

Missed by the Boom, Hurt by the Bust

Making Markets Work for Young People in the Middle East

An Agenda for Policy Reform and Greater Regional Cooperation

The MIDDLE EAST YOUTH INITIATIVE (MEYI) is a joint project of the Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government. The first policy research program of its kind, MEYI is devoted to promoting the economic and social inclusion of youth in the Middle East. The initiative's main objective is to accelerate the regional policy community's ability to better understand and respond to the changing needs of young people in the region. By creating an international alliance of academics, policymakers, youth leaders and leading thinkers from the private sector and civil society on research and policy, MEYI aims to develop and promote a progressive policy agenda.

The Wolfensohn Center for Development at the Brookings Institution (WCD) was founded in July 2006 by James D. Wolfensohn, former President of the World Bank and a member of the Brookings Board of Trustees. The Center analyzes how resources, knowledge and implementation capabilities can be combined toward broad-based economic and social change.

The Dubai School of Government (DSG) is a research and teaching institution focusing on public policy in the Arab world. Established in 2005 under the patronage of HH Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the United Arab Emirates and Ruler of Dubai, the school aims to promote good governance by enhancing the region's capacity for effective public policy.

The Middle East Youth Initiative has embarked on a new partnership with Silatech — a regional initiative which seeks to promote large-scale job creation, entrepreneurship and access to capital and markets for young people. Guided by principles presented in this policy agenda, the Middle East Youth Initiative and Silatech will work towards generating solutions in critical youth areas by promoting new knowledge, innovation, and learning across borders.

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Introduction

Young people in the Middle East face a unique struggle to secure a larger stake in their economy and society. This generation faces deep and accelerating economic change, having lived through the oil boom and bust of the 1980s and the era of structural adjustments and liberalization of the 1990s. Now, as the Middle East's recent economic revival shifts to a downturn, future prospects for the region's young people are again at stake.

When Middle Eastern economies rebounded in 2002 after a decade of slow growth, young people expected to see improvements in their living standards. Instead, education systems have continued to be unsuccessful in preparing young workers for competitive labor markets; youth unemployment levels have remained the highest among developing regions; new job seekers have faced deteriorating quality of employment; and too many young people have been forced to delay marriage and family formation. The current global downturn will intensify this generational struggle for greater economic inclusion.

How Middle Eastern countries respond to the current crisis will determine whether their young citizens can exploit the new opportunities which lie beyond today's global slowdown. The path to economic recovery and regeneration must be consistent with long-term goals that have already been established: cultivating a skilled and entrepreneurial labor force, expanding the role of the private sector and reducing the lure of public sector employment, and building a solid foundation for the region's future middle class. Decisions made during the downturn will either accelerate this transformation or set the region back.

GLOBAL ECONOMIC DOWNTURN: WHAT IS NEXT FOR THE MIDDLE EAST'S YOUNG GENERATION?

The adjustment from a boom to a downturn poses three major challenges for Middle Eastern economies. First, the Middle East region is entering the downturn with large pre-existing education and labor market challenges which were not resolved during the boom era. With expanding access to education, young job seekers are increasingly more educated, aspiring for high quality jobs. However, these expectations are being dashed as the economic boom has not created sufficient quality jobs. As a result, young people continue to encounter low skilled, low wage employment.

Second, the global economic slowdown could ignite a new jobs crisis in the Middle East. The current downturn coincides with demographic pressures reaching their historic high, placing an unprecedented strain on the labor market. As global demand for goods, services and exports contracts, the formal private sector is likely to shed labor, diminishing labor market prospects for new and first time job seekers. The informal sector is likely to become a refuge, depressing already low wages and limiting opportunities for human capital development. These trends could impose new costs on Middle Eastern societies in the form of higher incidence of poverty, inequity, and a depreciation of skills and lower lifetime earnings among young people enduring long periods of unemployment or low quality employment.

Finally, the crisis also comes at a time when some Middle Eastern countries have enacted reforms to ease labor market regulations, scale back public sector employment,

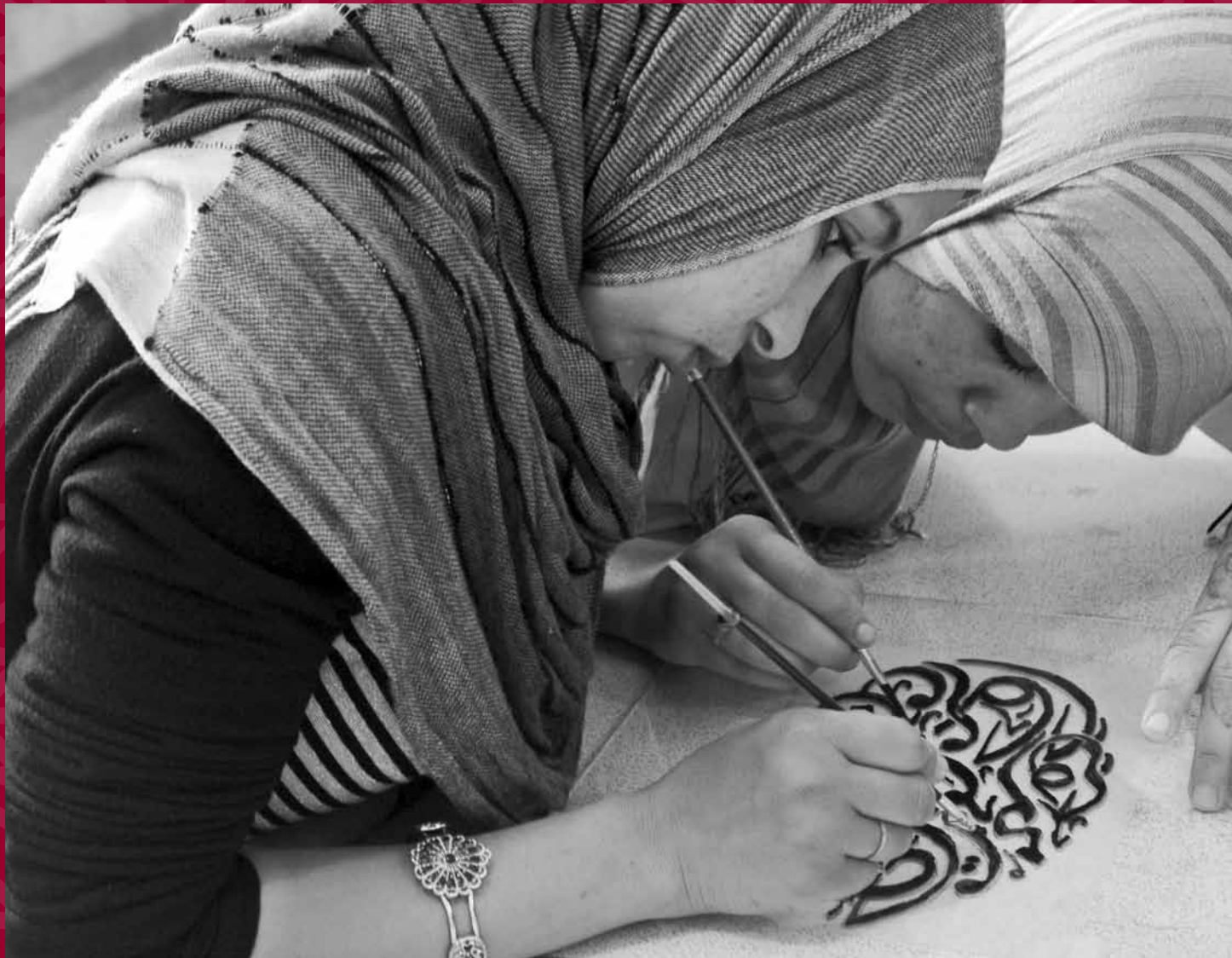
and promote an active role for the private sector. These efforts are aimed at resetting expectations of young citizens away from the state and creating diversified economies which can harness their talents. With diminished trust in markets and the private sector, pursuing these reforms now is politically more difficult.

The economic environment is already creating some pressure across the region to increase public sector employment and subsidies. While this time of uncertainty may make a retrenchment or even reversal of some liberalizing policies more appealing, countries must resist this temptation because flexibility and openness in those markets are key to integrating young people.

EMERGING STRONGER THROUGH THE DOWNTURN: A PROPOSED POLICY AGENDA

This report, based on three years of research, provides a framework for addressing the economic challenges facing young people in the Middle East. The first part of this report is devoted to understanding the main causes behind the continued exclusion of young people. In section two, we analyze youth transitions, focusing on outcomes in the markets of education, employment, marriage and housing. In section three we look back to assess why many youth challenges have continued to persist despite the economic boom. We argue that a vital lesson of the boom years is that macro-economic improvements alone will not erase the deep inequities that divide the older and younger generations. Institutions in education, employment, and housing and credit markets often work against the welfare of young people and are responsible for their exclusion. Section four examines the potential impact of the global economic crisis on the lives of young people.

The final part of this report is devoted to assisting policy makers, the private sector and civil society organizations to address two profound challenges: first, to safeguard young people from the risks of becoming more excluded and vulnerable; second and more importantly, to seize the opportunity of having the largest youth cohort in the region's history to generate economic recovery and sustainable growth. In section five, we provide guiding principles and ten policy recommendations designed to meet both the challenges of the moment and those of the near future. In section six, we argue that these priorities underline the importance of Middle Eastern countries working together to emerge stronger out of the current crisis. We recommend fostering greater regional cooperation on policies, knowledge, and investment in order to improve the lives of current and future generations.



