Towards a Productive and Inclusive Path

Job Creation in the Arab Region

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Economic and Social Commission for Western Asia
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Foreword

Arab labour markets are characterized by stagnant labour force participation, high unemployment levels and limited sustainable and inclusive employment creation. According to the ILO, even prior to the COVID-19 pandemic, more than 14 million Arab individuals of working age were unemployed. It is expected that the pandemic will compound the issue of employment creation even further, putting additional pressure on policymakers to come up with more effective strategies in the short run and strengthen their structural transformation efforts in the medium and the long run.

In light of the need to promote more equitable and sustainable employment, this report was prepared by the Economic and Social Commission for Western Asia (ESCWA) and the International Labour Organization (ILO) Regional Office for Arab States to examine the underlying reasons behind the endemic failure of Arab economies to create sufficient decent jobs. This joint study focuses on the limited role of the formal private sector in job creation and highlights labour market deficits in the Arab region. Concerted and coordinated action among countries of the region is indispensable if they want to recover from the effects of the pandemic, boost economic activity and create sufficient decent job opportunities.

Overall, the Arab region has the world's highest unemployment rate especially among youth and women. Even when jobs exist, these are largely informal, providing poor working conditions and limited job stability to workers. At the same time, skills mismatch is highly prevalent with the education and training systems not necessarily providing the skills needed in the labour market, while in parallel Arab economies fail to create jobs that correspond to the available skills of individuals. The COVID-19 crisis has increased pressure on Arab labours market with more than 39 million individuals in the region working in sectors identified by the ILO as particularly hard-hit, facing high risks of layoffs, and reduced wages and/or hours of work.

From a demand-side perspective, this report underlines the gap between capital owners and income earners in production. It also reveals that, in spite of the region's acceptable labour productivity levels, total factor productivity in formal private-sector firms in the Arab States is lower than that observed in countries with similar income brackets. At the same time, employment elasticity is low in most firms, signaling low levels of technology, production infrastructure and overall governance quality. Innovation has a varied impact on employment creation and affects sectors differently. Finally, the demand-side analysis highlights the issue of gender inequality in Arab labour markets, evidenced, for instance, by women's lower shares as business owners, and the generally few top management positions held by women.

For every crisis, there is opportunity. The current challenges shall be overcome by building forward better and by ensuring that, in the future, labour markets in the Arab region offer prosperity for their younger generations, prevent people from falling into poverty and reduce inequalities.

The purpose of this report is to provide guidance to policymakers, help reduce labour market deficits, especially in the formal private sector, and unlock the potential of the private sector to become a major driver for economic growth and the creation of decent employment across the region.

Rola Dashti
Executive Secretary of ESCWA

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ILO Regional Director for Arab States

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Abbreviations and Acronyms

ALMP	active labour market policy
DHS	Demographic and Health Survey
EPL	Employment Protection Legislation
ERF	Economic Research Forum
ESCWA	Economic and Social Commission for Western Asia
FDI	foreign direct investment
GCC	Gulf Cooperation Council
GDP	gross domestic product
HCI	Human Capital Index
ILO	International Labour Organization
IMF	International Monetary Fund
IT	information technology
LDC	least developed country
LFPR	labour force participation rate
MENA	Middle East and North Africa
MICS	Multiple Indicator Cluster Survey
MSME	micro, small and medium-sized enterprise
NAIRU	non-accelerating inflation rate of unemployment
NEET	not in education, employment or training
NEP	national employment policy
NFIS	national financial inclusion strategy
NYUAD	New York University Abu Dhabi
OECD	Organisation for Economic Co-operation and Development
OSH	occupational safety and health
PAPFAM	Pan Arab Project for Family Health
R&D	research and development
SDG	Sustainable Development Goal
SME	small and medium-sized enterprise
STEM	science, technology, engineering and mathematics
TFP	total factor productivity
TIMMS	Trends in International Mathematics and Science Study
UNDP	United Nations Development Programme
UNICEF	United Nations Childrens' Fund
WEF	World Economic Forum

INTRODUCTION

Introduction

By various measures, development performance in the Arab region during the four decades leading up to 2010 had been on the right track, with a steady rise in life expectancy and mean years of education, especially among youth and women.[1] However, employment consistently lagged behind. In the past three decades, the share of the Arab region's working-age population expanded by 17 per cent, while the employment-to-population ratio increased by less than 1 per cent, resulting in the lowest level of employment creation amongst all regions for the same period. At the same time, most of the employment creation happened in the informal private sector and the public sector. The gap between the working-age population and the generated jobs requires rethinking the developmental model that has reigned in the region since the 1990's. Regional analyses including the first Arab Human Development Report of 2002[2] and the Arab Human Development Report of 2009[3] set out four cross-cutting stylized facts which form the basis for the main question of this report, namely, why the formal private sector in the Arab world is not creating enough decent and inclusive jobs. These four facts are as follows:

- The mainstream political economy narrative which claims that Arab States have systematically disbursed subsidies and rents to their constituencies in exchange for little or no public policy accountability: This authoritarian bargain, as it is often referred to, is associated with the formation of rentier and low-productivity economies with wide deficits in youth participation and gender equality, a large informal sector and a limited role of the formal private sector, particularly in employment creation;[4]
- Major human development progress recorded in key health and education indicators, which has left the region with a more educated and youthful labour force: However, and despite relatively high growth rates of the gross domestic product (GDP) from 1990 to 2010, opportunities for aggregate productive and decent employment have fallen short. Jobs were mainly created in informal low value-added production and the public sector, which also added to political polarization. Consequently, aggregate labour productivity and real wages stagnated or dropped in real terms. This has led to a disenfranchisement of large segments of Arab youth, especially those with higher educational qualifications. Predictably, a minority were drawn into extremism and conflict;[5]
- The low inclusivity of women: As highlighted by the International Labour Organization (ILO) and the United Nations Development Programme (UNDP) in 2012,[6] the main difference between the employment profile of the region and others is the extremely low women participation rate which, as the report argues, caused by not enough jobs being produced by

[1] ESCWA, 2014.

[2] United Nations Development Programme (UNDP), 2002.

[3] UNDP, 2009.

[4] UNDP, 2002; and ESCWA, 2014.

[5] International Labour Organization (ILO) and United Nations Development Programme (UNDP), 2012.

[6] Ibid.

Arab economies, structural constraints and gender dynamics that discriminate against women. Digging deeper into the root cause of this deficit, the report points to inclusive growth and structural transformation deficits associated with governance practices, social contracts and macroeconomic policies that resulted in poor inclusiveness outcomes;

- The regional discussion about the size of the public sector in employment which might crowd out formal private-sector employment: While acknowledging that there is no easy way to determine the optimal size for the public sector, the challenge facing Arab countries is not so much a bloated public sector (even though this may be the case in some countries), but rather the failure of public-sector policies leading to a more successful economic structural transformation and diversification. This failure pressures many Governments, especially in oil-rich economies, to create inclusive public employment opportunities with limited employment in the formal private sector. An enlarged public employment can thus be regarded as a plausible side effect of the social contract, especially as a reward for the politically well-connected elite.

In light of these complex dynamics, the role of the formal private sector is clearly underestimated. The objective of this study is to examine why the growth of the formal private sector and potential consequent employment creation have been held back in the Arab region. The study examines the reasons behind the endemic failure of the formal private sector to grow and generate jobs. It also provides concrete solutions to reverse this trend. The study is primarily concerned with outcomes that are 'inclusive' and lead to policies that favour growth driven by higher productivity, higher employment and better use of technology for more equitable employment outcomes, especially for women, who are at a major disadvantage.

Labour market deficits cannot be tackled without factoring in the impact of COVID-19 on labour markets. In addition to occupation, conflicts, political instability, poor governance, rentier economic policies, and an outdated social contract, which are the root causes of widespread human suffering, including the lack of job opportunities, the current pandemic, with its interrelated impacts, has added another layer of complexity on the humanitarian, social and economic fronts. In this context, rising poverty headcount trends witnessed during 2010-2019, regardless of how they are measured, are not surprising, as shown in a recent paper published by the Economic and Social Commission for Western Asia (ESCWA).[7] The pandemic thus only amplifies an existing trend of rising poverty caused by inappropriate strategic choices made by Arab Governments during the past four decades. As argued by ESCWA and the Economic Research Forum (ERF),[8] these choices have produced enduring effects on poverty, inequality and vulnerability in Arab countries. This is reflected in one of the most glaring ramifications of the pandemic, namely, that 16 million additional persons are expected to fall into poverty by 2021.

Chapter 1 of this study provides an overview of the Arab labour market supply. It investigates demographic shifts, education and labour market trends, and productivity using World Development Indicators[9] and ILOSTAT[10] databases.

This supply-side profiling of the labour market is complemented in chapter 2 by an in-depth analysis of the demand for jobs using the World Bank Enterprise Survey. The chapter provides an overview of the employment-demand and productivity status of the formal private sector in non-oil-producing Arab States and provides a

[7] Abu-Ismail, K., 2020.

[8] ESCWA and Economic Research Forum (ERF), 2019.

[9] World Bank (n.d.). Worldwide Development Indicators.

[10] See https://www.ilo.org/ilostat.

benchmark against other regions. The analysis in chapter 2 investigates the impact of different factors on private-sector employment creation and productivity, including, but not limited to, firm characteristics, factor inputs, the business environment, the role of technology, and output elasticities. Multiple key innovations are discussed in chapter 2, which also presents many key stylized facts. The chapter presents investigations into the following points: first, the share of capital and labour in production and how this share depends on changes in characteristics of companies and the entire sector; second, the high productivity, capital intensity and low total-factor-productivity (TFP) nexus among Arab countries; and third, the impact of innovations on employment creation and how product-versus-process innovations impact employment creation in the Arab world. The discussion on sectoral performance is followed by an analysis of national factors that hinder private-sector development for employment creation in selected Arab countries.

Chapter 3 examines the findings of previous chapters from a gender perspective, which reveals that women employed in the region are generally clustered in quasi-public firms and in sectors that are deemed female-friendly. Among the examined sectors, computer-related fields and manufacturing have the highest female shares of full-time employment; and export-oriented firms have become a good source of employment for women. Hence, the growth of such firms could facilitate a reduction in gender disparities within Arab labour markets. Attracting foreign investment may boost private-sector employment and is associated with additional employment of women. However, for this to be sustained, there is a need to address gender disparities by, first, challenging prevalent sociocultural perceptions to allow mobility and access of women across all economic sectors, including capital-intensive fields, and, second, reforming labour laws to encourage female economic participation in the formal private sector.

Chapter 4 shows the way forward to design national policies for more inclusive and decent employment creation in the medium and long term. The precarious economic position of many Arab countries makes such a revision necessary. However, it must be noted that policymakers need solutions to short-term challenges, especially how to respond to the COVID-19 crisis. To this end, a number of policy interventions are drawn from recent policy briefs by ILO and ESCWA that argue the need to expand current systems of social protection and support businesses to maintain employment. It is further suggested that, in some countries, implementing employment-guarantee schemes may be a policy option worth considering. Furthermore, chapter 4 pays particular attention to supporting small and medium-sized enterprises (SMEs), especially in their ability to increase innovation, growth and employment. A solution to this issue would be a key entry point for the region to solve its fundamental employment and productivity challenges.

1.

LABOUR SUPPLY: DRAGGING ISSUES AND LIMITED POLICY RESPONSE

1

KEY FINDINGS

Before the COVID-19 pandemic, the region needed 33.3 million new jobs to be created between 2020 and 2030[11] to reduce the unemployment rate to 5 per cent	Training systems and curricula are not in line with the needs of the labour market, leading to a significant skill mismatch	Labour force participation rates (LFPRs) have generally remained stagnant since the 2000s with the female labour force participation rate remaining the lowest in the world
The increase in female labour force participation rate by 2.76 per cent over the period 2000-2020 was matched with an average growth of 3.4 per cent in female unemployment	The Arab region has the world highest unemployment rates among youth and females	64 per cent of of total employment in the Arab region is informal, with poor working conditions and limited job stability

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

1. Labour Supply: Dragging Issues and Limited Policy Response

A. Overview

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

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

B. Demographic shift

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

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

[2] ILO modelled estimates, November 2019.

[3] Ibid.

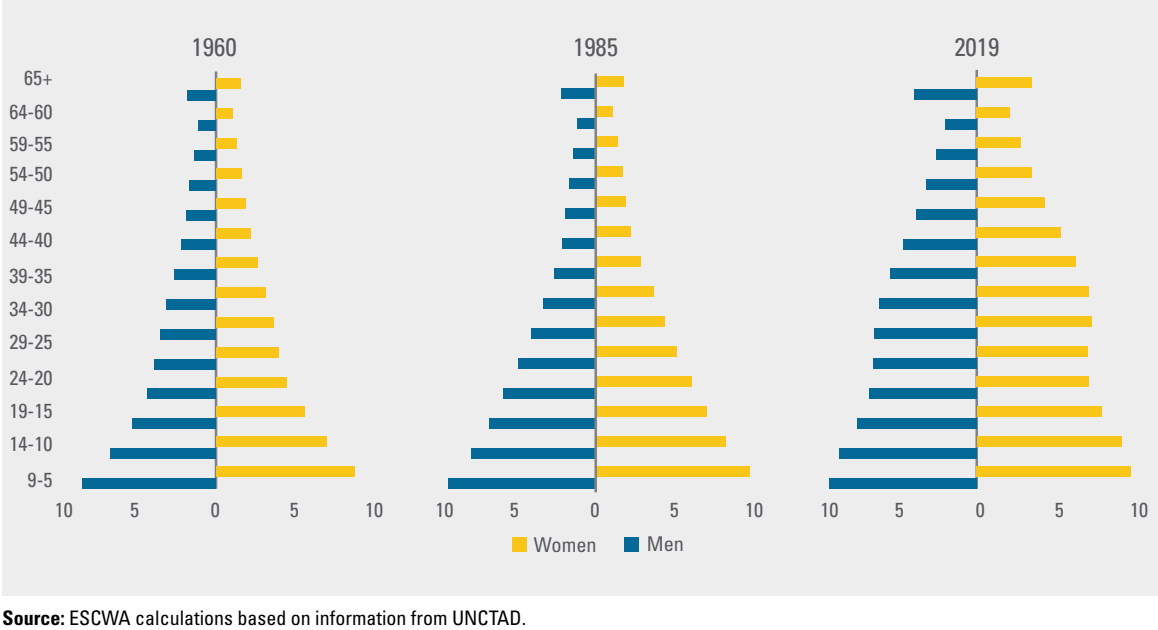
[4] United Nations, 2015. World Economic Situation and Prospects 2015.

