and training policies.

At the national level, the Ministry of Employment and Vocational Training has as a general mission of elaboration of national employment policy and the evaluation of policy results. The ministry is responsible for longer-term projects, such as facilitating the entry of job seekers to national and international labour markets, promoting self-employment and enhancing employability. However, the functioning of the labour market is directly influenced by actions undertaken by other ministries in charge of macroeconomic policies (budgetary, fiscal and monetary), sectoral policies (development plans, plans for industry, agriculture, trade, tourism, etc.), and social policies (education, land planning, social assistance and solidarity programmes). The Ministry of Employment has little control over or coordination input into these policies.

The institutional framework of public employment services has been improved by the creation of the National Agency for Employment and Independent Work (ANETI) which has, as a mission, the implementation of government employment policies and the promotion of employment. It has a network of 67 offices providing training and offering services to enterprises, job seekers and young investors, with the aim of providing impulse to the labour market in different sectors of the economy.

Another key organisation is The National Employment Fund (FNE), which is the main source of financing for ALMP, including wage subsidies and regional development programmes that finance public works, benefiting 405,000 individuals during the period 2011–2014. These programmes have been undergoing reforms since 2013.

In 2012 a National Employment Strategy (2013-17) was adopted by the Tunisian government, for a cost of TND 700m. This strategy aimed to progressively alleviate unemployment via three main objectives:

- The first objective was to promote small businesses, improve education and vocational training systems and develop skills for sectors experiencing labour shortages.
- The second objective focused on a slight but perceptible decrease in the unemployment rate.
- The third objective referred to the adoption of a developed employment scheme based on higher economic growth rate in high productively and high value-added sectors.

To achieve these objectives, vocational training systems needed to form proactive partnerships with production sectors requiring skilled workers. Incentives and subsidies would be allocated to a new employment model restructuring the economy towards a knowledge economy.

The National Employment Strategy was implemented within an institutional framework drawing on a number of agencies together, under the auspices of the Ministry of Employment and Vocational Training. In addition to ANETI and FNE, these agencies include the National Observatory for Employment and Qualifications (ONEQ), the Tunisian Solidarity Bank (BTS) and the Bank of Financing Small and Medium Enterprises (BFPME). These organizations, however, play a marginal role in the labour market, largely because they are short of qualified staff, lack adequate infrastructures and information systems, receive limited financial resources for investing in or improving services and have to cope with interferences and pressures from above.

The Tunisian ALMPs require fundamental reform to achieve the objective of supporting the unemployed and to reduce labour market mismatch. Active labour market policies appear to have a very limited impact on labour markets in Tunisia, as reflected by low insertion rates: on average, job insertion rates were approximately 20 percent in 2011 (World Bank 2015).

Part of the problem is that the supply of employment services is a monopoly of ANETI, but ANETI's capacity to provide effective intermediation services is limited. After the 2011 revolution, the number of vacancies filled by ANETI has actually decreased significantly. In particular, the ratio of total placements to available vacancies decreased from 82 percent in 2009 to 46 percent in 2011. ANETI has limited success in providing counselling to job seekers, to follow their progress and to offer large options of training.

To address these problems, an attempt has been made to integrate all ALMP programmes around four sets of interventions: (a) training and job-search assistance, (b) wage subsidies, (c) support for entrepreneurs and (d) regional employment support programmes. Accordingly, the Ministry of Employment has consolidated all wage subsidy programmes into two new schemes, to be implemented though a partnership with the private sector and civil society organizations: a “training voucher” and a “wage voucher”. It is too early to assess the impact of this new approach.

CONCLUSION AND FUTURE RESEARCH

This report provided a snapshot of the institutions that are relevant for explaining the behaviour of labour markets in Egypt, Jordan, Morocco and Tunisia. Institutions are pervasive, they are embedded in society and in one another, and they are relevant. But how exactly are they relevant? Which institutional arrangement, at which level, can explain the behaviour of a specific market agent or a particular political or economic outcome? Unfortunately, due to the discursive nature of institutions, they are elusive and defy rigorous analysis. A more concerted, interdisciplinary effort is needed to make better sense of the connection between institutions, economic performance and employment generation. This report directs our attention to some fruitful venues of future research.

First, how do labour laws affect the supply and demand for labour? The jury is still out on this question. One view argues that labour market rigidities dampen the demand for labour. But, as it was argued above, while such a view might be valid in an advanced capitalist economy, it might not be a good explanation for unemployment in most of the developing world, where economic performance is sub-optimal and where laws are hardly enforced anyway. More research is needed, therefore, to find out to what extent labour supply and, especially, demand is determined by labour laws in the four southern Mediterranean countries.

Second, the quality of enforcement and how it affects economic performance and job creation must be better understood, in terms of its causes and effects. Here, it is important to be precise: in most Arab economies, the problem is not absence of enforcement but its selectivity and unpredictability. The eyes of the lady of justice in these countries are not totally but only partially covered. Those with political power and the right connections can evade the law. This deprives institutions of their most crucial function, namely to reduce uncertainty. In other words, given the selective nature of rule enforcement, there are grounds to believe that levels of uncertainty are high. Is this true and, if yes, what is the effect of this institutionally-induced uncertainty on economic performance and employment generation?

Third, the lack of fit between formal institutions, on the one hand, and informal rules and practical norms, on the other hand, creates a structure of incompatible incentives for economic agents. How could such a dynamic be better understood in a rigorously-analytical manner, given the formidable difficulties of operationalising institutions, in a manner that makes them amenable to analysis, using standard methods of neo-classical economics? It is also important to understand why is there institutional decoupling in the first place.

This leads to a fourth crucial problem, namely the state and its role in designing and enforcing a growth-enhancing and socially-equitable institutional environment. State failure is pervasive in

Europe's southern neighborhood. It is unlikely that any amount of intervention aimed at institutional development in the region would succeed without a serious scientific engagement with the causes and consequences of state failure, especially at a time when European governments and mainstream policy analysts are adopting a myopic and unhelpful security-dominated view of this complex problem.

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EMNES FUNDING: European Commission and EMNES partners.

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Financially supported by the European Commission