Jamila Hassoune's "Caravane du Livre Annual Workshop" April 2007.
Amizmiz, Atlas Mountains, Morocco. © Photo: Samantha Constant

The Boom Times: How Did the Young Fare?

Successful transitions to adulthood entail young people acquiring skills while in school that empower them as workers in the employment market; engaging in a purposeful search for careers rather than idly waiting for life-long jobs; and, in time, being able to settle down and start families by drawing on savings and access to credit to afford housing.

However, despite six years of relatively high growth in the Middle East between 2002 and 2008, the transition to adulthood for many young people has remained stalled and, in some ways, outcomes have worsened. Young people continue to struggle in attaining job-relevant skills and high quality education. They continue to wait for good jobs, enduring long spells of unemployment or spending their most productive years trapped in informal jobs that fail to prepare them for better positions. In turn, young men and women increasingly delay marriage and family formation, unable to meet the costs associated with these life stages. Moreover, since outcomes in these spheres are interdependent, failure in one transition spills over into others, resulting in a debilitating state of *waithood*, when young people are left waiting to achieve a full state of adulthood.

EDUCATION: ACCESS, EQUITY AND QUALITY

Countries in the Middle East have made significant investments in initiatives aimed at enhancing education and training for young people, especially over the last six years. On average, Middle Eastern countries have spent 5 percent of their gross domestic product (GDP) on education in recent years in contrast to an average of 3 percent spent in East Asia and Latin America.¹ Access to education has improved on the whole, and attainment in terms of years in schooling has expanded. However,

education systems continue to face two particular challenges: guaranteeing the equity of educational access and improving the quality of public education.

Education systems in the region are proving unsuccessful at fostering greater social equity. The inequitable access to higher education across the region is exacerbating the exclusion of young people from lower socioeconomic backgrounds. High repetition and dropout rates continue in some countries, particularly among low-income youth, and low enrollment remains a common problem in rural areas in the region. Students from low-income backgrounds are also more likely to end up in the vocational education and training (VET) track. In Jordan, for example, the majority of those in VET programs are from low-income backgrounds, while 95 percent of those pursuing the academic secondary track come from middle- and upper-income backgrounds.²

In regard to educational quality, countries across the region, including most notably Jordan, have had some success in reforming curricula. However, on the whole, instruction in the region at all levels of the education system remains dependent on outmoded pedagogy. Limited attention is given to cultivating critical thinking and problem solving skills, and the continued dependence on rote teaching methods stifles creativity and independent thinking. Poor outcomes in skills acquisition are reflected in the low average scores of Middle Eastern countries in international examinations. For example, results from the 2007 Trends in International Mathematics and Science Study (TIMSS) examinations show that a significant number of the region's students fail to meet the test's lowest performance benchmark, indicating merely

some basic or elementary knowledge of the subject area (See Figure 1).

The poor quality of education leaves graduates unprepared for the increasingly competitive labor market, with representatives of the region's private sector regularly voicing concerns that new graduates lack job-ready skills. In a recent survey, more than 25 percent of firms in the region report the lack of skills among workers as a major constraint on business growth, representing a higher rate than in other regions such as Latin America and Africa (See Figure 2 on page 8). In an effort to impart young people with a wider set of skills, governments in the region have invested heavily in VET programs; however, these investments have been undermined by the low quality of training, weak linkages between curricula and the labor market, and high administrative fragmentation (See Box 1).

THE TRANSITION TO THE LABOR MARKET: UNEMPLOYMENT, LONG WAITS AND INFORMALITY

The economic revival between 2002 and 2008 had a positive impact on job creation in many Middle Eastern countries. In Egypt, Morocco, Syria and Jordan, for example, total unemployment rates were reduced between 3 and 6 percent over this period.³ In many cases, however, job creation has favored older and more established workers or, in some cases, migrant laborers over young, new workers. In Jordan, for example, of the 55,000 additional jobs created annually between 2001 and 2007, 63 percent went to expatriate workers.⁴ In turn, labor market prospects for young people remained depressed, as reflected in a 2006/2007 Gallup Poll, wherein young people in several countries within the region reported a sense of weakening employment prospects (See Figure 3 on page 8). Even

FIGURE 1: MEAN 8TH GRADE TIMSS SCORES FOR PARTICIPATING MIDDLE EASTERN COUNTRIES, 2007



Source: Ina V. S. Mullis et al., *TIMSS 2007 International Mathematics Report*, (Chestnut Hill, MA: TIMSS & PIRLS International Study Center, Boston College, 2008); Michael O. Martin et al., *TIMSS 2007 International Science Report*, (Chestnut Hill, MA: TIMSS & PIRLS International Study Center, Boston College, 2008).

BOX 1: A FRAGMENTED APPROACH TO VOCATIONAL EDUCATION AND TRAINING IN EGYPT

Vocational education and training in Egypt is undermined by the lack of a common vision and strategy and a highly complicated administrative structure. There are 1,237 vocational training centers in Egypt, affiliated to 27 ministries or authorities, which operate somewhat independently in 19 governorates. The Ministry of Education administers around 1,600 technical and vocational schools while the Ministry of Higher Education manages 47 middle technical institutes. Additionally, six other ministries run 232 vocational education training centers.

Vocational education and training suffers from a lack of coordination due to the large number of agencies involved in regulating and providing programs. Furthermore, there is little coordination between training programs and the needs of the labor market: curricula are outdated and are not reviewed frequently, and many training centers provide pre-designed training courses which do not necessarily meet the needs of industry and the private sector.

VOCATIONAL AND TECHNICAL EDUCATION STRUCTURE

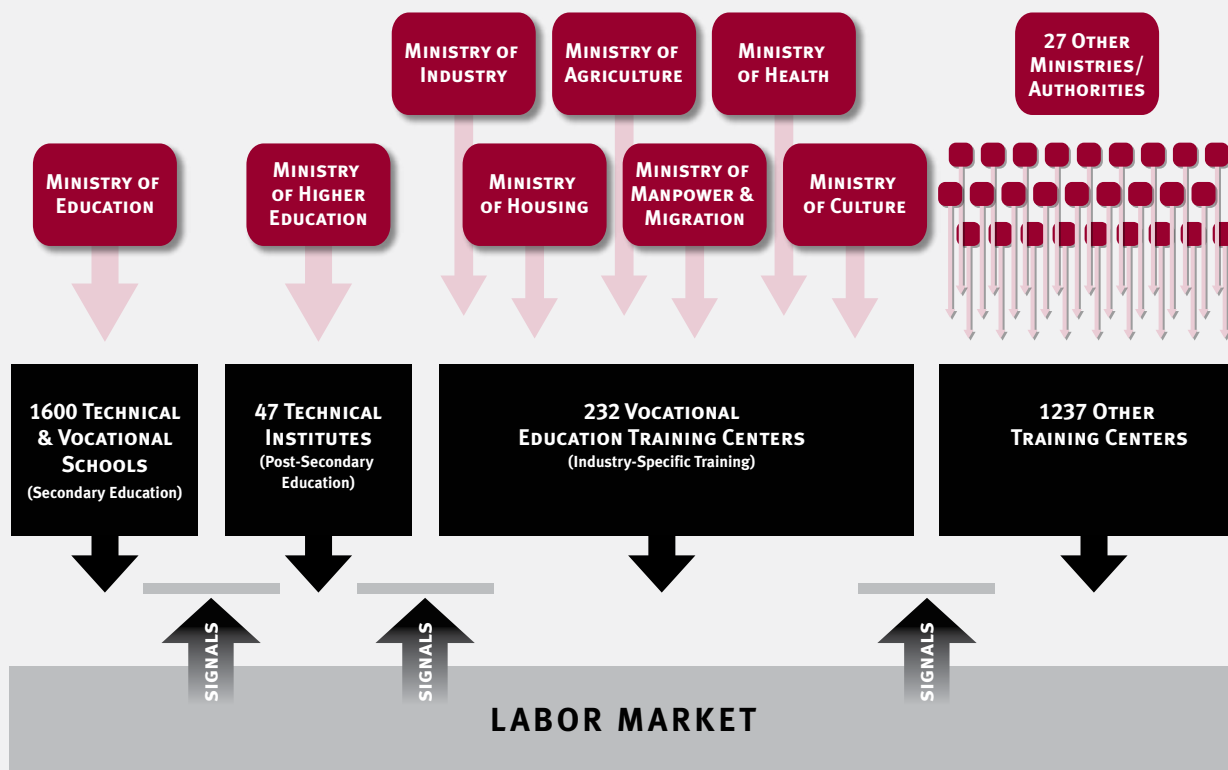
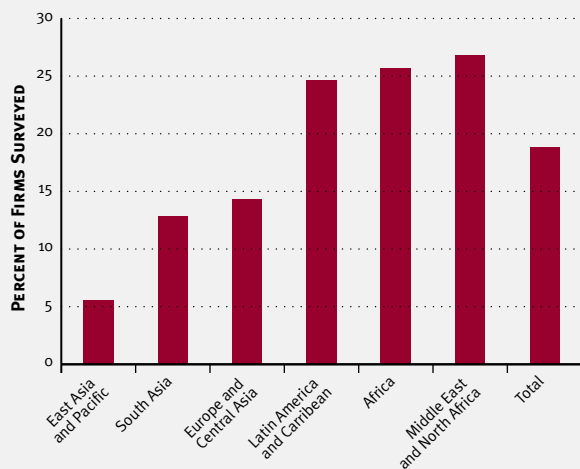


FIGURE 2: FIRMS IDENTIFYING SKILLS OF LABOR FORCE AS A MAJOR CONSTRAINT ON BUSINESS DEVELOPMENT



Source: Data from World Bank Enterprise surveys in 37 countries (2008).

in the context of high economic growth, young people, especially young women, continued to face challenges in regard to unemployment and low quality employment (See Box 2).