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

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

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

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



Source: ESCWA calculations based on information from UNCTAD.

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

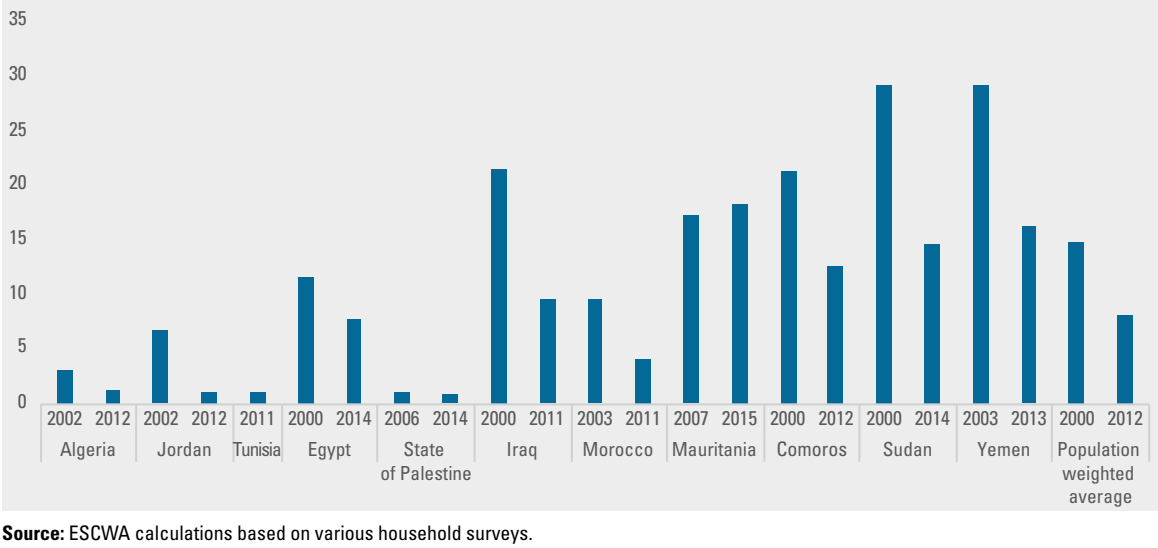
[6] ILO calculations based on ILO modelled estimates (November 2019).

C. Education and skills mismatch

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

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

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



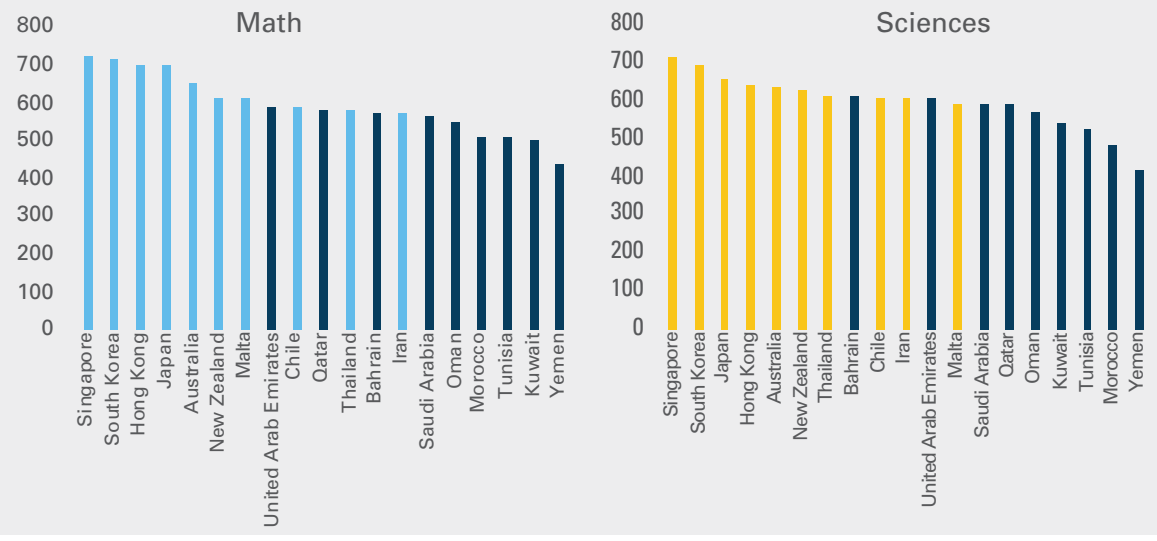
Source: ESCWA calculations based on various household surveys.

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

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

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

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



Source: World Development Indicators.

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

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

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

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

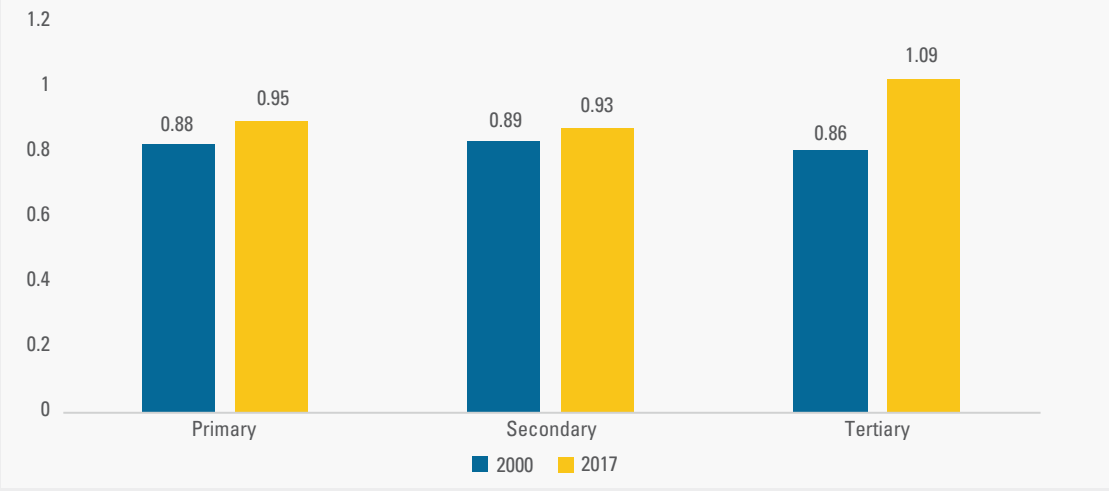
As stated in SDG targets 4.a and 4.c, Arab States should aim at "building and upgrading education facilities that are child, disability and gender-sensitive and provide safe, non-violent, inclusive,

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

Box 1. Gender gap in education

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

Gender Parity Index in gross enrolment ratios, 2000-2017



Source: UNESCO Institute for Statistics database.

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

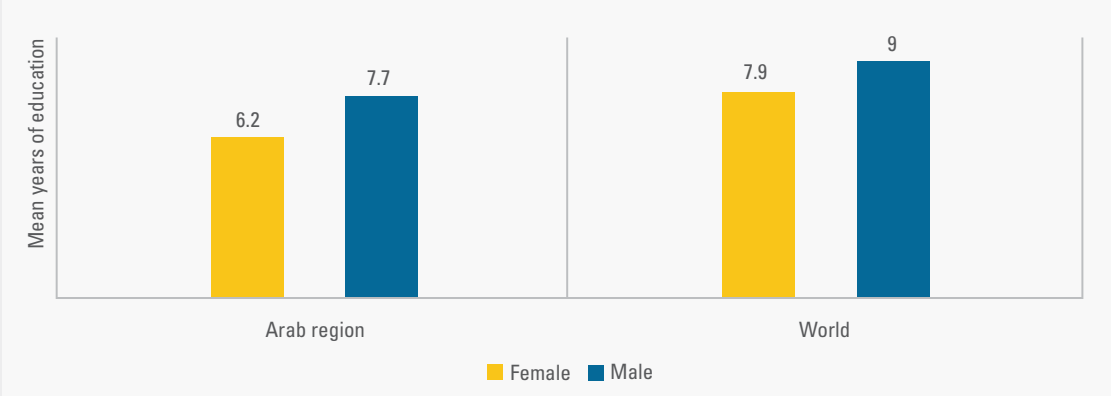
According to the United Nations Educational and Scientific Organization (UNESCO), at least a completed lower secondary education is required in the Arab region to have sufficient foundation skills for a decently remunerated job.[b] In a similar vein, some scholars argue that there exists a non-linear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

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

[11] Ibid.

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

Average years of education by sex



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

D. Labour force participation rates

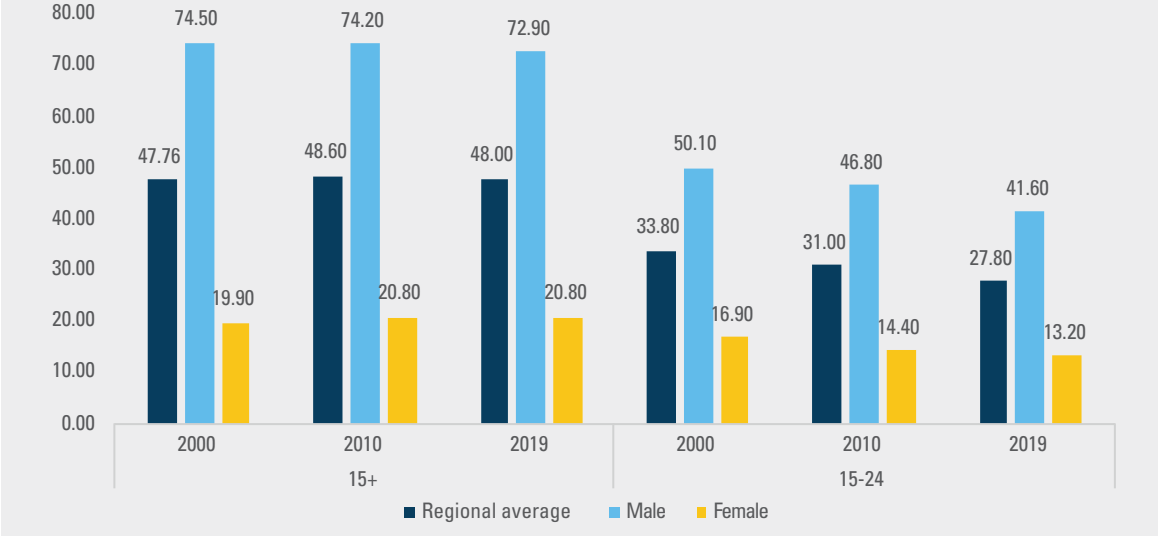
According to the ILO definition, LFPR measures the proportion of a country's working-age population, namely, individuals aged 15 years and above, who engage actively in the labour market. The average LFPR in the Arab region is lower than the global average, mainly due to the low participation rates among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

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

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

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

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



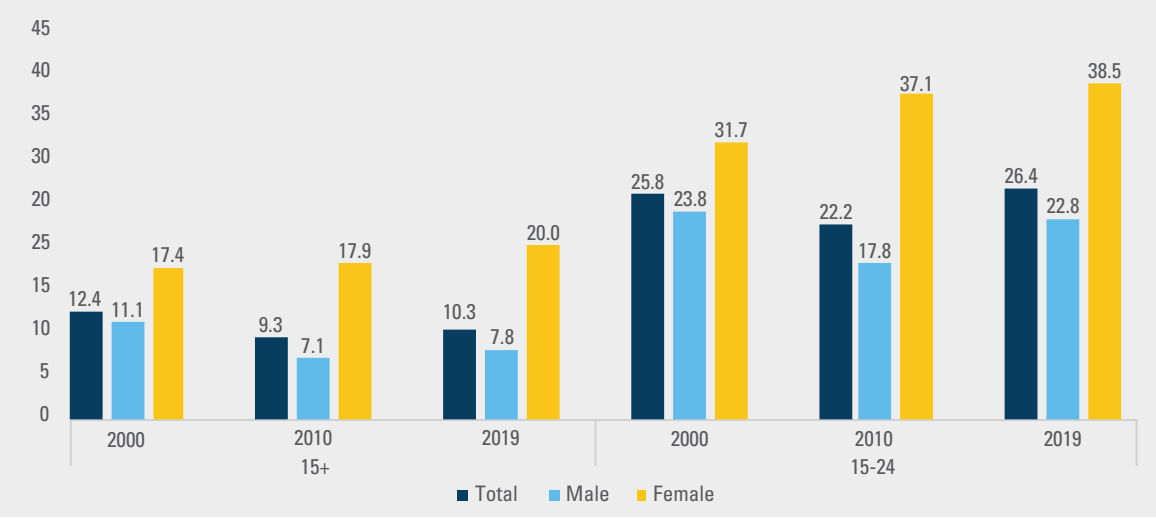
Source: ILO modelled estimates.

E. Unemployment rates

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

[12] ILO, 2020a.

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



Source: ILO modelled estimates (November 2019).

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

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

[13] ILO, 2020a.

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

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

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

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

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

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

F. Informal employment

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

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

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

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

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

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

[16] ILO, 2018.

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

[18] ILO, 2020b.

G. Policy recommendations

1

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

2

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

3

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

2.

JOB CREATION IN THE FORMAL PRIVATE SECTOR: HIGH CAPITAL-LABOUR INEQUALITIES, LOW TOTAL FACTOR PRODUCTIVITY AND SLUGGISH EMPLOYMENT DEMAND

2 KEY FINDINGS

The formal private sector in the Arab region is growing at a weighted average rate of 2 per cent, with small enterprises having the lowest growth	Wage shares in the formal private sector are depressed relative to capital shares in production, signaling higher earning inequality in factor input	Comparing businesses in Arab countries with countries of similar income levels reveals that TFP in manufacturing in Arab businesses is lower, while the labour productivity is comparable
SMEs have the lowest TFP in the Arab region and hire less skilled labour compared to large firms	At the country level, innovations in the formal Arab economies are associated with a lower share of wages to output relative to the capital share and higher employment growth	The degree of association between employment demand and innovations depends on the sector
Employment elasticity is considered low and significantly lower than the average income group for most Arab States with Iraq experiencing a negative employment elasticity in all sectors	Political stability is the main concern for private-sector businesses in the Arab region, some businesses being more resilient to political uncertainty than others	

2. Job Creation in the Formal Private Sector: High Capital-Labour Inequalities, Low Total Factor Productivity and Sluggish Employment Demand

A. Overview

The current COVID-19 pandemic is expected to reduce the dynamism of private-sector growth and employment creation in productive sectors that perform the most value-added GDP activities and, most importantly, in more labour-intensive sectors. These sectors include hotels and restaurants, retail, manufacturing, and business and administrative activities.[1] The output loss in these sectors is expected to be high in many Arab economies, which will certainly reduce employment demand to record low levels. Chapter 1 already reflected on the loss in working hours for the first three quarters of 2020. While this study will show, at a later stage, ways for policymakers to reduce the impact of the COVID-19 pandemic on production in the short run, this chapter will set the stage for medium- and long-term polices. Out of the 2.8 million net new job market entrants each year, the majority find jobs in the informal and the public sector. This chapter will mainly focus on the policies needed to create additional jobs in productive sectors that could match the growth in labour supply. It will focus on the role of technology, capital-labour substitution, productivity, and employment elasticities at the business and industry levels.[2] The analysis will showcase which sectors are more productive and innovative and employ the most in the non-oil Arab formal private sector.[3]

[1] ILO, 2020b.

[2] The most recent World Bank Enterprise Surveys were used for a selection of Arab States. These surveys include a wide array of private-sector development-related indicators, such as the business environment, private-sector infrastructure, sales and supply of output, competition, innovation, capacity, finance, business-Government relations, trade and, most importantly, labour demand, technology and innovation, and human capital.

[3] We build our analysis in this chapter on the following five sectors: (1) manufacturing; (2) construction; (3) wholesale and retail; (4) hotels and restaurants; (5) transport and communications. To increase robustness, we restrict our country coverage to those that have an acceptable number of observations across all indicators we intend to monitor. We also drop outliers to avoid measurement biases and reduce their impact on our estimates. One thing worth mentioning is that previous private-sector surveys still provide valuable information. Since the dramatic changes of 2010, the region has faced economic stagnation, and is also expected to suffer from a contraction in its economic cycles in 2020 with subdued economic recovery in 2021. This stagnation can be explained by the limited status of structural transformation in non-oil economies such as Tunisia, Morocco, Egypt and Jordan, and sectoral degradation in Lebanon and conflict-affected countries, without forgetting the lack of diversification in natural resource-rich economies. This analogy validates why using older (2011-2016) surveys on private-sector development still provides valuable insights for future policy discourse, benefiting employment creation, productivity and inclusiveness on the one hand, while reducing inequality on the other.

B. Inequality between capital and labour in production: the substitution effect

The income share for workers worldwide is decreasing and dropped from 53.7 per cent in 2004 to 51.4 per cent in 2017.[4] The effects of this trend are still ambiguous since forces behind the declining wages are yet to be investigated and understood.[5] It is commonly accepted that labour wages are the main source of household income. Thus, factors that lower employment demand and wage share in total income will more likely fuel income inequality, especially in the presence of a higher share of capital employment in production.[6] This hypothesis can be justified as follows: Capital ownership is concentrated among the most affluent, and an increasing share of capital in production could eventually raise incomes for those who are at the top percentile of the income distribution, widening the inequality gap between capital owners and wage earners.

In brief, wage share in income expresses the importance of different types of labour participation in output creation and measures the intensity of labour inputs in the production process. At the same time, it can be considered as a measure of productivity. Firms that generate higher levels of revenue with a constant level of labour costs in the short run signal higher efficiency in production. On the contrary, higher factor inputs relative to total revenue reflect the low level of know-how and lower efficiency driven by outdated technologies putting aside legislative and institutional settings. The question of interest is whether the share of factor inputs can be decreased. The answer is yes. Theoretically, a stochastic technology shock will increase productivity and reduce the rental cost of both capital and labour relative to output. However, this increase in productivity relative to factor cost might not diverge permanently as higher sales can lead to a higher demand for capital and labour in the long run, depending on the level of price rigidity of factor inputs and recent innovations in production.[7]

The situation in the Arab world might be different. If the manufacturing sector is taken as a benchmark, efficiency in production is relatively low (the level of TFP compared to similar income groups will be discussed later); and subsidized energy prices, in Egypt, Tunisia, and GCC, for instance, favour capital-intensive production, depressing wage rents relative to capital rents and boosting inequality for the same reasons explained above. As mentioned earlier, the drivers behind lower wage shares are not all fully understood, but, in the Arab world, the technological gap and higher factor input substitution might explain the dominant role of capital in production compared to labour (figure 6). Since the capital share is significantly higher than the labour share in most Arab countries, any increase in employment might not be proportionate to the marginal increase in output.

Figure 6 shows that, in 2013, firms in the Arab States tend to spend a significantly higher share of their total revenue on capital rents compared to wages, as is the case in Egypt, Jordan, Lebanon, and Tunisia. Comparing wages as a share of total revenue in Arab countries with other countries with similar income levels, most Arab States have a lower share of wages in income for the same year even in countries with higher technology stock (proxied by the levels of TFP).[8] If this bias towards higher capital intensity sustains, it will

[4] ILO, 2019a.

[5] ILO, 2014.

[6] Wolff, E. N., 2010.

[7] Mangin, S., 2014.

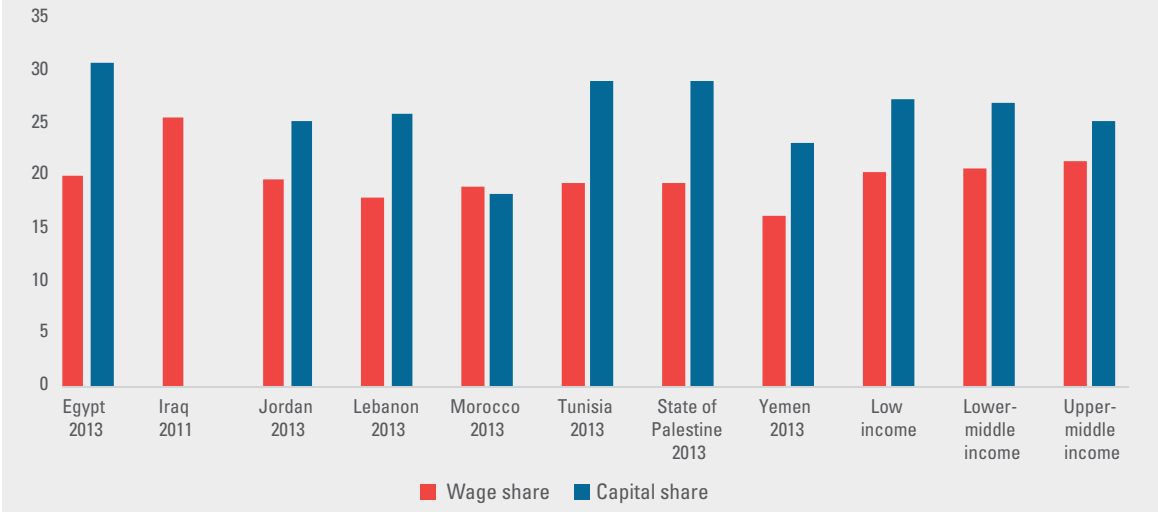
[8] Data unavailability made it impossible to compare the capital share.

eventually push wages downwards, reducing job quality and eventually fuelling inequality between factor inputs even further.[9]

Our investigation of the wage and capital shares at the sectoral level revealed that the share of wages in manufacturing is even lower than a country's aggregate averages associated with a higher share of capital. This applied to all Arab States and could explain the dilemma of higher labour productivity and low TFP in manufacturing. Countries with similar income levels in Asia and Latin American, for instance, experience the exact opposite, namely, an wage share in manufacturing above average, compared to other sectors. Consequently, it is not discouraged to transform production towards manufacturing in the Arab world; yet, transformation towards higher productive activities, such as manufacturing, should also consider firms with higher employability instead of higher productivity as a result of low employment growth relative to output growth. The only sector with a higher wage share are hotels and restaurants. Here, the wage share is higher than the capital share as this sector is known to be more labour-intensive than other sectors.

Even though many lessons have yet to be learned from the current COVID-19 pandemic, many scholars have agreed that, similar to other pandemics, the COVID-19 outbreak is expected to exacerbate factor inequality for the following reasons: first, capital owners could rely on their wealth and their access to financial intermediaries in order to survive the crisis and recover from it faster; second, the demand for low-skilled employment will drop significantly, while high-skilled employment will only be mildly impacted as it usually compliments technical advancement; and third, the pandemic might push for additional automation in production to minimize social interaction which, in turn, deploys more capital in production.

Figure 6. Cost of capital and wages as a proportion of total sales (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

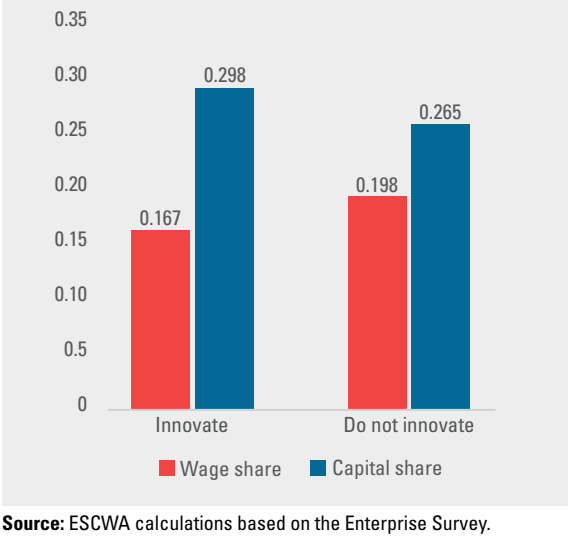
[9] The increase in wage shares in Arab countries with multiple surveys was due to their significant drop in sales and not due to additional hiring. This becomes evident when assessing business sales in Jordan, Lebanon and the State of Palestine.

C. Capital and wage share and technology

Assuming that capital and labour complement one another in the Arab States, this implies that any increase in capital share will increase the capital-to-labour ratio, marginal productivity of labour and, eventually, wages that might overcompensate for the drop-in employment with a higher wages bill. However, if capital substitutes labour, capital-augmented technologies could increase capital intensity and negatively impact the wage share.[10] The data in figures 7 and 8 justify this claim. Firms that spend on R&D and innovation tend to have a lower labour share and a higher capital share in their income. This shows that newer technologies used in production tend to slow down labour growth. The opposite could be claimed too, namely, that technology is labour-augmented, and hiring more capital complements labour in production. Later sections of this chapter will reveal that, at the country level, firms that innovate also experience higher employment growth. However, more innovations are also associated with a decreasing wage share. This leads to the following conclusions: first, technologies augment capital but not labour in production, and resources might shift from labour to capital; second, innovation induces employment growth, where this employment growth is associated with a decrease in wage shares relative to capital share, which will be dealt with later in this chapter. This shows that innovation widens the inequality gap between factor inputs.

The magnitude of factor inputs substitution is still missing from this analysis. It is known that there is no single theory determining the shift of factor shares. Hutchinson and Persyn highlighted that shifts in such factors are due to capital-augmented technological

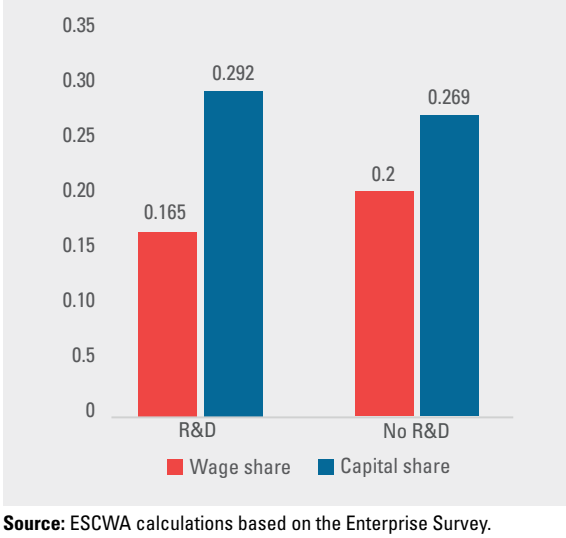
Figure 7. Cost of capital and wages as a proportion of total sales



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey waves which provide data on both capital and wages cost.

Figure 8. Cost of capital and wages as a proportion of total sales



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey waves which provide data on both capital and wages cost.