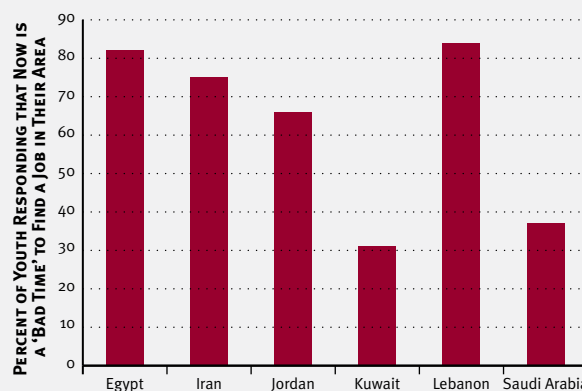
In the Middle East, the aggregate unemployment rate for those between the ages of 15 and 24 remains at nearly 25 percent, compared to the world average of 14 percent. Faced with high unemployment rates and competition for jobs among their large peer group, youth also make up a large share of the region's total unemployed. In Syria, youth comprise 61 percent of the total unemployed population.⁵ In the United Arab Emirates (UAE), 81 percent of unemployed nationals are youth.⁶

Education is not a guarantee against unemployment in the Middle East—in fact, unemployment rates in some countries are highest among those youth with relatively high levels of educational attainment (See Figure 4 on page 10). In Iran, for example, young men and women with upper secondary education face unemployment rates of approximately 24 percent and 57 percent, respectively.⁷

Similarly, among young men in Egypt, university graduates have the highest rates of unemployment; among women, those with post-secondary institution certificates are most likely to be without a job.⁸ Furthermore, returns to education in the labor market (particularly for secondary and post-secondary graduates, and particularly in the private sector) are declining.⁹ Young people with secondary and post-secondary education are experiencing deteriorating employment prospects, especially in terms of job quality (See Box 3 on page 11).

During young people's school-to-work transition in the Middle East, long unemployment durations are common. For example, more than half of unemployed Syrian youth in 2005 had been searching for a job for more than one year.¹⁰ In Egypt, those between the ages of 20 and 24 reported searching for an average period of 34 months.¹¹ For many, the state of prolonged unemployment reflects a mismatch between expectations and the quality of jobs available. In Egypt, the socioeconomic background of a young person has been shown to affect their waiting times and choices.¹² Youth from middle-class, urban backgrounds are generally slower to enter

FIGURE 3: YOUTH ATTITUDES TOWARD LOCAL JOB PROSPECTS, 2006/2007



Source: Data from Gallup World Poll 2006/2007. Figure source: Ahmed Younis, "Arab Youth Between Hope and Disillusionment: Toward a New U.S. Strategy in the Middle East," (presented at the Brookings Institution, Washington D.C., November 8, 2008).

BOX 2: HIGH GROWTH IN JORDAN AND MOROCCO, BUT HAS IT BEEN PRO-YOUTH?

JORDAN has experienced many macroeconomic improvements over the last few years. Its annual GDP growth rate between 2000 and 2007 averaged 6 percent and nearly 55,000 additional jobs were created per year. Despite this growth and rapid job creation, unemployment in Jordan has remained high, particularly for youth. As of 2007, the total unemployment rate in Jordan remained at 13 percent, and youth aged 15 to 29 comprised 73 percent of the unemployed. Data indicate that between 2001 and 2007, 63 percent of new jobs created in Jordan were filled by foreign workers.

For young Jordanians, the recent period of growth has not meant better employment opportunities: while education reforms have led to improved enrollments and quality, the labor market has assumed a greater informality and job creation has been concentrated in low skilled positions. These jobs have been shunned by many young Jordanians.

Currently, it is estimated that 200,000 jobs will be needed for new labor market entrants during 2009-2015. In addition to this number, about 172,000 jobs will also need to be created for the existing number of unemployed. While Jordan has shown that it can create jobs, the questions remains whether it can create the types of jobs that are commensurate with a labor market increasingly defined by more educated workers.

MOROCCO experienced an estimated GDP growth rate of 6.5 percent in 2008. Along with this growth, the total unemployment rate has dropped more than 6 percentage points in the past decade, falling below 10 percent in 2007 for the first time in 35 years. However, many of the improvements in unemployment rates during the last few years mask significant disadvantages among youth, women, and educated workers. In part, the decline in the overall unemployment rate resulted from a drop of 8 percentage points in the labor force participation rate. This signals that youth are staying longer at school. While this would otherwise be a positive sign, young *educated* workers are more likely to experience long-term unemployment than those with a basic level or no education. Around two-thirds of the unemployed with secondary level degrees or higher are unemployed for at least a year.

Furthermore, employment prospects for youth in urban areas remain particularly bleak. Nearly 76 percent of unemployed Moroccan youth live in urban areas. Urban unemployment nearly doubled between 1982 and 2000, rising from 12 to 22 percent. In 2007, this rate dropped down to 15 percent; however, it was still nearly four times higher than the rural unemployment rate.

Information on Jordan is drawn from: Taher Kanaan and May Hanania, "Youth Exclusions in Jordan," in *A Generation in Waiting*, ed. Navtej Dhillon and Tarik Yousef (Washington, D.C.: Brookings Institution Press, forthcoming 2009); Susan Razzaz and Farrukh Iqbal, "Job Growth without Unemployment Reduction: The Experience of Jordan," (Washington, D.C.: World Bank, 2008).

Information on Morocco is drawn from: Brahim Boudarbat and Aziz Ajbilou, "Moroccan Youth in an Era of Volatile Growth, Urbanization and Poverty" in *A Generation in Waiting*, ed. Navtej Dhillon and Tarik Yousef (Washington, D.C.: Brookings Press, forthcoming 2009).

the labor market than both the poor and the rich.¹³ These youth can afford to search longer for good jobs than the poor because they are able to depend more on family support than those from low-income family backgrounds. However, they lack the connections that wealthier youth can draw on to actually secure decent jobs. Young people from poor backgrounds are likely to enter the market more quickly, but often engage in lower quality jobs at the expense of completing formal education.

For low-income youth, in particular, the quality of jobs available is of increasing concern, as they are often pushed into unpaid family work or the informal sector. Jobs in the informal sector offer little in the way of job security or stability, but increasingly new entrants to the labor market are finding their first jobs in this sector. As an example, job creation for new entrants in Egypt between 1998 and 2006 was greatest in the informal sector.¹⁴ By 2006, more than 70 percent of first-time job entrants in Egypt found employment in the informal

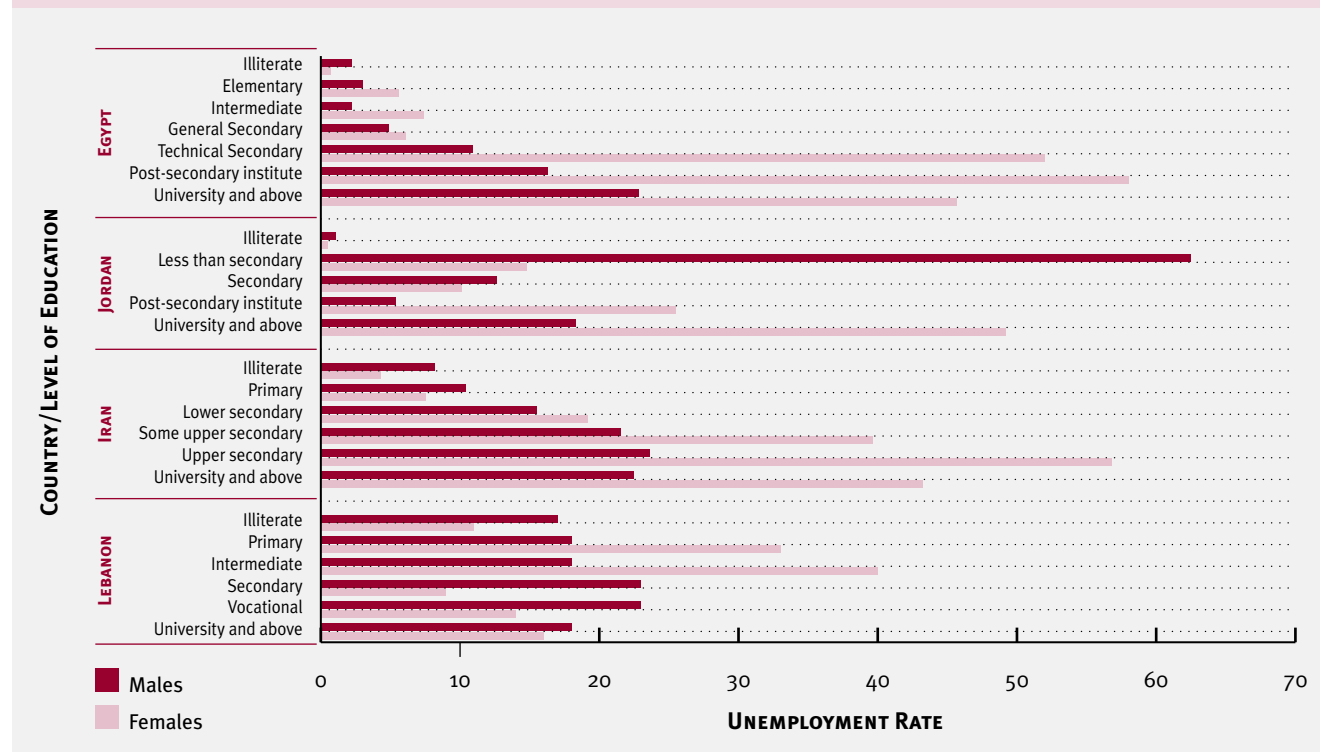
sector. Furthermore, half of those who found work with formal private sector employers did not have a formal work contract; even more lacked coverage under social security systems.

The nature of one's first job can have a major impact on future employment prospects and career trajectories. A recent study in Egypt shows that only 11 percent of Egyptians who find their first jobs in the informal sector are able to secure formal second jobs later, while only 7 percent of those with formal first jobs move on to informal second jobs.¹⁵ Well-educated, urban Egyptian men who start out in the informal sector show some mobility and are most able to secure better jobs in the future. On the other hand, young Egyptian men with low levels of educational attainment and those living in rural areas

face more difficult transitions. Similarly, young women in Egypt experience less job mobility and are more likely to be trapped in the informal sector once they have started an informal job, eventually exiting the labor market.

Overall, young women in the Middle East face the most difficult school-to work transitions. Only two out of every ten working age women have jobs; in contrast, seven out of ten working age men are employed. While a portion of these numbers may be explained by a desire not to work, the existence of high female unemployment indicates that many women in the region want jobs but are unable to secure them.¹⁶ Furthermore, women also face much longer wait periods than do young men. In fact, this particular phenomenon is one that remains almost unchanged, showing no signs of improvement as compared to men.¹⁷

FIGURE 4: UNEMPLOYMENT RATES BY LEVEL OF EDUCATION IN SELECTED MIDDLE EASTERN COUNTRIES



Source: Navtej Dhillon and Tarik Yousef, ed., *A Generation in Waiting* (Washington, D.C.: Brookings Institution Press, forthcoming 2009).

BOX 3: EGYPT'S NEW LABOR MARKET ENTRANTS: SEARCHING IN VAIN FOR GOOD JOBS

For young people, a good first job need not be a permanent job, but it should provide a decent wage for time worked, access to regular work and some job security. These are important stepping stones towards building a career. Recent research by Assaad on the school-to-work transition in Egypt demonstrates declining outcomes for young Egyptians when it comes to the quality of first jobs. When viewed in terms of a standardized job quality index, the ability of young men in Egypt to secure good first jobs has dropped steadily for those born since 1965. For young women, prospects for securing a first good job has declined for those born since 1975 (Figure A). For those with lower education, the quality of first jobs has remained steady although quite low, while for men and women with secondary education and above, the quality of the first job has decline precipitously (Figure B).

Assaad's standardized job quality index is built on the International Labor Organization's decent jobs framework, which takes into account earnings, job stability, aspects of under- and over-employment, type of workplace and access to social insurance. Drawing from official data, in this job quality index for the Egyptian labor market the mean job quality value is given a value of 0. In this context, a 'good job' is considered one with a value of 0.5 or above.

Notably, within the findings of the standardized job quality index, 72 percent of young Egyptians never secure good jobs. Of those who do secure good jobs, 64 percent do so with their first jobs. This figure underlines the importance of the quality of one's first job in terms of long-term career outcomes: the quality of one's first job in Egypt largely defines one's career trajectory.

FIGURE A: JOB QUALITY IN FIRST JOB BY YEAR OF BIRTH (10-YEAR MOVING AVERAGE)

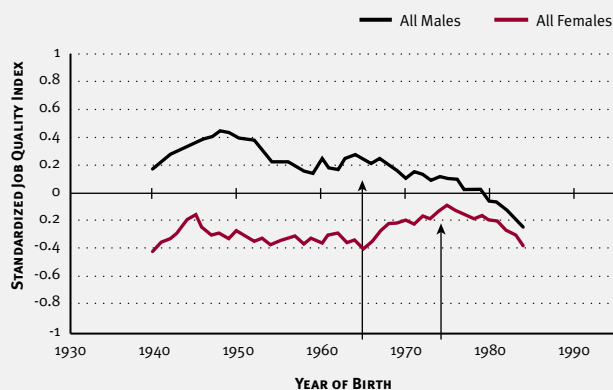
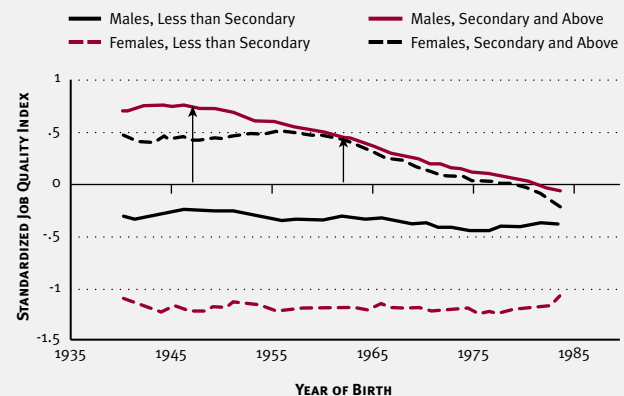


FIGURE B: PREDICTED JOB QUALITY IN FIRST JOB BY SEX, EDUCATIONAL LEVEL AND YEAR OF BIRTH (10-YEAR MOVING AVERAGE)



Source: Ragui Assaad and May Gadallah, "Pathways from School to Work for Egyptian Youth," Middle East Youth Initiative Working Paper (Washington, D.C.: Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government, forthcoming 2009); Ragui Assaad, "Intergenerational Inequality in MENA: Demographic, Economic, and Institutional Determinants" (plenary presentation at the 15th Annual Economic Research Forum Conference, Cairo, Egypt, November 23–25, 2008).

In sum, despite a period of high economic growth, young people across the region who are engaged in the transition from school to work face a series of disappointing scenarios. Many find themselves unprepared and under-qualified for jobs in emerging industries in the private

sector. In turn, they queue for jobs in the public sector even as these sectors retrench. Increasingly, however, youth face the prospect of not finding work in either the public sector or the formal private sector. Instead, many have to settle for low-skill, low quality informal jobs,

hoping to eventually transition to formal sector employment. This path bodes poorly for their labor market prospects in the short- and long-term, and impacts their ability to make decisive steps in the transition to family formation.

THE TRANSITION TO FAMILY FORMATION: MARRIAGE, HOUSING, AND ACCESS TO CREDIT

Unable to secure the economic independence and social status that comes with gainful employment, young people in the Middle East make adjustments by delaying their plans to marry and form families of their own. While early marriage continues to be the norm in a few

poorer countries and in rural areas, the regional trend is toward an often involuntary delay of marriage. This is particularly true for young men in the Middle East, who are delaying marriage for longer periods than their counterparts in other developing regions. In a region where marriage and forming a family are considered fundamental rites of passage to adulthood, the involuntary delay of marriage is a form of exclusion and is generating new social and economic difficulties by protracting the transitions of young people.

The involuntary delay in marriage in the Middle East can be attributed to joblessness and low quality employment. Recent data from Iran shows that having a job and

BOX 4: OIL AND REAL ESTATE BOOMS: LEAVING THE YOUNG OUT

Housing options for young people came under particular stress during the region's recent oil boom. Such booms lift incomes generally, however they can redistribute wealth in inequitable ways because of how they affect asset prices. Land and housing prices are particularly sensitive to oil price increases because the expenditure of oil reserves expands demand and tends to raise the price of non-tradable goods (including housing) relative to imported goods. As a result of these factors, the Middle East has recently experienced a housing boom wherein housing—already considered expensive in the region before the oil boom—has become increasingly costly.

Further, the region's housing boom was largely driven by investment from the Gulf countries directed at real estate in neighboring countries. Arab expatriates residing in the Gulf have also contributed by seeking opportunities to invest their remittances at home, and real estate and housing are favored markets because such investments provide solid returns that are easily managed from abroad. The recent housing boom was also reinforced by the rising number of

Iraqi refugees who, since 2003, have sought safe accommodation and secure investment of their wealth in neighboring states such as Egypt, Jordan and Syria.

As demand for housing and property has increased in recent years, young people have been disproportionately affected in several ways. Because they have greater difficulty than older persons in securing credit, they have found it difficult to purchase housing as prices have increased. In a well-functioning credit market, youth can borrow against future income and still afford to purchase an appreciating house, as long as incomes rise in pace with housing prices. However, even a well-functioning credit market may not be sufficient to maintain youth access to housing. Where an economic boom is based on the production and export of knowledge-intensive goods, such as in East Asia, personal incomes of educated youth are more likely to rise in tandem with housing prices. Oil booms, on the other hands, do not depend as heavily on human capital inputs and thus generally do not raise incomes at the same rate as housing prices.

the number of years spent in employment are the two strongest predictors of marriage.¹⁸ In Egypt, poor labor market outcomes among young men mean that many are unable to afford the high costs associated with marriage or to adequately signal their eligibility for marriage to potential brides and their families.¹⁹

The oil boom has raised young people's expectations of living standards—including aspirations for nuclear family living arrangements upon marriage. However, the boom has also increased obstacles to actualizing these expectations, especially in regards to independent living (See Box 4). Across the Middle East, the cost of purchasing housing remains out of reach for most young people. In Algeria, Lebanon and Morocco, for example, a middle-income family would need to accumulate nine years of their entire income to afford an average home in a major city. Housing costs in Egypt, Jordan and Tunisia are comparatively lower, but still out of reach for most individuals.²⁰

The inability to access credit intensifies the challenges young people face in finding affordable housing. The most important role of credit markets is to allow individuals to smooth their consumption by borrowing against future income. Here, credit markets in the Middle East are failing youth. Access to housing credit is difficult enough for established adults: housing credit is a small share of total loans, estimated at around 7 percent in Egypt and Algeria and 10 percent in Tunisia (compared to 44 percent in the United States).²¹ But young people, at the start of their adult lives, lack the collateral, steady jobs and reputational capital needed to qualify for the limited credit available in the region.