[10] A decline in interest rates or capital depreciation rates could play a role similar to that of technological progress in lowering the user cost of capital.

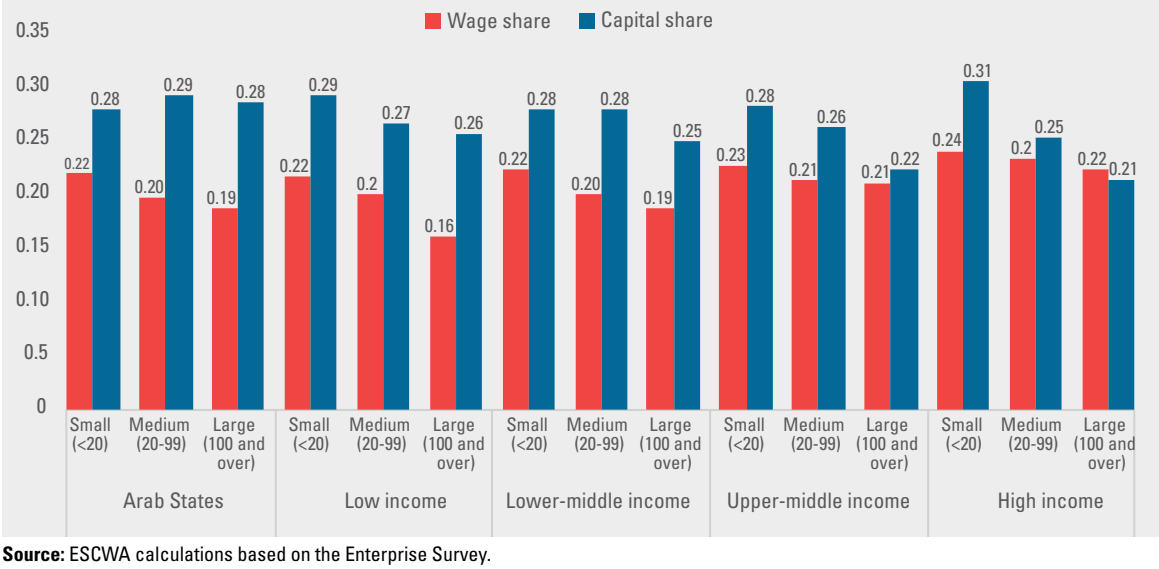
changes, the price of intermediate goods, production efficiency, and labour adjustment costs.[11] They also argued that factors such as competitiveness and market power play a key role in the differences between capital and labour shares.[12] However, as the Fourth Industrial Revolution is progressing, technology is becoming a key driver of capital-labour substitution; and the combination of additional automation in production and the new-normal work environment as a result of COVID-19 might result in additional substitutability.

D. Capital and wage share and other firm characteristics

The following analysis will examine additional firm characteristics and their relation to the share of wages and capital, starting with the wage and capital share taking the firm size as a benchmark. According to figure 9, in the Arab world, wage shares drop as firm size increases, with a somehow stable capital share. This relation between wage share and firm size is consistent over the years in countries having more than one data point. A similar pattern of decreasing wage share is also observed in all other countries with similar income brackets.

It must be noted, however, that the drop in wage shares in upper-middle income in Arab countries is higher. To test sectoral results, the change in labour and capital share in the manufacturing sector was checked, assuming that this sector would mimic the Cobb-Douglas production function. Outcomes were similar to data in figure 9, namely, that the manufacturing sector experiences a decreasing share of wages as the size of the firm increases. This analysis is consistent for income brackets in Arab States and other countries.

Figure 9. Factor share by firm size: Arab States versus different income brackets



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey waves providing data on both capital and wages cost

[11] Hutchinson, J. and D. Persyn, 2012.

[12] Ibid.

The results presented in figure 9 can be justified as follows: Better technologies and higher market shares are usually concentrated among larger firms, which makes them more profitable and productive than SMEs. As validation of this argument, an observation of the level of innovation (as a proxy for technology) in the Arab States revealed that, on average, large firms tend to innovate more than SMEs. It is surprising, however, that the impact on the wage share is always higher whereas the drop in the capital share for Arab countries is negligible.

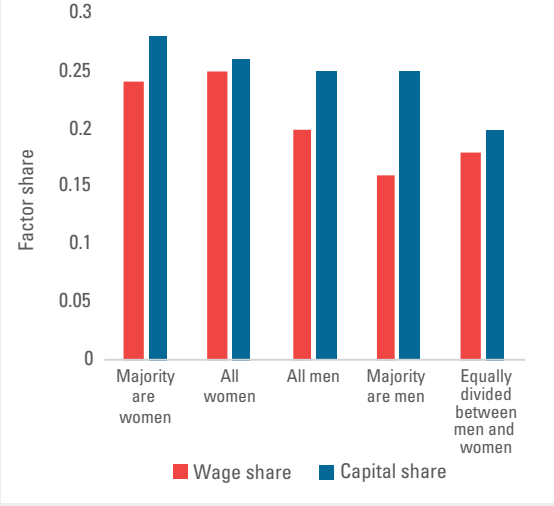
In general, the wage share is lower and the capital share is higher in the Arab world compared to other regions, which might reflect an income redistribution phenomenon from labour to capital. Furthermore, plotting the ratio of median to average wage share reveals that most countries in the region have a ratio less than one, indicating a growing inequality among wage earners as well. This explanation can be used to showcase the favouritism in factor input allocation in the Arab world.

In conclusion, there is no doubt that technological advancements have increased people's welfare and that no policies should be designed that deter the use of capital-augmented technologies. However, sound redistribution policies are needed to increase gains from the realized growth and innovation whenever technology becomes a necessity to complement

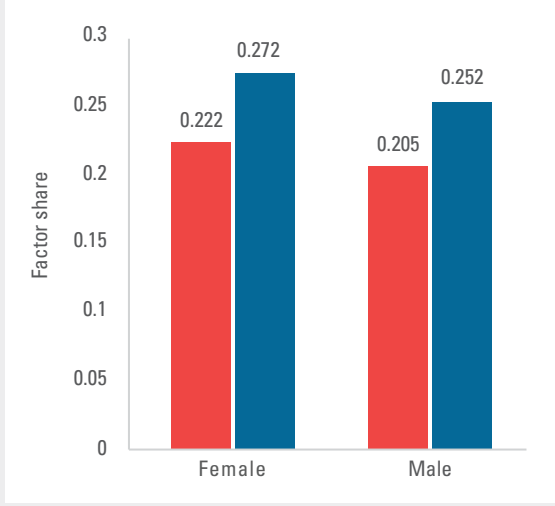
Box 2. Factor shares and sex

The two figures below show the extent to which the wage share is impacted by sex of the firm's owners and top management, hinting at the progressive role of women in the Arab private sector. There is global consensus that women are less privileged than men when it comes to employability, especially in the non-agricultural sectors.[a] The analysis below reveals that firms with predominantly female ownership tend to spend more on employees' wages and capital rents combined, compared to firms with predominantly male ownership. Wage and capital shares are even higher when firm ownership is completely female. The same applies when females are in top management. It should be mentioned that the below figures are not intended to show that females in the Arab world are less efficient in hiring resources. However, it could be the case that women generally head smaller firms compared to men. Looking at the percentage of firms owned by females, 80 per cent of female ownership in the Arab world hold sole proprietorships. Analysing employment growth among firms by sex ownership, firms owned by females have a higher employment growth compared to others.

Factor share, by sex of firm's ownership



Factor share, by sex of top management



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey waves providing data on both capital and wages cost.

[a] United Nations, 2007. Indicators of sustainable development: guidelines and methodologies. Third Edition. Methodology sheets.

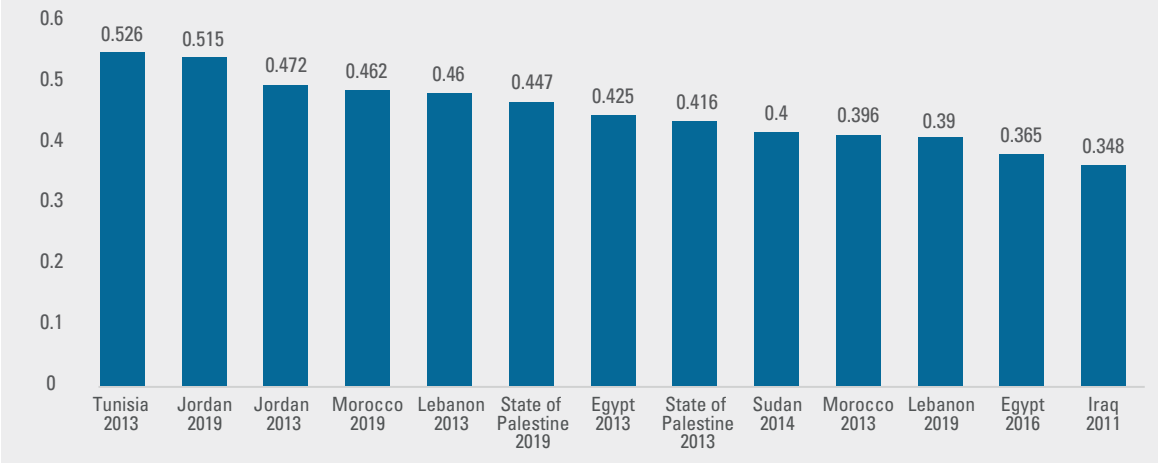
human capital. Focusing on better-quality education and skills can augment human capital, avoid the substitution effect of capital in many sectors and aid the structural transformation processes by balancing labour employment to capital more proportionally and by limiting the overutilization of capital. Governments could direct technical changes in production towards policies that promote labour-augmenting technologies by providing incentives such as tax benefits and targeted subsidies, while minimizing any inefficiencies resulting from the reallocation of resources.

E. Total factor productivity

In connection with the previous analysis in this chapter, TFP will be measured in selected Arab countries in order to check the impact of factors other than capital, labour and intermediate goods on the production process. TFP calculation requires factoring out the impact of capital, labour and intermediate goods to identify the impact of all other factors on production. Since firms cannot determine their intrinsic value of TFP, it is usually referred to as the Solow residual. A simple Cobb-Douglas production function is applied to calculate TFP for the Arab States.[13] Only manufacturing firms are used in order not to compromise the structure of the Cobb-Douglas production function.[14]

TFP usually measures the level of efficiency in production. Economic theory reveals that a higher value of TFP is associated with both higher capital and labour productivities. TFP is also considered a key driver of firms' growth and survival, which, as will be seen later in this chapter, is crucial for employment and output growth of SMEs.[15] The graph below shows firm-level TFP among selected countries around the Arab region.

Figure 10. Firms with TFP above the average of a country's income group peers



Source: ESCWA calculations based on the Enterprise Survey.

[13] Additional information regarding the calculation of TFP is available in the annex.

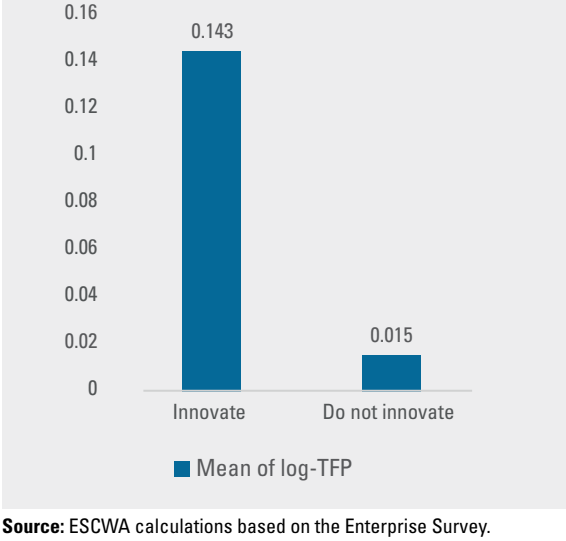
[14] TFP is calculated for the manufacturing sector solely due to the lack of comparability between TFP among industries. Different industries have different shares of intermediate goods compared to others. Further, the factor input/output system deals well, theoretically, with incorporating intermediate material as a factor of production but not with services (see http://www.csls.ca/ipm/1/diewert-un-en.pdf).

[15] Rijkers, B., and others, 2014.

For all estimated TFP, most firms have a TFP lower than the country's average income group, with slightly more than 50 per cent of firms in Tunisia (2013) and Jordan (2019) having a TFP higher than their middle-income peers. In all other countries, TFP scores in more than 50 per cent of the firms are lower than is the case for average firms in countries with similar income brackets. In 2016, almost 65 per cent of Egyptian firms had TFP lower than low-middle-income country averages. Morocco has experienced the largest increase in the number of firms performing above Morocco's peer income-bracket countries, but still more than 50 per cent of the firms perform below the country's income bracket averages. Morocco's outstanding performance is due to the recent structural transformation efforts to advance the manufacturing sector backed up by large European FDIs targeted towards manufacturing. Lebanon, however, regressed by almost 7 per cent due to its socioeconomic and political challenges.