Renting is not always a viable alternative for young couples in the Middle East due to supply constraints. Across the region, rent control laws and open-ended rental contracts mean that there is little turnover in the rental market, and landlords have few incentives to rent out available properties to young people. To secure rental

housing, new tenants often must pay significant amounts of 'advance rent.' Subsequently, for young prospective renters, problems renting a property have effectively mirrored the problems of purchasing housing, requiring considerable amounts of start-up capital.

THE COSTS OF EXCLUSION

Regional economies collectively face direct costs from poor outcomes for youth in terms of foregone wages and restricted economic opportunities. In terms of foregone wages alone, youth joblessness costs the region nearly 7 percent of its GDP annually (See Table 1). In Jordan, the costs of youth exclusion as a whole (including an assessment of youth joblessness, early school dropout, adolescent pregnancy, and youth migration) amount to nearly 7.3 percent of GDP, and in Egypt, they amount to a staggering 17.5 percent of GDP annually or close to 19 percent of value added by the country's agricultural sector. During the economic upturn, these costs restricted growth and further development. Now, during the downturn, these costs impinge on economic recovery and regeneration.

TABLE 1: THE COSTS OF YOUTH JOBLESSNESS IN THE MIDDLE EAST AS PERCENT OF GDP

COUNTRY	TOTAL	MALE	FEMALE
Egypt (2004)	7.29%	1.53%	5.66%
Jordan (2002)	4.14%	0.88%	3.31%
Lebanon (2004)	2.74%	0.43%	2.03%
Qatar (2004)	0.57%	0.12%	0.38%
Syria (2004)	9.09%	1.19%	8.08%
Total MENA	6.60%	1.28%	5.26%

Source: Jad Chaaban, "The Costs of Youth Exclusion in the Middle East," Middle East Youth Initiative Working Paper 7 (Washington, D.C.: Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government, 2008).

Notes: The definition of the joblessness rate is the summation of the unemployment rate and the inactivity rate of youth who are not in school. This is used to capture the labor force participation gap between males and females since females' labor force participation rates are much lower than those for males in the region. This data assumes a target unemployment rate for youth equal to the adult unemployment rate.



Education for Employment — Jordan Career Education Foundation, "Workplace Success Program," April 2008. Amman, Jordan. © Photo: Samantha Constant

Stalled Transitions: How Institutions Are Failing Young People

Decisions taken by millions of young people and their families across the Middle East in education, employment and family formation are linked to the structure of institutions and incentives that shape behavior at the micro level. The institutions of relevance to youth transitions are the rules and regulations that govern the education system; the markets for labor, credit, and housing; plus non-market institutions such as social norms regarding marriage. These institutions provide the signals that tell young people what skills to learn, tell firms whom to hire and how much to pay, tell credit agencies and banks to whom to lend, and tell families how to evaluate the potential of a young person as a future spouse and parent.²²

When institutions function well, they go a long way in assisting young people through important transitions.

Egypt's recent housing reforms are a case in point (See Box 5). However, across the Middle East, existing institutions governing the markets of education, employment and housing provide the wrong incentives and perpetuate challenges facing young people. Examples of outmoded institutional features and their effects on young people are summarized in Table 2 on page 16.

Middle Eastern labor markets are characterized by a high share of public sector employment and pervasive job protection in the formal sector (See Table 3 on page 17). When first established, these arrangements served important social objectives: public sector employment guarantees for high school and university graduates in Egypt and Morocco in the 1960s encouraged youth to stay in formal education. But today, these institutional arrangements work to the advantage of adults at the

BOX 5: EGYPT'S HOUSING REFORMS PAVE THE WAY FOR YOUNG TO MARRY

In Egypt, a series of recent housing reforms have reduced barriers to young people entering the rental housing market. This has, in turn, had positive effects in the marriage market. These reforms have liberalized restrictive rent controls, allowing for definite duration contracts and reducing the need for young home seekers to provide large capital outlays, or "advance rent," in order to obtain initial housing.

As unaffordable housing is one of the main factors causing delayed marriage among men in Egypt, these reforms have simultaneously had a positive spillover effect in the marriage market for young Egyptians. A recent study by

Assaad and Ramadan shows that these reforms have led to a reversal in delayed marriage among young men, beginning with those born after 1972. For example, among urban men the average age of marriage dropped from a peak of 29 years for those born in 1972 to 27 years for those after 1972. A one-year drop in the median age of marriage translates into an additional 230,000 25- to 29-year-old men able to marry, or 16 percent of those married in that age range. The onset of the decline in male age of marriage is consistent with the time at which the far-reaching housing reforms of 1996 would have begun to affect the supply of rental housing.

Source: Ragui Assaad and Mohamed Ramadan, "Did Housing Policy Reforms Curb the Delay in Marriage Among Young Men in Egypt?" Middle East Youth Initiative Policy Outlook 1 (Washington, D.C.: Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government, 2008).

expense of younger generations. For example, employment protection (higher firing costs) reduces turnover and undermines total employment growth because of reduced entry of new workers. These burdens are largely borne by young and female workers.

The following examples demonstrate how institutional arrangements are at the heart of the exclusion of young people and, when improved, how they can have positive effects on youth transitions.

Why Do Young People Prefer Public Sector Employment?

Today, governments are explicitly pursuing greater market-oriented development strategies including the expansion of the private sector and its role in economic growth. While the public sector remains large in many countries, public sector hiring has slowed and it provides fewer opportunities for educated students. Despite this, students and parents alike continue to perceive public sector employment as providing the best jobs—jobs that provide decent incomes, job security, and benefits, including access to decent pensions. Current policies and institutions pertaining to wages

and benefits reinforce the lure of government jobs (See Box 6 on page 18).

Why Is Skill Mismatch a Recurring Problem?

Despite poor labor market outcomes for educated youth, Middle Eastern parents continue to make educational investments for their children based on the signals they receive from the labor market. Parents and students alike perceive “good jobs” as requiring a university degree. This impacts learning and skill formation along the following dimensions:

Vocational Education and Training (VET) Is Devalued: Vocational education and training should provide a pathway for students to attain job-relevant skills; however, across the region, VET programs suffer because the training provided fails to keep up with employer needs and the rewards from VET education are too low to attract good students.²³ The low rewards for vocational training are tied closely to the institutions of formal education and the labor market. Perceived returns to the academic tracks are higher not so much because they teach more valuable skills but because they

TABLE 2: INSTITUTIONS IN THE MIDDLE EAST AND THEIR EFFECTS ON YOUNG PEOPLE

SECTOR	INSTITUTIONAL FEATURE	EFFECTS ON YOUNG PEOPLE
Education	<ul style="list-style-type: none"> University admission policies Tracking mechanisms 	<ul style="list-style-type: none"> Undermines value of vocational education Promotes rote memorization over investment in skills
Labor	<ul style="list-style-type: none"> Employment protection 	<ul style="list-style-type: none"> Protects older workers and reduces opportunities for young workers Makes firms less likely to hire new, younger employees (lower turnover) Contributes to informality where young people have fewer opportunities for human capital development
Housing	<ul style="list-style-type: none"> Rent controls Absence of mortgage facilities 	<ul style="list-style-type: none"> Limits access for first time buyers to afford to buy or rent housing Prolongs dependency on parents and failure to accumulate physical assets

provide the option for entering university. Because of the associated link between public sector employment and university education, few choose the vocational education track, as this track would exempt them from pursuing university education at a later date. Consequently, only the least able and least motivated students are perceived to opt for VET, while those involuntarily “tracked” to vocational education due to poor academic performance at earlier stages of their educations face the stigma of having what is perceived

as a second class education. Testing on the basis of ability, which usually takes place around ninth grade (14 years old), reinforces these perceptions. Moreover, employers—knowing the resulting distribution of talent—see vocational education as a dead-end track for poorly motivated students and offer lower pay to VET graduates, thus perpetuating the cycle. Laws that prevent employers from dismissing workers further discourage employers from taking risks in hiring VET graduates in the face of these probabilities.

TABLE 3: INDICATORS OF INSTITUTIONAL RIGIDITY IN THE MIDDLE EAST

COUNTRY/REGION	GOVERNMENT WAGES (% OF GDP)	DIFFICULTY OF HIRING INDEX	RIGIDITY OF HOURS INDEX	DIFFICULTY OF FIRING INDEX	RIGIDITY OF EMPLOYMENT INDEX
Algeria	7.1	44	60	40	48
Egypt	6.2	0	20	60	27
Iran	10.6	11	60	50	40
Jordan	14.4	11	20	60	30
Kuwait	14.7	0	40	0	13
Lebanon	8.2	44	0	30	25
Morocco	11.1	100	40	50	63
Saudi Arabia	..	0	40	0	13
Syria	..	22	40	50	37
Tunisia	10.5	28	40	80	49
United Arab Emirates	3.9	0	60	0	20
Yemen	12.8	0	60	40	33
REGIONAL AVERAGES					
Middle East	8.3	21	43	46	37
Africa	5.6	40	35	37	37
East Asia	3.4	19	19	39	26
Developed economies	3.2	22	26	21	23
Latin America	3.8	54	51	29	44
South Asia	1.6	14	20	62	32

Notes: Government wages reflect average values for 1992–2002. Indices are on a scale from 0–100, with higher values reflecting more rigid regulatory environments. Regional averages are population-weighted means of scores for the countries for which data is reported.

Source: World Bank, *World Development Indicators 2006*; World Bank, *Doing Business 2008*.

BOX 6: SYRIA PURSUES MARKET REFORMS WHILE YOUTH STILL PREFER PUBLIC SECTOR JOBS

As Syria transitions toward a social market economy, the government is taking steps to instill a new social contract based less on government intervention and more on private sector solutions. Despite the government's interest in public sector retrenchment, however, signals and incentives from the government, including wages and continued high levels of government hiring, encourage young Syrians' overwhelming preference for public sector over private sector jobs. Over 80 percent of unemployed 15 to 29 year olds are interested in public sector jobs and 60 percent seek jobs exclusively in the public sector.

In contrast to the government's stance toward reducing public sector employment, the share of workers in the public sector has remained steady over the past seven years

at around 27 percent. In addition, public sector wages have increased substantially since 2000. Between 2001 and 2007, the average nominal hourly wage of a public sector worker between the ages of 20 and 29 increased by 70 percent while the average hourly wage of a private sector employee increased by only 50 percent. Furthermore, nearly 89 percent of young public sector employees are registered with the pension system compared to less than 9 percent of young private sector workers. As a result, lifetime earnings for young public sector workers exceed those for private sector workers among all groups (with the exception of men with a primary education or below). These increases in wages, better benefit packages and job security provided by the public sector have reinforced young people's preference for government jobs.

Source: Nader Kabbani, "Why Young Syrians Prefer Public Sector Jobs," Middle East Youth Initiative Policy Outlook 2 (Washington, D.C.: Wolfensohn Center for Development at the Brookings Institution and the Dubai School of Government, 2009).

Race to University Entry Encourages Rote Memorization: The lure of a university diploma as the pathway to a public sector job drives young people into learning strategies—from early childhood to high school—that do not foster productive skills and job-relevant experience. In turn, young students devote their time and energies to preparing for high-stakes national examinations that are key to gaining access to university. Since such examinations are designed primarily to measure the acquisition of facts and knowledge through rote memorization rather than critical and independent thinking, students spend time preparing for these examinations at the expense of developing a broader range of knowledge and skills. Moreover, families across the Middle East spend considerable sums on private tutors that specialize in test preparation, rather than putting those resources towards productive skills training. Due to the structure and allure of university-tracked education, students and their parents end up spending time, energy and money acquiring knowledge that is not in demand by private sector employers.

Why Isn't the Private Sector Influencing Skills Development?

The formal private sector plays an increasingly important role in hiring skilled workers across the region. Enabling private employers to signal what skills they deem productive (and will reward accordingly) will benefit skill formation among youth. The influence of the private sector on skills development is weakened in two ways. First, in many countries, the signals sent by private firms are drowned out by strong public sector signals that, in some cases, offer graduates higher pay than the private sector and, in most cases, better job security, as noted above.

Second, larger, private employers often reinforce public sector signals for skill formation because they must adhere to labor laws that regulate their hiring, compensation, and firing practices. Wage scales and the high cost of layoffs prevent private firms from sending the right signals about rewards for productivity and a

wider skill set. Given the hiring and firing restrictions, the private sector gives more weight to ex ante signals of productivity (e.g. diplomas, university degrees, test scores), reinforcing the importance of credentials.

Why Are Young People Not Building Skills Through Volunteer Work and Community Service?

Internationally, there is a great deal of learning that goes on outside of schools. For instance, young people learn life skills and gain valuable experience through volunteer work, extracurricular activities and summer employment. This is especially the case in developed nations, where youth engage in volunteer work while in high school and university, or following graduation, because they consider such work to be valuable for resume-building and a source of experience and skills acquisition. These activities can serve as a means for generating future income because they help young men and women gain admission into universities and bank on their experience when competing for better jobs.

Yet, despite the growing number of non-governmental programs oriented towards youth volunteerism in the region, and the greater levels of unemployment (and therefore the lower opportunity cost of time) that Middle Eastern youth face, they show less interest in volunteering and engaging in extracurricular activities than their counterparts in developed countries.²⁴ For instance, a Gallup poll in 2006/2007 revealed that only 11 percent of Middle Eastern youth had volunteered any time to an organization in the past month.²⁵

This contrast in behavior is a result of differences in the incentive structure that youth in developed nations and the Middle East face in regard to the labor market. When desirable jobs and positions in university are rationed solely by test scores and credentials, volunteerism and extracurricular activities are not considered a sign of productivity and skills acquisition. In turn, Middle Eastern youth are discouraged from investing their time in voluntary work because neither universi-

ties, through their admission policies, nor employers in the public and private sectors sufficiently value voluntary work to make it worthwhile for youth to shift time away from leisure or study.²⁶

MAKING INSTITUTIONS WORK FOR YOUNG PEOPLE

The above examples demonstrate how prevailing institutions—public sector wage policies, tight regulation of private employment, and narrowly defined university admission policies—contribute to distorted signals and incentives for young people. While many of these institutions, when first established, served important social objectives, today, in a much more competitive global economy, they provide the wrong incentives and hinder economic development.

For policy makers, a vital lesson of the oil boom years is that improvements in the macro environment alone will not erase the deep inequities that define the older and younger generations. Institutional arrangements—especially in the form of labor market protection—have strong distributional effects; in the Middle East they protect mature workers and exclude younger ones. Without a sound microeconomic foundation—one in which institutions generate the right signals and incentives—the benefits of macroeconomic and trade reforms, as has been demonstrated during these last few years, are limited.



Save the Children — Naseej, “Masar (School-to-Career) Program” April 2008.
Amman, Jordan. © Photo: Samantha Constant

New Economic Crisis, New Risks for Young People

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The economic slump that began in the housing and financial markets of the United States is likely to result in a renewed jobs crisis for the Middle East. GDP growth in the region is expected to slow to 3.3 percent in 2009, compared to an estimated 5.8 percent in 2007 and 5.5 percent in 2008.²⁷ While countries vary in their relative positions in coping with the crisis (See Box 7), for many of them the downturn coincides with a peaking youth bulge (See Figure 5 on page 22). As a result, labor

force pressures are at their highest: regional labor force growth over the next five years will average nearly 2.7 percent, while the increasing number of young new entrants will be more educated and have higher expectations in terms of job quality. In light of these severe labor supply pressures, policy makers should not only be concerned about how young people fare in today's labor market but also ensure that policies forged during the downturn support their future human capital development.

BOX 7: SAVERS, SPENDERS AND STRUGGLERS: A TYPOLOGY OF MIDDLE EAST ECONOMIES IN THE GLOBAL DOWNTURN

The **Savers** are oil-exporting countries with high levels of foreign exchange reserves, including most countries in the Gulf Cooperation Council (GCC). Due to their large financial capacities and the reserves that were built up during the oil boom, they are in the best position to weather the economic shock of the downturn. In Saudi Arabia, despite expectations of a current account deficit in 2009 (-7.9 percent of GDP) foreign exchange reserves will remain at about \$21 billion. Kuwait's foreign exchange reserves are expected to slightly decline from \$17 billion in 2008 to \$16 billion in 2009, but the country is expected to maintain a positive current account balance of 5.5 percent of GDP.

The **Spenders** are countries that have used their oil-exporting revenues in recent years to implement costly populist policies. Countries like Iran, Iraq and Algeria have larger populations and greater social needs than the GCC countries, but they have not built up high levels of reserves, and are therefore more vulnerable to decreasing oil prices. For example, with less than four months of imports in its Oil Stabilization Fund, Iran will be forced to adjust to lower oil

prices by cutting spending in order to balance external and internal deficits. Iran is forecasted to have a budget deficit of 5 percent of GDP and a current account balance of -3.8 percent of GDP in 2009. Iran and other spender economies face the immediate challenges of adjustment to finance these imbalances.

The **Strugglers** are countries that are more integrated into the global economy and are thus highly exposed to the risks of the downturn in global demand. Countries like Jordan, Egypt and Morocco may face decreases in foreign direct investment (FDI), exports, workers' remittances, and foreign aid. In Egypt, for example, FDI is expected to decline from 6.2 percent of GDP in 2008 to 2.8 percent of GDP in 2009. The country is forecast to have a budget deficit of 7.1 percent of GDP in 2009 and a current account balance of -1.0 percent of GDP. Between 2008 and 2009, exports from Egypt are expected to decline from \$30 billion to \$22 billion. The high exposure of these struggling economies will have a significant impact on both their firms and households, with the pressure felt by their whole populations.