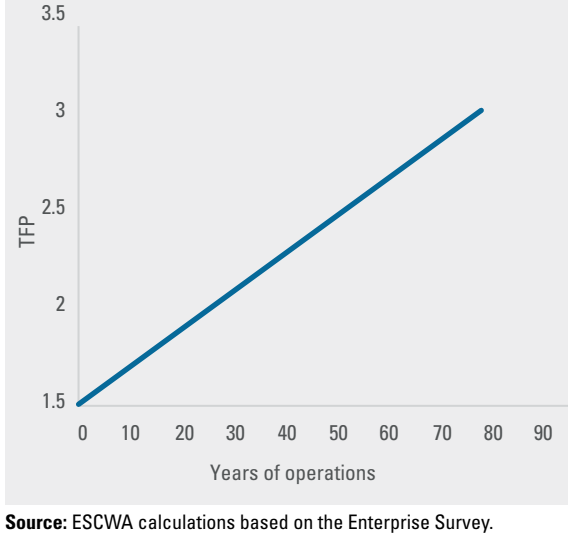
Figure 11 shows the impact of technology diffusion through R&D expenditures on TFP. Firms that spend on R&D have, on average, a higher TFP and, eventually, income compared to those firms that do not. However, linking to the inequality analysis, R&D is also associated with lower wage share relative to capital share. At the same time, TFP enhances output but not wage share.[16] Additionally, as will be discussed later in more detail, innovation is also associated with more employment (depending on the nature of the sector). These findings lead to the conclusion that TFP as a function of technology either depresses the wage share or creates a large increase in income that makes the wage share look trivial. This sends a strong message to policymakers that the Fourth Industrial Revolution and its newer innovations might be detrimental to wage equality among factor inputs. Innovations alone do not necessarily explain TFP growth, but many factors, such as imported technology, experience and spillover effects might also play a key role. For example, figure 12 presents the impact of technological diffusion using the correlation between TFP and years of operation. It reveals a positive association between the experience of firms (using years of operation as a proxy) and TFP in Arab countries.

Figure 11. TFP and innovation



Source: ESCWA calculations based on the Enterprise Survey.
Note: The analysis is based on most recent survey.

Figure 12. TFP and years of operation



Source: ESCWA calculations based on the Enterprise Survey.
Note: The analysis is based on most recent survey.

[16] TFP and sales growth for Arab States are positively correlated.

It was pointed out in the previous section that TFP in the manufacturing sector is less for Arab countries than other countries with similar income levels; other countries also have a lower labour intensity, which explains the misleading claim of acceptable labour productivity levels in the Arab world. Linking these findings with structural transformation of productive sectors such as manufacturing, any strategy should consider that manufacturing in its current state might not optimally absorb the increasingly educated labour supply, notwithstanding its productivity. There is evident evidence that TFP promotes output and employment growth, which means that structural transformation towards more productive sectors can be expedited by investments in TFP determinants. This can happen through investing in quality education, R&D spending on new innovations and enhancing the governance structure for private-sector development and additional entrepreneurship.

F. Private-sector employment demand

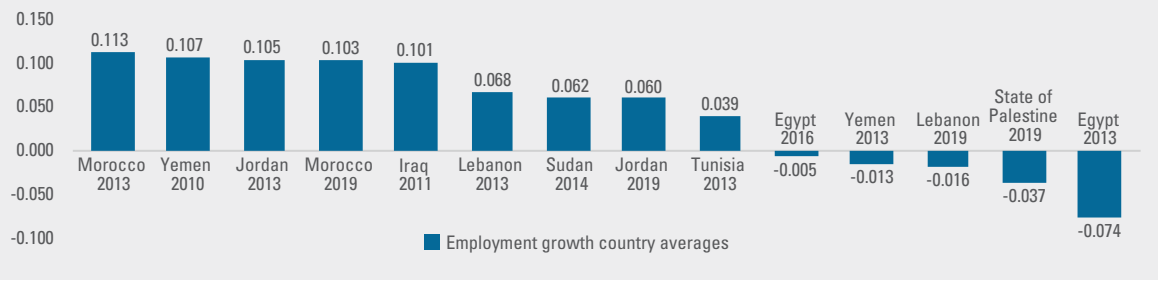
Private-sector development not only boosts employability and productivity but also encourages entrepreneurial activities, increases economic participation in entrepreneurial activities and the production process and raises the chance for more social mobility. This section will highlight the capacity of the private sector to create jobs in Arab States. Employment growth among the surveyed formal private-sector firms and industries varied over their last three years of operation. In this section, employment growth was measured by comparing the growth of employment between a firm's last fiscal year and three fiscal years before.[17] However, aggregating firms to obtain country averages for employment should be approached with caution for the following reasons: first, most firms are in the manufacturing sector and not distributed among all sectors; second, Enterprise Surveys neither include microfirms nor measure companies with less than five employees, even though such firms account for a significant portion of employment in the Arab world; and third, Enterprise Surveys cover different years for different countries, which makes it harder to explain the same year variation in employment growth. The first constraint will be explained later in the chapter by providing a thorough analysis of employment growth at the sectoral level.

At present, certain countries do not enjoy strong employment growth.[18] Figure 13 presents employment growth for one time period for most countries and two time periods for Egypt, Jordan, Lebanon, Morocco, and Yemen. Figure 13 reveals that countries in conflict, except Iraq, and those in transition, such as Egypt and Tunisia, experienced, on average, lower growth than other countries. What is surprising is the recent regression facing Jordan and Lebanon. These two countries experienced a drop in private-sector employment growth, with Jordan regressing from above 10 per cent (almost equivalent to 5 per cent annually) to below 7 per cent (almost equivalent to 3.5 per cent annually) and Lebanon from 7 per cent (almost equivalent to 3.5 per cent annually) to -2 per cent (almost equivalent to -1 per cent annually) between 2013 and 2019. Both countries are experiencing an economic downturn and are surrounded by conflict-affected countries. Lebanon is experiencing the worst economic crisis since the end of its civil war in 1991.

[17] Provided this background, the employment growth below is for two years and not on a year-on-year basis.

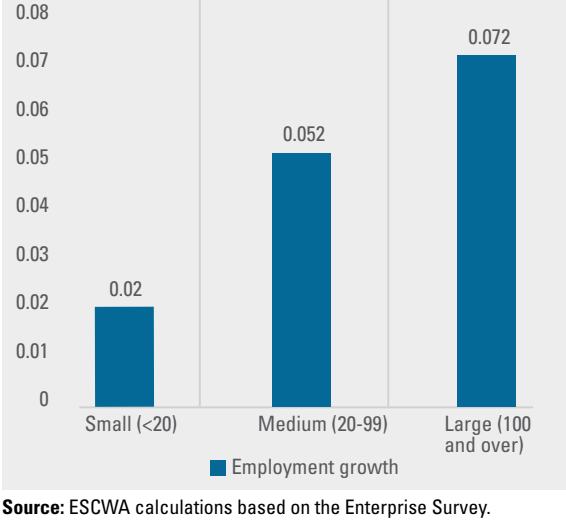
[18] One limitation to be aware of is that these surveys present only the surviving firms in the formal private sector, with no information on changes in the informal sector. The informal sector in the Arab region varies between 20 per cent and 70 per cent and has grown significantly in many countries due to the recent political instability and low economic growth.

Figure 13. Employment growth, by country



Source: ESCWA calculations based on the Enterprise Survey.
Note: The analysis is based on most recent survey waves.

Figure 14. Employment growth, by firm size



Source: ESCWA calculations based on the Enterprise Survey.
Note: The analysis is based on most recent survey waves.

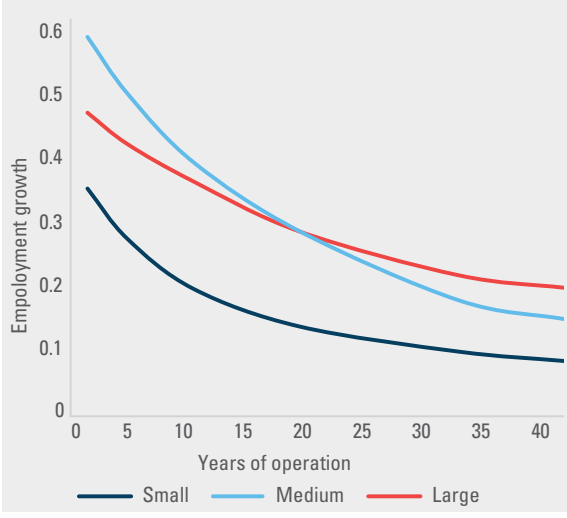
It is obvious that employment growth in the formal private sector depends on the political situation. For instance, low employment growth in the State of Palestine and Yemen is impacted by the ongoing conflict. The low employment growth in Tunisia between 2010 and 2013 reflects the impact of the uprising. The large negative employment growth in Egypt in 2013 was impacted by the political unrest between 2010 and 2012; and some signs of recovery were noticed starting 2014, as reflected by 2016 data. In all investigated countries, political unrest had a negative impact, yet at varying levels, depending on the intensity of the political shock. It can be concluded that improved socioeconomic and political conditions at the country level will enhance employment creation in the Arab world.

Employment demand in large firms is higher than in SMEs. An investigation into sectoral-level employment demand revealed the same pattern. This pattern is against Gibrat's law, which claims that smaller firms grow faster than other firm types. There is no doubt that SMEs create more jobs, comprising a share of more than 90 per cent of total firms in the Arab world. However, these firms tend to exit the market faster and have a lower employment and output growth potential. Using establishment data, Rijkers and others[19] provided clear evidence from Tunisia that job growth among surviving small firms was very poor, proving that, within the current economic structure and regulatory framework, small firms will not grow faster than large firms. Finally, if employment growth is taken for an average year-on-year basis for the whole region, the region's weighted average rate is 2 per cent, small enterprises having the lowest annual growth of an average of 1 per cent.

The firm-level analysis reveals that less than 8 per cent of small firms grow into medium-sized ones, and less than 1 per cent of medium-sized firms become large, with older firms dominating the large-firm group. This happens for the following two reasons: first, the jump from small to medium-sized, meaning from fewer than 20 employees to more than 20 employees, is considered a short jump, compared to moving from medium-sized to large, meaning from fewer than 100 employees to more than 100 employees; and second, the number of small firms is significantly greater than the number of

[19] Rijkers and others, 2014.

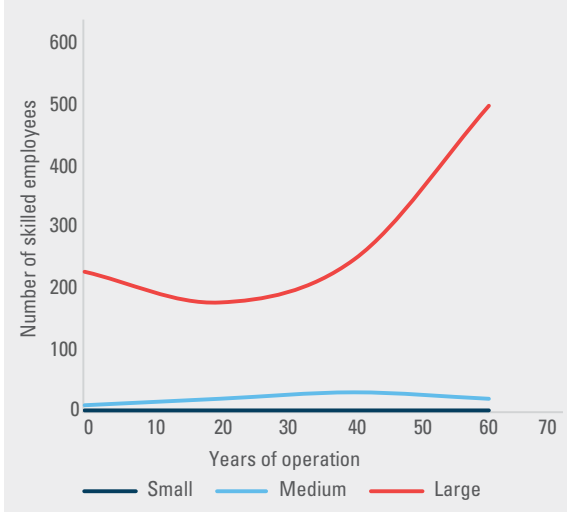
Figure 15. Firm growth, by years of operation



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey.

Figure 16. Number of skilled employees, by years of operation



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey.

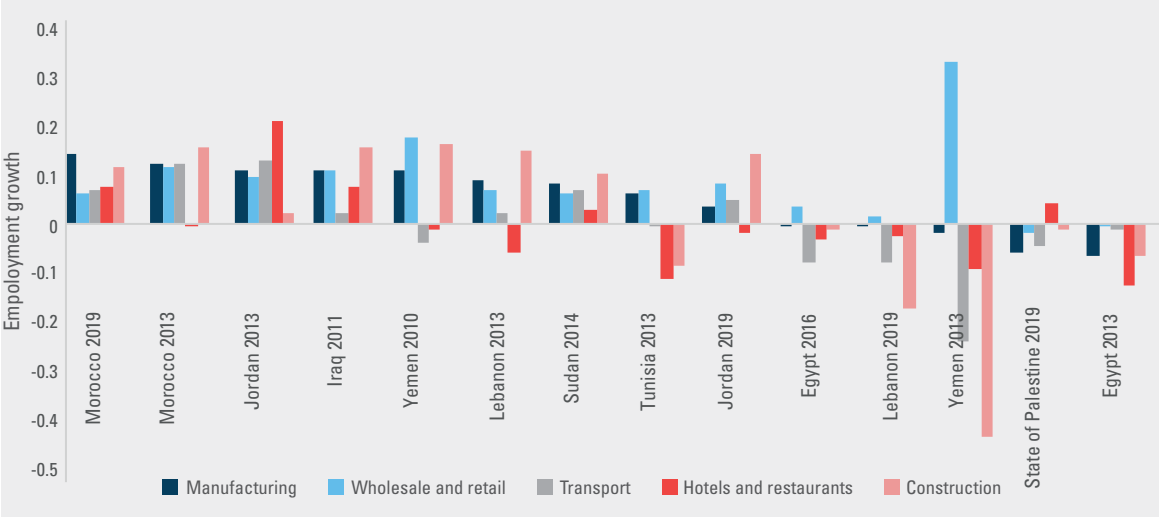
medium-sized and large firms, and many of these small firms are already at the borderline between being classified as small or medium in size. Introducing the anomaly that small firms share the biggest responsibility of private-sector stagnation confronts policy-makers with a challenging policy dilemma, namely, whether they should keep incentivizing small enterprises that do not grow in size, and most likely exit the market in the medium to long term, or whether they should support larger firms that grow faster, with a bigger market share, better technology and, most of the time, closer ties to political elites, especially in the Arab world.

The above figures reveal that firms grow the most at the start of their business operations, with medium-sized and large firms growing faster than small firms. It is interesting that the employment growth of small firms that are sustainable over the long-term declines eventually, while large and medium-sized firms that operate over the same period settle at slightly less than 10 per cent employment growth (or an annual growth of 5 per cent). The analysis further reveals that firm size also matters for the types of skills hired. Small firms hire the least number of skilled workers, which also flags the role of small enterprises in absorbing the large fraction of unemployed skilled youth. These descriptive statistics on firm size, employment and years of operation provide a clear signal on how firms might abandon skills as they age.