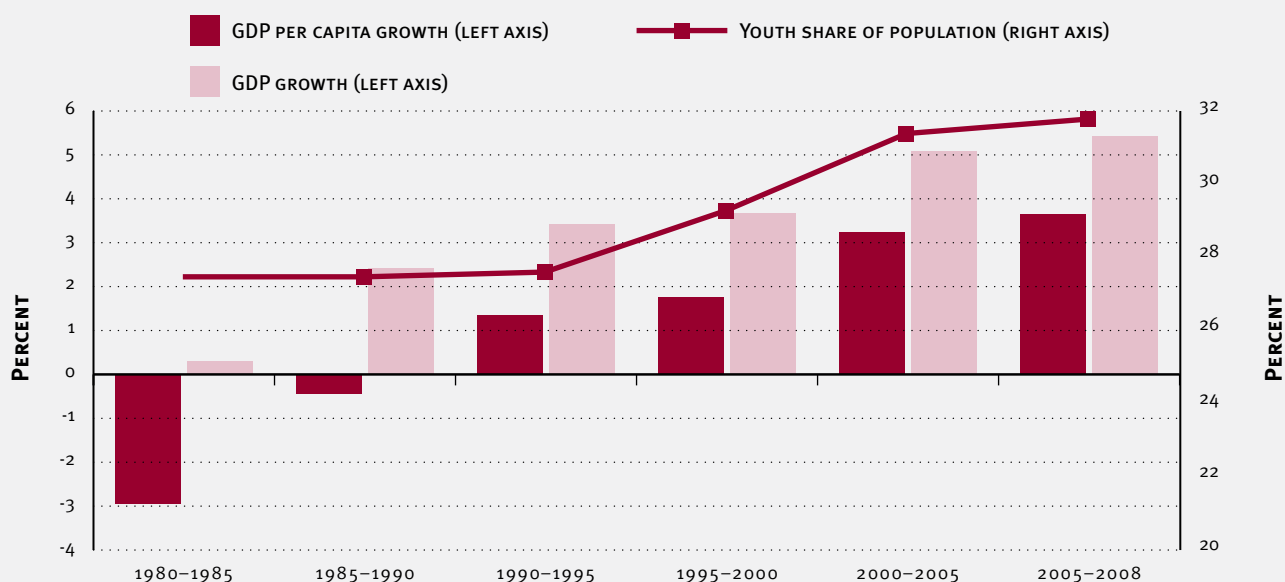
While the full effects of the slowdown on the region's labor markets will take place with a lag, adjustments in labor demand and employment are already underway. According to forecasts from the International Labor Organization (ILO), unemployment in the Middle East and North Africa is estimated to increase by 3 million in 2009.²⁸ Young people are particularly vulnerable, as youth employment is highly sensitive to fluctuations in economic conditions. Research on labor market conditions in developed countries has shown that an increase in total unemployment by one percentage point reduces the employment rate of youth by 1.1 to 1.8 percentage points.²⁹ In the Middle East, given the large youth population and labor market rigidities, the differential impact on young people could be even greater.

In the Middle East's formal private sectors, labor laws protect established workers and thus as growth opportunities decline and firms downsize, young people are more

likely to lose their jobs. This is especially true for young migrant workers, who will return home to labor exporting countries like Egypt, Morocco and Yemen, placing an added strain on domestic labor markets. Though young people can fall back on their families as an informal social safety net, most do not have access to formal social protection mechanisms or unemployment insurance.

Moreover, since the majority of new entrants end up in the informal sector, this sector is likely to become a refuge for young people during the downturn, compressing already low wages. Thus, not only the quantity but also the quality of jobs available to young people risks deteriorating. Weakened labor market outcomes may impose new costs on societies across the Middle East, such as the depreciation of skills and lower lifetime earnings for young people enduring long periods of unemployment or low quality employment. In turn, these outcomes not only delay the transition to adulthood further, but

FIGURE 5: THE YOUTH POPULATION AND ECONOMIC GROWTH IN THE MIDDLE EAST, 1980–2008



Source: International Monetary Fund, United Nations Population Prospects, 2008.

also heighten the sense of discontent and frustration among youth. In some countries like Yemen and Egypt, labor reallocation or internal reverse migration back to agriculture and subsistence activities could increase the incidence of poverty.

Responses in the region must conform to existing reform goals to improve the welfare of young people. During tough times, governments might be tempted to increase government jobs and public sector wages as a quick fix to growing public dissatisfaction with high unemployment rates. Similarly, efforts to protect jobs through increasing labor market regulations may safeguard workers from job losses in the short-term, but may decrease firm competitiveness and create disincentives for future hiring among the private sector (See Box 8). Most importantly, these policies have distributional effects, extending the benefits to mature workers while placing the cost of adjustment on young workers.

To contain the crisis and ensure recovery, the Middle East, like everywhere, will also face competing arguments for what kind of economic system can best serve its people. Mounting social and political pressures could weaken the reform agenda designed to promote private sector growth and increased integration into the global economy. Rather than a reversal of open market policies, the crisis should serve as an opportunity for increasing competitiveness, promoting job creation, and developing a better skilled workforce to take advantage of a new global economy.

BOX 8: RECENT JOB PROTECTION POLICIES IN THE UNITED ARAB EMIRATES (UAE)

The labor market in the UAE, as in most Gulf countries, has long been defined by labor market segmentation between the public sector, which employs most nationals, and the private sector, which largely employs expatriates. In recent years, private firms have increasingly hired nationals into their workforces.

In February 2009, the UAE government issued a decree that prohibits private sector employers from laying off national workers for any reason, unless the worker engaged in serious misconduct.³⁰ While this policy is designed to protect the jobs of workers during tough economic times, the policy could actually have the opposite effect in the long

run by providing strong disincentives for worker productivity and for firms to hire Emirati nationals in the first place.

In the future, firms will be more hesitant to hire young nationals because of new restrictions on dismissing Emirati workers. Instead, they will hire foreign nationals (whom they can dismiss) or older Emiratis with a proven record of experience rather than take a risk on hiring a young Emirati with unknown skills or qualifications. Thus, imposing a permanent solution to a temporary problem might actually do more harm, proving to be counterproductive to the country's overall goal of increasing employment of Emirati nationals in the private sector.



Jamila Hassoune's "*Caravane du Livre* Annual Workshop" April 2007.
Amizmiz, Atlas Mountains, Morocco. © Photo: Samantha Constant

A New Policy Agenda

As regional economies adjust to new and uncertain economic terrain, the following principles should guide the actions and interventions of various stakeholders:

- ***Do no harm:*** The first goal of policy should be to do no harm. At a time when policy makers are rushing to solve urgent youth problems, quick fix solutions can do harm to the long-term goals of economic development. In regard to employment generation, the best-designed policies are those that strike a balance between short-term solutions for immediate problems, such as the rising ranks of unemployed graduates, without jeopardizing long-term goals, such as encouraging those still in school to seek a more balanced portfolio of skills. Job creation for skilled workers might be urgent, and even politically desirable, but basing eligibility for such job creation programs on credentials has the unintended effect of bolstering existing distorted incentives for diplomas and degrees and worsening the mismatch of skills for future job market entrants.
- ***Understand the role of institutions and incentives:*** Recognition of the role of institutions and incentives that shape the behavior of youth and their families when making choices about education, employment, and family formation should be integrated into policy and program formulation. By reforming institutions, new incentives can be created for skill formation, productive job search, changing mindsets and empowering young people to make better decisions about their future.
- ***Formulate integrated policy responses:*** Policy reforms should constitute a holistic, integrated response to the challenges of waithood. Policy should be designed to take into account the interconnectedness between outcomes in education, employment, access to credit and housing, and family formation so that improvements in one area do not impinge on incentives in others. Further, recognition of this interconnectedness implies that interventions in some areas may be more effective and easier to implement than in others.
- ***Invest in monitoring and evaluation:*** Effective monitoring and evaluation must be streamlined into policy and program formulation and implementation in the region. Rigorous, independent impact evaluations are critical to achieving real progress in addressing the major challenges facing young people. Sound evidence promotes better understanding about what works, enhances cross-country sharing of best practices, boosts capacity in the region, and improves policymaking and spending toward more effective youth development. To date, few projects aimed at young people have (or can be) evaluated in terms of

- ***Adopt a long-term perspective:*** Policies should be long-term and treat the youth bulge as a window for reform that benefits the whole of society. These reforms should be geared toward using the region's large youth population to prepare Middle Eastern economies for the competitive global economy. As the youth bulge will begin to decrease in some countries in the future, the region has a closing opportunity to maximize gains from its demographic gift and to foster a more effective use of its human capital investments.

impact. The lack of monitoring and evaluation across the region has led to a squandering of investments on ineffective programs. Monitoring and impact evaluation, therefore, must be integrated in the design of programs and interventions in order to provide “real time” feedback and facilitate mid-course corrections, as well as to evaluate the efficiency and effectiveness of expenditures.

- **Scale up promising initiatives:** The region offers a growing range of potentially successful models and strategies for youth-oriented policy and programs, especially those initiated by the private sector and civil society. Each of these programs offers a distinct model in terms of information, outreach, and support to specific sub-groups of youth. Investments should be targeted at not only creating new initiatives but scaling up and replicating interventions which show promise.

POLICY PROPOSALS

Based on the principles outlined above, we propose ten policy recommendations to be considered for implementation on the national and local level. These recommendations aim to both address the short-term job crisis and support the long-term goals of human capital development.

1 Countries committing to fiscal stimulus should target jobs for young people.

Several Middle Eastern countries have committed to substantial fiscal stimulus packages in order to revive demand and contain the threat of rising unemployment. It is critical that these packages provide for job creation and human capital development geared toward young people, as they are most vulnerable to economic adjustments and already face high rates of unemployment. Not only is this vital for improving labor market prospects for the young, but also to ensure greater intergenerational equity in the future. This can be achieved through a number of interventions:

- **Public works programs:** Governments should establish labor intensive public works programs which are in line with long term development goals.³¹ Such programs would a) provide temporary wage employment for vulnerable young people; b) integrate components of skill formation and human capital development to bolster their future income generating potential and c) support emerging industries. For example, employing large numbers in infrastructure maintenance and housing construction is a traditional source of job creation in many countries; new public works programs can provide training to young workers in specialized environmentally friendly construction techniques, enhancing the value of such employment as it prepares young people for new emerging industries and allows them to be competitive globally.
- **Support small- and medium-size enterprises (SMEs):** SMEs account for a significant share of total employment across the Middle East in both the formal and informal sectors. Moreover, the global economic crisis will likely result in the SMEs absorbing a large number of those who will be losing jobs in larger formal sector enterprises. At the same time, the SME sector can cater more to local consumers and serve domestic demand for goods and services. To support them, governments should ensure that SMEs have access to credit and information and communications technology to better inform small entrepreneurs of market challenges and opportunities.
- **Schemes for hiring or retaining young employees:** Policy makers can foster job creation for young people by providing tax relief and other financial incentives to formal private sector businesses (small and large) to retain young workers and recruit first-time job seekers. Employers in industries, such as tourism, who are likely to lay off workers in the downturn should be supported through a publicly funded scheme wherein employers are encouraged to retain workers with reduced hours.

- **Engage in a national dialogue:** Governments should engage in open dialogue involving private sector, civil society, and citizens to provide transparent information on the economic crisis, risks and opportunities, as well as roles and responsibilities. This is critical to bolstering confidence and resetting expectations of young people toward a private sector driven economy.

2 **Promote access to secondary and university education for marginalized groups.**

Youth from poor socioeconomic backgrounds have reduced access to education, especially at the secondary and tertiary level. Their transition from education to the labor market often involves dropping out of school early and starting work in the informal sector or being inactive (neither in school nor in employment). In this regard, the provision of targeted monetary incentives for students from low-income backgrounds to continue on to secondary and university education should be considered.

3 **Reform university admission policies to promote better skills development.**

How universities select students influences how and what students learn at lower levels of education. Thus, the lure of university education in the region suggests using university admission policies to change learning incentives for students at the primary and secondary levels. Future firm competitiveness will depend on a supply of labor with a range of skills such as teamwork, critical thinking, leadership capability, and problem-solving. University admissions policies that place a high value on such skills can provide students and parents with the incentives to acquire them. In this regard, university admission criteria should be changed to give more weight to past work experience and volunteerism that promote the development of life skills at younger ages. By expanding the assessment of applicants to these areas, regional universities would send strong signals about the importance of life skills, leading students and their parents to invest more in these areas. In addition, university admission exams should be reformed to test a broader range of skills beyond rote memorization, such as writing and critical thinking.

POLICY PROPOSALS

We propose ten policy recommendations to be considered for implementation on the national and local level. These recommendations aim to both address the short-term job crisis and support the long-term goals of human capital development.

PROPOSAL ONE: Countries committing to fiscal stimulus should target jobs for young people.

PROPOSAL TWO: Promote access to secondary and university education for marginalized groups.

PROPOSAL THREE: Reform university admission policies to promote better skills development.

PROPOSAL FOUR: Reform public sector hiring practices.

PROPOSAL FIVE: Invest in scaled-up volunteerism and service learning programs for young people.

PROPOSAL SIX: Expand training schemes targeting young people carefully.

PROPOSAL SEVEN: Raise the value of informal jobs through investments in skills development.

PROPOSAL EIGHT: Invest in the social services sector for job creation and human capital development.

PROPOSAL NINE: Invest in technology to provide better job information, matching and career counseling.

PROPOSAL TEN: Provide social protection for all workers.

4 Reform public sector hiring practices.

While public sector employers in the region are hiring smaller numbers of high school and university graduates, these jobs are still highly desired and may become more so at a time of economic insecurity. In the long run, governments should change their employment practices, especially with respect to lifetime job guarantees, to remove the distortion effects of public sector employment. Deep changes in the civil service code are not politically feasible, especially during a slump, but the public sector could introduce merit-based pay and promotion measures that stress productivity, in turn sending better signals to young people, their parents and schools.

Intermediate steps that can be taken to transmit these signals by the public sector include introducing assessments and interviews to the hiring process that evaluate personal traits, academic records, language abilities and functional numeracy. Written exams for prospective labor market entrants and judicious use of recommendation letters from teachers and employers would begin to direct government hiring away from current methods, which are based on educational credentials and little proper evaluation of skills. Such reform efforts would begin to reduce the negative grip of government employment on skill formation in the region.

5 Invest in scaled-up volunteerism and service learning programs for young people.

Given the long waits young people face in finding their first jobs, service learning can act as a bridge between education and employment. Volunteer positions can enable young people to develop new skills and build social capital. However, in the Middle East, service learning is under-developed and there are no credible national programs focused on getting young people to contribute to their societies. To resolve this gap, government, the private sector and civil society should work together to establish a Youth Corps, a publicly funded program that

provides grants and guidance to local non-profit institutions (e.g., schools, hospitals, clinics, housing projects) and stipends to young people to undertake volunteer positions for one or two years.

6 Expand training schemes targeting young people carefully.

As the economy changes and new sectors of job creation emerge, investments in training young people will be critical. While there are few rigorous evaluations of the effectiveness of training interventions in the Middle East, evidence from developed countries points to the limited impact of such programs on improved job prospects and earnings.³² Thus, Middle Eastern governments should engage in a careful and temporary expansion of training programs that have shown some success, while implementing evaluation schemes that allow policy makers to measure the impact of these programs.

7 Raise the value of informal jobs through investments in skills development.

High priority should be given to policies that raise the value and skill enhancement of informal jobs so that they provide valuable work experiences for youth. Significant numbers of young people are starting their careers in informal micro, small-, and medium-size enterprises. These enterprises are less likely to invest in training and skills development for their young workers. Governments should experiment with new incentives—e.g. training funds or vouchers—to encourage the use of private training providers (both non-profit and for-profit) in the informal sector.

8 Invest in the social services sector for job creation and human capital development.

The social sector, where public and private interests intersect around the provision of social services, provides great opportunities for job creation, the development of human capital, and fulfilling the long-term needs of citizens in

various domains. There are three main goals with regard to investing and supporting the social service sector. First, there should be policy efforts to develop young people's skills in key social services and to increase incentives for young people to take on professions in this sector. Particular focus should be on services that are currently underserved, including health care and education. Second, increased professionalization and rewards should be developed to increase young people's interest in these occupations. Finally, the 'infrastructure' of the social sector should be supported to foster the emergence of social entrepreneurs and innovation in service provision. This can include relaxing legislation for the formation of social ventures, increasing access to credit for initiating and scaling up of successful service delivery programs, and providing technical support and capacity building to existing programs.

9 **Invest in technology to provide better job information, matching and career counseling.**

Young people need better information, advice, and career counseling on the changing realities of the labor market. The Middle East has an underdeveloped infrastructure—limited career centers at schools and universities, shortages of well trained career counselors, and limited use of modern technology and virtual social networking—to provide timely and relevant information to young job seekers. Information flows can be enhanced by public-private partnerships that invest in career centers, training of counselors, and the adoption of innovative solutions to reach youth (e.g., mobile phone text messaging for job alerts).

10 **Provide social protection for all workers.**

The heart of this new strategy involves replacing old job protection rules and regulations with social protection and social insurance policies. Eliminating job protection rules and regulations is politically difficult, if not impossible, and may exacerbate existing negative feelings toward competitive markets. But the implementation

of mechanisms such as unemployment insurance, in the context of greater institutional flexibility for private sector employers, helps eliminate the institutional rigidities that protect established workers at the cost of job creation for youth. Many countries in the region, such as Egypt and Syria, are exploring such social protection policies for workers. Despite—or perhaps especially because of—the current economic downturn, these policies should be developed to have broad coverage, offer real protection, and be financially sustainable.



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Tahanout, Atlas Mountains, Morocco. © Photo: Samantha Constant

Emerging Stronger After the Downturn: The Imperative of Regional Cooperation

Given the scale of the economic crisis and the commonalities of long-term challenges facing young people across the Middle East, progress hinges upon greater cooperation between countries. The best solutions can be found within the region: the variety of experiences in the region provides localized ideas—a source of strength that is largely untapped in the quest for improving the welfare of the young generation.

In recent years, several countries, including Egypt, Jordan and Yemen, have launched youth-oriented, multi-sector strategies that seek to align reforms across education, employment, and other related areas. We have also seen the rise of several regionally-oriented funds and organizations that are focusing on promoting better outcomes for young people, such as the Mohammed bin Rashid Al Maktoum Foundation (Dubai, UAE) and Silatech (Qatar).³³ However, capitalizing on these efforts requires overcoming the divide between the processes of *policy development, knowledge creation, and investment in youth programs*. Across borders, governments, the private sector and civil society organizations operate largely in isolation from each other. At the regional level, there is insufficient learning on the effectiveness of policies and a

lack of timely information on youth conditions and those innovations apt for scaling up.

Exploiting the benefits of regional cooperation means building stronger linkages between these three domains—*policy, knowledge, and investment*. By bolstering and pooling efforts in research and knowledge, countries can generate best practices and evidence on what works and what does not in the area of youth policy and programs. By forging greater cooperation on policy development, policy makers can create a process for exchange that will provide support in their pursuit for long-term reforms. Investments in policies and programs can have a better return and prove more effective when informed by evidence based knowledge and lessons from across the region (See Box 9).

The inclusion of young people is the most critical 21st century economic development challenge facing the Middle East. Solving this challenge has long been critical to the prosperity and stability of the Middle East. Now in a downturn, it is set to become more complex and urgent. The time is now for forging greater regional cooperation to build more effective policies, knowledge and investments toward a better future for the young generation.

BOX 9: BENEFITS OF REGIONAL COOPERATION

- Maximize the benefits of ongoing economic and social reform through sustained and collective action on youth development.
- Generate knowledge and good practices to support policy makers in weathering the global economic slowdown, as well as fostering positive long-term impact.
- Develop new instruments for aligning policy and program action.
- Create public-private partnerships to scale up innovations in youth service provision across borders.
- Enhance country capacities for developing and implementing policies and programs.

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