G. Sectoral growth

While there is consensus that private-sector development could create more jobs and improve structural transformation, there is limited knowledge on what types of firms create the most productive employment. As explained in this chapter, not all private-sector firms generate enough jobs, especially when talking about the myth of manufacturing as a key job absorber in the region. Different sectors have different impacts on employment creation in different countries, and job creation in some sectors is less sustainable than in others. For example, in the past,

Figure 17. Employment growth, by sector



Source: ESCWA calculations based on the Enterprise Survey.

construction in Iraq and Lebanon appears to have experienced a higher growth in employment than other sectors (figure 17). However, employment in construction is widely known to be unsustainable, susceptible to economic fluctuation and less decent than other jobs.[20] Lebanon, for instance, experienced a drastic drop in construction sector employment in 2019 relative to the drop in other sectors, which proves the necessity to strengthen more resilient sectors such as manufacturing and wholesale and retail.

Figure 17 also reveals high fluctuations in the tourism sector over time, with more jobs created in relatively stable countries pre-2019 and minimal or negative growth in transitional and conflict-affected States. However, hotel and restaurant business has recently regressed in all countries, except in Morocco. This sector will experience additional deterioration or at least stagnate in many countries in the Arab world due to the COVID-19 lockdown measures. The same conclusion can be drawn for the transport sector. Manufacturing and wholesale, however, seem less impacted by political turbulence and are expected to be less impacted by the pandemic relative to transport and tourism. Employment growth in manufacturing and wholesale across countries is more resistant to economic and political instability. According to the above graph, the manufacturing sector in countries with more than one data point experienced a less pronounced decline compared to other sectors, suggesting that manufacturing is more resilient to shocks compared to other sectors.

H. Labour productivity and employment elasticity

In general, labour productivity in Arab States is higher than in their income-per-capita peers. However, as presented earlier, this high level of productivity is due to the large share of capital relative to labour. It is worth noting that manufacturing is among the productive sectors in all Arab States especially in SMEs. However, as seen previously, employment growth in manufacturing was moderate compared to sectors less susceptible to political risks. According to

[20] Assaad, R., C. Krafft and S. Yassin, 2018a.

table 2, hotels and restaurants in almost all countries have the lowest labour productivity and did not experience a high employment growth as this sector is known to be labour-intensive. Productivity levels were higher for other services in the formal private sector. For instance, the transport sector is the most productive in Lebanon, followed by Tunisia and Jordan. Productivity levels in wholesale and retail are also high, compared to manufacturing and hotel and restaurants in almost all countries, with Lebanon and Egypt scoring highest.

Construction has the highest productivity swings in almost all countries. Jordan experienced a high level of employment in construction accompanied with the highest productivity level. This analysis provides clear evidence that the construction sector creates the most jobs in stable countries. However, compared with other sectors, construction is more vulnerable to economic and political shocks, as shown in countries in transition, conflict-afflicted countries and Lebanon. These observations lead to the conclusion that conflict-affected countries in the Arab region could utilize the opportunity of additional employment in post-conflict reconstruction as a tool for reconciliation.

With respect to the employment-sales (output) elasticity[21] in the formal private sector, the Enterprise Survey revealed that output growth did not create employment in the private sector (table 3). Employment-output elasticity varies among sectors in different countries and employment in different sectors responds differently to changes in sales. These statistics raise several questions about job creation within sectors in the Arab region. Generally,

Table 2. Labour productivity in selected Arab States (in natural logarithm form of employees/sales, dollars)

Sector	Egypt 2013	Egypt 2016	Iraq 2011	Jordan 2013	Jordan 2019	Lebanon 2013	Lebanon 2019	Morocco 2013	Morocco 2019	Tunisia 2013	Yemen 2013
Manufacturing	9.3	9.4	10.1	10.5	10.3	10.9	10.7	10.38	9.2	10.5	9.1
Hotels and restaurants	8.89	8.9	9.6	9.7	9.9	10.1	10.3	10.36	8.9	9.9	8
Transport	9.34	9.3	9.7	10.5	9.8	10.7	11	10	8.9	10.6	11.5
Construction	9.7	9.9	10.3	11.2	11.4	11	10.7	10.5	9.8	10.4	10.8
Wholesale and retail	9.8	9.8	9.4	10.68	10.7	11.4	10.9	11.02	9.5	11.5	10.2

Source: ESCWA calculations based on the Enterprise Survey.

Table 3. Employment elasticities in selected Arab States

Sector	Egypt 2013	Egypt 2016	Iraq 2011	Jordan 2013	Jordan 2019	Lebanon 2013	Lebanon 2019	Morocco 2013	Morocco 2019	Tunisia 2013	Yemen 2013
Manufacturing	0.48	0.14	-0.2	0.47	0.34	0.36	0.11	0.42	0.89	0.3	0.53
Hotels and restaurants	0.23	0.14*	-0.14	1*	0.9*	0.5*	-1.1	0.39	2.33*	0.4*	-.27*
Transport	0.26	-0.04	-0.02*	-0.13*	0.32*	1.66*	-0.14*	1.2	0.37*	0.16	
Construction	0.05	0.56	-0.23*	-0.52*	0.69*	-0.28*	0.68	0.31	1	-0.22*	
Wholesale and retail	0.25	-0.01	-0.15	0.47	0.43*	0.23	0.19	0.11	0.49	0.31	0.29

Source: ESCWA calculations based on the Enterprise Survey.

Notes: An asterisk (*) indicates that the number of observations is less than 50.
Highlighted values are elasticities above the country's income bracket peers.

[21] Employment-output elasticity is calculated by dividing employment growth over output growth using the mid-point formula.

employment elasticity in the private sector is considered low because of rigid labour regulations, a poorly educated workforce, a weak business environment and, most importantly, the substitution of labour with capital especially in sectors where automation augments capital and not labour.

Unlike the rest of the world, employment elasticity significantly below the average income group for most Arab States, with Iraq experiencing a negative employment elasticity in all sectors. Only Morocco's sales growth is generating more employment with elasticities in almost all sectors exceeding the average elasticities of lower-middle-income countries in the same sectors. Morocco's elasticities increased in almost all sectors, except the transport sector, between 2013 and 2019.

Based on the results above, it can be concluded that an increase in sectoral output will drastically reduce unemployment in Morocco. Table 3 also shows that employment elasticities in Egypt and Lebanon regressed over time, with some sectors experiencing a negative association between additional output and employment. Overall, most sectors in all countries, except Morocco, have an employment elasticity below one, and many below 0.5, indicating that an increase in output by 1 per cent increases employment by less than 5 per cent. It is also interesting to see that employment elasticity in the hotel and restaurant sector in Lebanon is 1.1, indicating that a 1 per cent increase in sales is associated with a 1 per cent decrease in employment.

I. Employment growth and innovation

R&D can transform knowledge into innovations that create new markets adding to economic growth and improving people's well-being if benefits are distributed properly. Analysing R&D and innovations and their connection to employability at the firm level can provide a clearer view compared to the macro-level analysis, as it is harder at the aggregate level to distinguish between innovation-led employment and employment generated by industrial reforms. However, it is tricky at, the policy level, to show how R&D and innovations in the private sector can lead to a net growth in employment, reshuffle skill use and absorb new entrants to the job market in a region with high fertility rates and a large working-age population.

Successful innovations that target production processes can come, at times, at the cost of employability, especially when the innovation is intended to save labour cost. According to the Enterprise Survey, these types of innovations are more prevalent among SMEs, which tend to reduce their costs to stay more competitive.[22] Splitting innovations by sectors reveals that the fraction of firms experiencing process innovation was greater than those investing in product innovation, with the largest disparity in wholesale and retail and hotels and restaurants.[23] What is even more interesting is that sectors with a higher fraction of firms spending on R&D have a higher fraction in both process and product innovation.

To have a detailed look at the impact of innovations on employment, figure 18 shows employment growth by type of innovation. Investment by hotels and restaurants in process innovation is associated with lower employment growth. Process innovation in the hotel and restaurant sector tends to enhance process efficiency in production and reduce labour cost relative to product innovation. This is logical in such a sector, especially since labour cost is considered among the highest compared to other operating costs. The same applies to the real-estate sector, where innovations are associated with lower employment growth compared to other sectors. These results are persistent even when comparing old and new

[22] This claim was validated by testing the fraction of firms with process innovations, which revealed that SMEs have the highest fraction of firms with process innovation.

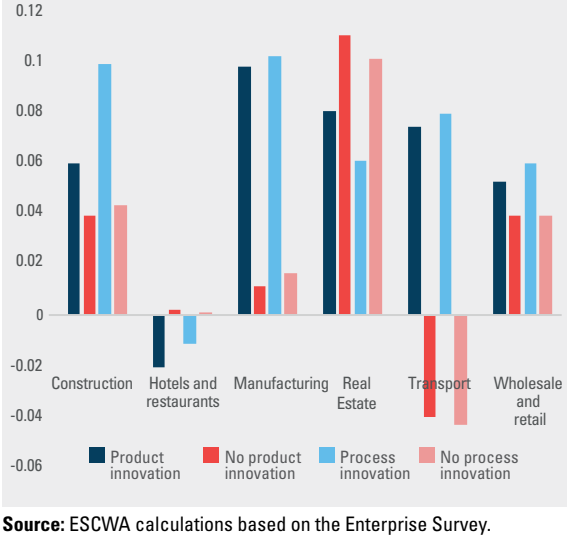
[23] A separate graph plots process and product innovation by sector and reveals that wholesale and retail experienced the highest level of innovation, whereas real estate is at the lowest end of the spectrum.

waves for countries with more than one-year data points. In the wholesale and retail sector, employment growth is higher in general. Employment growth in manufacturing is higher among firms that innovate both in process and product, but employment growth is still positive whether firms are innovative or not. It is also interesting to see that innovation in manufacturing leads to the highest level of employment compared to other sectors. Innovations in the transport sector are pro-employment growth. Figure 18 reveals that no innovations in the transport sector might lead to losing a firm's workforce over time. It is also worth noting that the level of R&D in the Arab world is one of the lowest compared to similar income bracket groups.

An analysis of the R&D level of the formal private sector in a selection of Arab countries reveals that Tunisia has the highest fraction of firms that invest in R&D, followed by Morocco and Lebanon, with Egypt at the lower end of the spectrum. It is worth mentioning that countries with a higher fraction of firms spending on R&D do not necessarily have higher employment growth. Assuming that R&D spending results in innovation, the purpose of this innovation will be implicit by nature and dependent on many factors. For example, and as mentioned earlier, the impact on employment will vary depending on whether any given innovation is targeted towards process enhancement, which is less likely to generate new jobs compared to innovations targeted towards the creation of a new product. In general, and as seen in figure 19, the results show that less than 30 per cent of the firms in Arab States invested in either process or product innovation compared to almost 38 per cent of firms in countries in the upper-middle and lower-middle-income bracket.

The above analysis reveals that the impact of innovation in Arab countries is sector-specific.[24] In order to optimize employment growth, different sectoral policy directions are required if countries in the region intend to build an innovative private sector capable of creating jobs. The role of innovations in the Arab region could be substantial since the highest unemployment in Arab States is found among educated people and a significant fraction of human capital could be utilized in R&D activities to create new products, expand existing markets and hire new people. This is partially

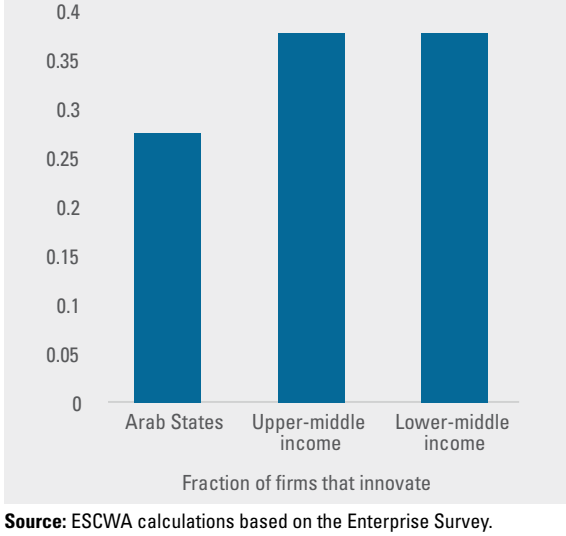
Figure 18. Employment growth, by type of innovation



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey.

Figure 19. Fraction of innovating firms



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey.

[24] We use the latest observation from the Enterprise Survey waves.

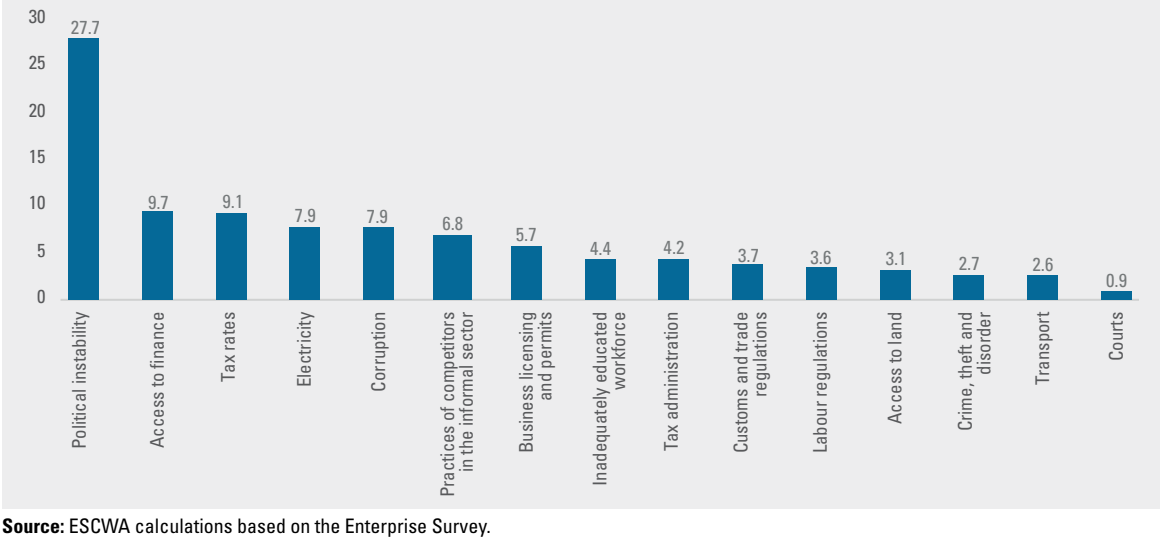
evident if gig economy[25] is taken as an example how innovations based on personal initiatives around the region have created multiple job opportunities, especially for women. Aside from the gig economy, the scenario in the region is a different one.

Any economic transformation in the Arab region must consider the impact of the Fourth Industrial Revolution on employment creation and the new work modality dictated by the COVID-19 pandemic. The mix between technology, industrial structure and associated Government policies can provide the basis for countries in the Arab world to better prepare for increased job creation in the formal private sector.

J. Biggest obstacles facing private-sector development

This section assesses how the perception of certain major obstacles affects employment across selected sectors. Figure 20 depicts the biggest obstacles impairing firm performance as reported by the surveyed enterprises. Political instability, access to finance, tax rates, electricity, and corruption are at the top of the list. It is important to note that most of these surveys were conducted during the years of the Arab uprisings, namely, 2011-2019, characterized by intensified political turmoil and violent conflicts in the region. Most of the surveyed firms operate in countries that were affected either directly by political unrest or indirectly through regional conflict and spillover effects. Indeed, conflicts were not confined to national borders, but rather created a broad sweep of political instability and uncertainty. Political instability may substantially impair firm performance by fostering uncertainty, increasing certain risks and invoking risk-averse behaviour. Reduced investor and consumer confidence subsequently limit investment and consumption.[26] Hence, it is understandable that political instability was the primary obstacle reported by firms surveyed during this time period.

Figure 20. Biggest obstacles reported by firms in Arab States (percentage)



Source: ESCWA calculations based on the Enterprise Survey.
Note: The analysis is based on most recent survey.

[25] A gig economy is a free-market system in which temporary positions are common and organizations contract independent workers for short-term engagements.

[26] See Bernanke, B. S., 1983; and Alesina, A. and R. Perotti, 1996.

K. Policy recommendations

This chapter clarifies a number of issues facing labour market demand for a selection of Arab countries. The above analysis leads to the following policy recommendations:

1. **To introduce stimulus packages especially targeted at micro-enterprises and SMEs in order to secure liquidity for vulnerable firms.** This could be done by supporting credit guarantees for short-term liquidity needs (bridge loans at zero interest rates). In addition to debt repayment deferrals, Governments should be aware that micro-enterprises and SMEs are also in need of cash flow to cover short-term expenses should deferral payment not be enough.

2. **To update policies supporting SMEs to sustain and grow.** At the same time, Governments should consider the general private-sector development atmosphere (including access to finance, taxes and competition with informal firms, among others), SME's structure and the type of employment created by SMEs, especially if such firms are within the desired overall structural transformation framework. Moreover, the SME support ecosystem needs to be significantly strengthened beyond access to finance to include pooled R&D (in order to enhance TFP) and business innovations in order to serve the dual purpose of sustainability of SMEs (as a source of long-term growth and revenue) and job creation (as a source of long-term stability and a corner stone of long-term SDG policies).

3. **To offer additional incentives for private-sector innovation with a focus on more labour-augmented technologies in production.** This will compliment employed capital and advance TFP. R&D spending should be scaled up to match global trends. This will increase knowledge production, innovate new products, expand existing markets, and create more jobs. Innovations also increase the productivity of capital and labour combined and enhance production competitiveness. At the same time, policymakers should come up with sound and fair income redistribution policies to reduce the gap between capital owners and income earners.

4. **To lessen the rigidity in labour laws and regulations, have a more skilled workforce and ensure a stronger and more competitive business environment to increase employment elasticities.** Thus, mass employment creation requires revising labour regulations to be more accommodative to workers with skills and reduce the cost of employment. Moreover, a vibrant and growing private sector supported by governmental policies can enhance employment elasticity.

5

To focus on better quality education, deep skilling and reskilling, especially among the mid-skills bracket. This can add human capital to technology and increase the share of labour income relative to the capital shares or, at least, reduce the gap between capital and labour shares. This will also balance employment opportunities more proportionally among different skill levels.

6

To develop sector-specific policies that tackle the impact of technology on employment creation, whereby no policies should be mainstreamed among all sectors. Since new innovations increase employment growth in the construction, manufacturing, transport, and wholesale and retail sectors, policies incentivizing innovation in such sectors should be advanced. However, policymakers should protect employment in the real-estate and the hotel and restaurants sectors in light of new innovations.

7

To ensure that, during the post-conflict reconstruction stage, especially in countries such as Iraq and Yemen, the construction sector plays a key role in employment creation and represents a fruitful entry point for reconciliation. This requires uninterrupted episodes of political stability. At the same time, advancing the economic and institutional governance structure will enhance the private-sector infrastructure including financial needs.

3.

EMPLOYMENT CREATION FOR WOMEN: PROMISING SECTORS DO EXIST

3 KEY FINDINGS

Employed women in the region are clustered in public or quasi-public firms and in sectors that are deemed female-friendly but are largely underrepresented in other formal private-sector occupations

The sector of information technology (IT) and related activities has the highest average female share of full-time employment among the examined sectors, partly reflecting the increasing specialization of women in these fields over recent years

The gender gap in top management has widened by almost fourfold relative to the gender gap in full-time employment shares, partly signaling the existence of glass ceilings across the region

Women-owned businesses tend to be SMEs and face greater restrictions with respect to access to credit and resources

The COVID-19 pandemic has impacted sectors in which Arab women often engage, but it has also accelerated the shift towards more flexible work arrangements

3. Employment Creation for Women: Promising Sectors Do Exist

A. Overview

Beyond concerns for gender equality, increasing women's employment is pivotal to enhancing socioeconomic well-being at all levels, ranging from individuals, households, and the community to entire countries. At the household level, female employment generates additional earnings to support families, increase consumption and invest in the future of children, which is crucial, particularly for poor and lower- to middle-income households. Consequently, this may lead to an overall reduction of poverty and deprivation.[1] At the aggregate level, the well-educated female cohort remains an untapped human capital source that could boost GDP growth significantly. Aguirre and others estimated that increasing female employment to levels identical to those of men led to a net increase in the GDP of Egypt and the United Arab Emirates by 34 per cent and 12 per cent, respectively.[2] The underutilization of women's potential hampers the region's development prospects, thus increasing the risk of falling short of the 2030 SDGs.

The recent COVID-19 outbreak and the strict lockdown measures to contain its spread could reinforce many of these existing challenges as a result of their devastating socioeconomic impact, including the disruption of markets and production, increased joblessness and wage reductions. In the Arab region, initial estimates show significant job losses that could mount to an equivalent of 10 million full-time jobs based on the drop in working hours.[3] The recent situation could derail the already sluggish progress in female employment and economic participation in the region, as sectors in which women often engage are among the hardest hit industries.[4] Besides, as noted, a substantial proportion of Arab women are employed in informal jobs or on a part-time basis; hence, the protracted lockdown has jeopardized their jobs and incomes and has increased their vulnerability, particularly if they lack alternative income sources.

[1] World Bank, 2014.

[2] Aguirre and others, 2012.

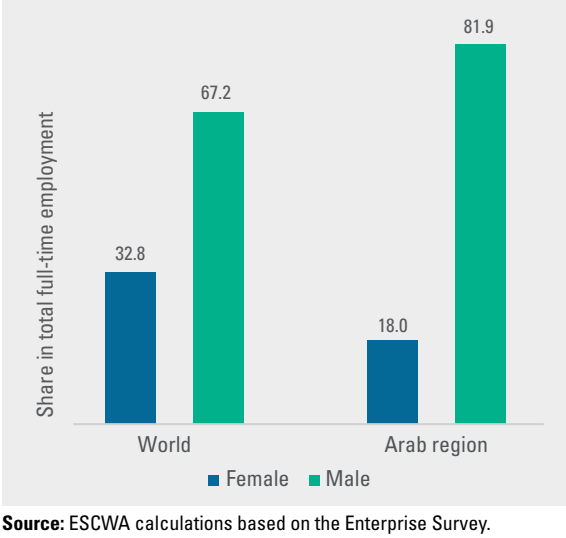
[3] For more information on the estimates, please check the appendix of the 4th edition of the "ILO Monitor: COVID-19 and the world of work. Fourth edition". Available at https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_745963.pdf.

[4] ESCWA and UN Women, 2020.

B. Employment of women in the private sector

To examine female inclusion in the labour market, the nature of employment opportunities for women need to be inspected. As previously noted, women tend to be engaged in informal, part-time and low-paying jobs. Increasing part-time jobs may boost female economic participation but does not guarantee a productive and decent-paying job.[5] There are multiple definitions of job quality; however, here the focus is on the female share of full-time employment as an indicator of job quality and gender inequality.[6] As argued by the World Bank,[7] full-time employment reflects work associated with higher wages, benefits, protections and rights, and potential avenues for skills development and career advancement. Figure 21 reveals that women around the world continue to face disadvantages in the labour market of the formal private sector; yet, the gender gap in full-time employment is substantially wider in the Arab region, with the average male share being roughly 4.5 times larger than that of women. The average female share of total full-time employment in the formal private sector for the examined sectors stands at 18 per cent in the Arab region, about half of the world average.[8]

Figure 21. Shares of employment, by sex (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey.

Nonetheless, the regional aggregate conceals the heterogeneity that persists across Arab States, which are, in fact, highly diverse in terms of their socioeconomic conditions. Figure 22 shows that the female shares of total full-time employment in Morocco, Tunisia, Lebanon, and, to a lesser extent, Egypt are higher than the regional average, notwithstanding that their shares are still below the world average. Generally, Arab countries not only fall below the world average, but they are fall below their income group's average. Although Iraq, the State of Palestine and Yemen fall into three distinct income groups, their gender inequality outlook is comparable. All three countries are affected by political instability, which adversely impacts performance, sales and employment growth of firms.[9] While this might be a nation-wide socioeconomic concern, irrespective of sex, in periods of intensified conflict, increased gender-based violence and protection concerns, along with already existing sociocultural barriers, may impose additional barriers for female

[5] World Bank, 2014.

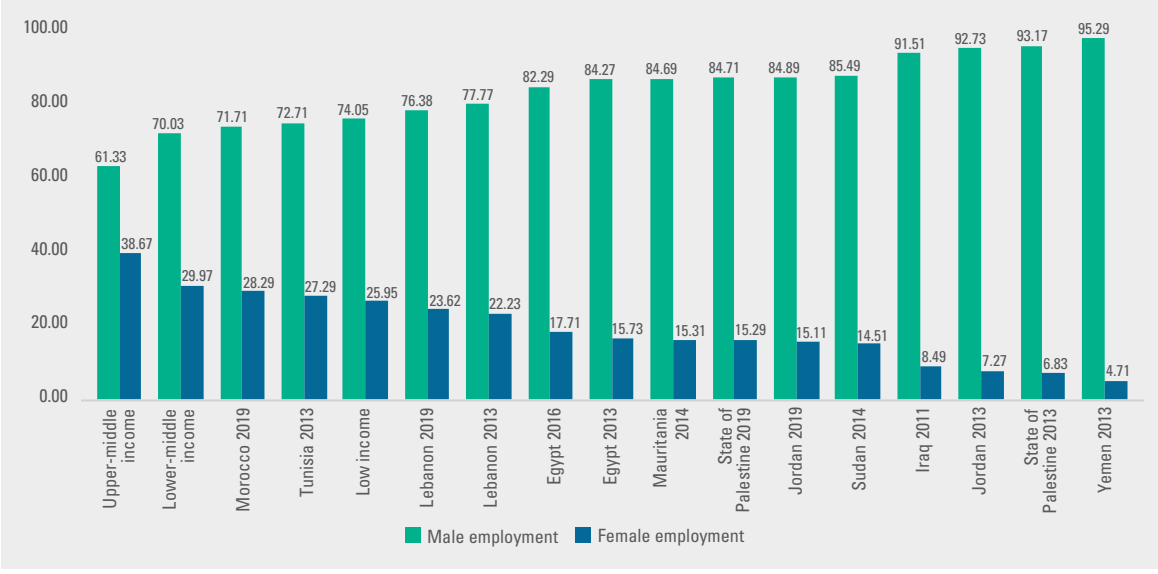
[6] One caveat is the relatively low response rate for this indicator (49 per cent missing observations). Lack of data in the Arab region remains a critical problem for conducting empirical analyses. This analysis does not attempt to generalize the findings because of limited data. Nonetheless, in this case, the total number of firms reporting the number of female employees is 3,525 (51 per cent of the sample), which is considered indicative of employment status of women in the Arab labour market.

[7] World Bank, 2014.

[8] It should be noted that these average shares reflect only the sectors covered by the Enterprise Survey. There may be other sectors, such as education, health care, government services, and social service, among others, in which women often work and which are not covered by these surveys.

[9] Hosny, A., 2017.

Figure 22. Female share of total full-time employment demand across Arab States



Source: ESCWA calculations based on the Enterprise Survey.

Note: The analysis is based on most recent survey.

employment and contribute to poor labour market outcomes. Even though Jordan's demand for female employment more than doubled between 2013 and 2019, Jordan is still performing significantly lower than its income bracket peers.

It is worth mentioning that the intraregional discrepancies may be due to various factors, including disparities in societal and familial perceptions, which play a critical role in determining female economic opportunities. Differences in resource endowments may be another plausible factor. Resource-rich countries, such as Iraq, tend to have mostly resource-related capital-intensive industries. The dominance of these industries may also negatively impact the exports of non-resource-trading sectors, such as tradable manufacturing, in which women are often engaged, thus reducing both the demand and supply of female workers. Resource-poor economies, such as Egypt, Morocco and Tunisia, have more labour-intensive industries, which increase the need to capitalize on women's economic participation.[10] While this is a step in the right direction, encouraging women to participate in the labour market requires overcoming current stereotypes across the remaining economic sectors, including capital-intensive sectors.

C. Selected economic sectors

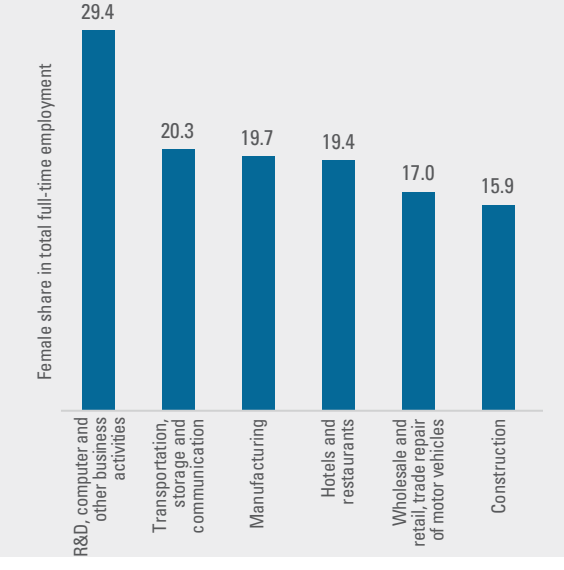
Women often work in sectors such as education and social services as they are considered to provide a good work-life balance but are largely underrepresented in other formal private-sector occupations. Figure 23 presents the female share of total full-time employment demand across selected productive economic sectors. It reveals that the sector of IT and related activities has the highest average female share of full-time employment among the examined sectors, which

[10] World Bank, 2004.

could partly reflect the increasing specialization of women in these fields over recent years. This may be surprising as this field is commonly seen as male-dominated, but this is not necessarily the case in the Arab world. According to the New York University Abu Dhabi (NYUAD), 40 per cent of students in the Arab world majoring in computer science and IT are women, compared to 15 to 20 per cent in the United States.[11] While more women are opting to major in fields related to computer science and IT, challenging certain stereotypes, the female share of total full-time employment in this field is still below 30 per cent, as shown in figure 23. NYUAD argues that gender-based stereotypes in labour markets are a major challenge to the education of women in the workforce. The outlook for the IT field in the Arab region to reduce gender gaps is promising, yet the foremost prerequisite is to challenge gender-discriminatory perceptions and capitalize on women's increased level of education in all sectors. Since most IT jobs can be done remotely, the new work modalities emerging in light of COVID-19 might increase the chance for skilled females to have a more accommodating job.

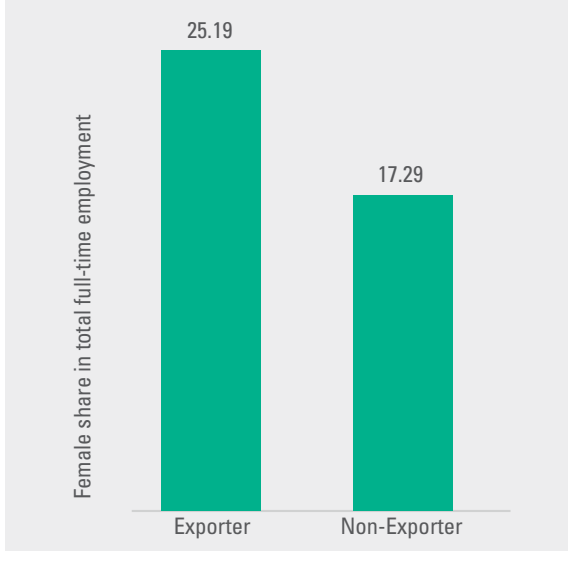
The second-largest sector of female employment is transportation, storage and communication, followed by manufacturing. Across the Arab economies covered by the Enterprise Survey, the highest average female shares are found in the labour-intensive manufacturing sectors, such as garments, footwear, leather, and furniture; numbers are lower in relatively less labour-intensive manufacturing sectors.[12] In an earlier study, the Work Bank[13] underlined that Tunisia and Morocco have relied on manufacturing exports, particularly textiles and garments, to boost women's employment in the private sector. Trade openness tends to promote such sectors, which may partly explain the higher female share across exported-oriented firms relative to non-exporters

Figure 23. Female share of employment, by sectors (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

Figure 24. Female share of employment and trade (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

[11] Zaatari, S., 2015.

[12] An analysis of the subsectors in manufacturing revealed that apparel, dressing and fur dyeing have the highest average female share of full-time employment. Nonetheless, female shares at a subsectoral level are not reported here due to the very limited number of observations per subsector.

[13] Work Bank, 2004.

(figure 24).[14] Overall, the participation of females in manufacturing is still low.

The female share of full-time employment is considerably lower across almost all sectors and remains, on average, below 19 per cent in the hotels and restaurants (a proxy for tourism), construction and wholesale and retail sectors.[15] These sectors are often considered male-dominated, which limits female's labour mobility, especially in the private sector. For instance, the low proportion of women in the construction sector is partly due to it being perceived as physically demanding.[16] In the case of tourism, a key economic sector in several Arab countries, gender-based discrimination is linked to multiple factors, including long-distance commuting, working at night and interaction with men and foreigners. Assaad[17] and USAID[18] found evidence for these factors in Egypt and Jordan, which, according to the United Nations World Tourism Organization (WTO),[19] were among the most visited countries in the Middle East in 2017. Arab female inclusion in the tourism industry is further restricted by labour laws that generally ban night work for females, with the exception of the health sector.[20,21] This underlines the fact that labour laws in the Arab States are determined by social norms and limit female employment.

Other labour laws in the Arab region potentially restrict both the supply and demand for female workers, including laws on maternity leave.[22] Inadequate maternity leave, commonly less than 14 weeks,[23,24] may hinder the ability of women to maintain a work-life balance and discourage them from joining the labour market. It is also worth mentioning that paternity leave is not common in the region, with just a few countries offering up to six days.[25] In contrast to SDG Target 5.4, which promotes shared responsibility within the household and the family, these shortcomings may reinforce patriarchal gender relations. At the same time, in the majority of these countries, the financial burden of mandatory maternity leave falls on the employer,[26] which discourages private firms from hiring women, especially married women.

Due to the COVID-19 lockdowns, the disruption of markets and supply chains and the contraction in various output-impacted economic sectors have led to unprecedented spikes in unemployment for both men and women. Sectors in which

[14] Exporting firms here is based on 15 per cent and above of sales going to direct export activities. The same exercise was done for indirect exports, which identified a similar trend.

[15] Moghadam also points out that, according to official statistics, women in the Arab region generally have low participation in sectors such hotels and restaurants, wholesale and retail trade. This may be partly due to cultural norms. See Moghadam, V. M., 2013.

[16] According to USAID, this is the case in Jordan. See USAID, 2012.

[17] Assaad, R., 2002.

[18] USAID, 2012.

[19] World Tourism Organization (WTO), 2019.

[20] Note that, in Lebanon, the labour legislation contains provisions on night-shift conditions and work deemed morally harmful. Excessive protection measures limit work opportunities open for females. For details on night-shift laws in each Arab State, see OECD, 2014.

[21] ESCWA, 2021.

[22] ILO indicates that only Morocco has officially ratified the Maternity Protection Convention, 2000 (No. 183), and only Algeria and Libya have ratified previous maternity conventions. See ILO, 2015. *World Employment and Social Outlook 2015: The Changing Nature of Jobs.*

[23] ESCWA, 2012.

[24] Exceptions include the Syrian Arab Republic (120 days), Morocco (14 weeks) and Egypt (three months).

[25] ILO, 2015.

[26] ESCWA, 2012.

women often engage, such as manufacturing and services, have been among the hardest hit industries in the Arab region.[27] For instance, as discussed, several Arab countries have relied on labour-intensive and export-oriented industries, such as textiles and garments, to boost the employment of women in the formal private sector. Yet, lockdowns and quarantine measures have severely impacted these sectors, causing many enterprises and factories to halt production, cut down salaries or even close due to supply-chain and trade disruptions.[28] Likewise, services such as child care, education and beauty salons, in which women and women-led enterprises are concentrated, have been adversely impacted by social-distancing measures. The situation is similar in the hospitality and restaurants sectors that are also a source of income for many women in the region through employment or entrepreneurial activities, noting, however, that Arab women are less engaged in these sectors relative to women in other regions. Increasing joblessness and wage reduction, among other devastating socioeconomic impacts of the pandemic, could hence intensify existing gender inequalities in labour markets.

Amid this turbulence, however, opportunities could be seized to improve women's capability during and post the COVID-19 crisis. The pandemic has accelerated the shift towards more flexible work arrangements, especially in the private sector. Online and work-from-home modalities have been increasingly applied in many industries, including services such as education and health. Such remote work arrangements would facilitate work-life balance and child care for women; yet, there still remains room to improve the sharing of responsibilities within the household. The accelerated pace of digitalization and increased reliance on technology can create career opportunities in information and communications technology and high-tech industries, which women, especially in the region, are increasingly specializing in.

D. Ownership structure and size of firms

Figure 25 disaggregates female employment by type of firm ownership.[29] It depicts that State-owned firms have the highest average female share, at almost double the regional average. Public or quasi-public entities offer jobs which are more suitable for women and provide more flexible work arrangements relative to private entities, including shorter working hours, better maternity leave and child-care facilities. These benefits allow women to balance their time between work and home-care responsibilities, especially after marriage.[30] Assaad, Hendy and Yassine[31] and Hendy[32] found that women working for private firms tend to quit working post marriage contrary to those in public employment. Even though the most females in the Arab region are hired by State-owned firms, gender parity in all sectors is still far out of reach.

Arab countries can also benefit from orienting their policies towards promoting FDI. In firms with a majority of private foreign ownership, the average female share is roughly 1.7 times higher

[27] ESCWA and UN Women, 2020.

[28] ILO, 2020c. COVID-19 and the textiles, clothing, leather and footwear industries. ILO Sectoral Brief, 8 April.

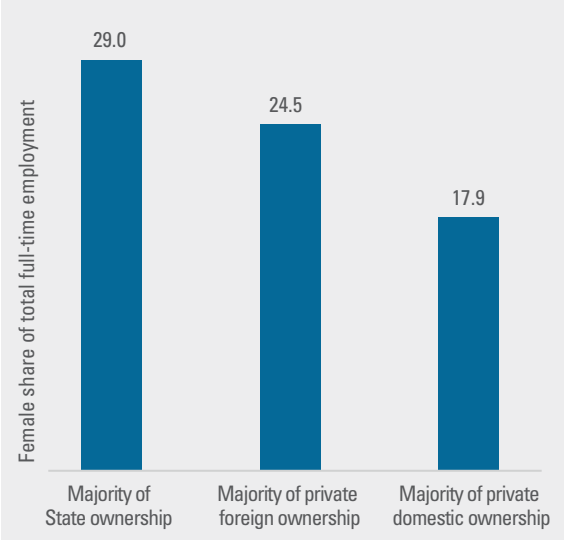
[29] Firm ownership here is based on the 51 per cent of cut-off of shares. The underlying premise is that, typically, the majority share owners have the major influence on the entity's decisions and regulations.

[30] ESCWA, 2012; and ILO, 2015.

[31] Assaad, R., R. Hendy and C. Yassine, 2012. Gender and the Jordanian Labor Market. In *The Jordanian Labor Market in the New Millennium*, pp. 105-143.

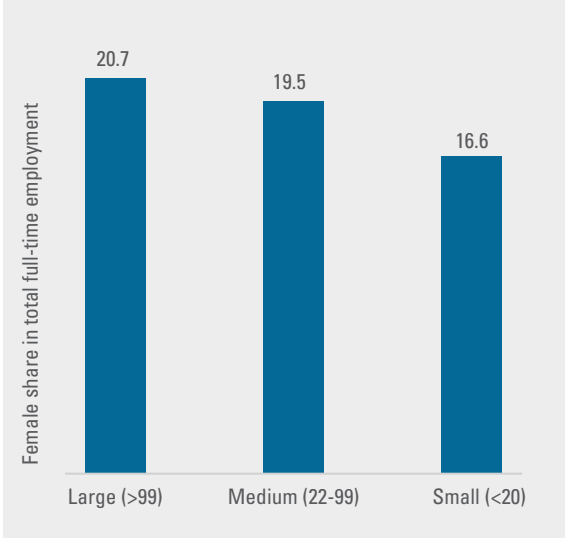
[32] Hendy, R., 2015. Women's Participation in the Egyptian Labor Market: 1998-2012, Economic Research Forum Working Paper 907.

Figure 25. Female share of employment, by ownership structure (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

Figure 26. Female share of employment, by firm size (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

than in firms with a majority of private domestic ownership. Multinational firms, especially those headquartered in countries with gender-equal hiring practices and environments, are likely to transfer their global policies and practices to their affiliated firms in the Arab region, thus increasing female employment opportunities,[33] offering longer maternity leave and other benefits.[34] It is safe to say that FDI has the potential to boost both the demand for and supply of female labour.

The vast majority of surveyed firms that are mostly State-owned and private foreign-owned are large and medium-sized. This could be another factor explaining their higher female share of total full-time employment.[35] Figure 26 shows the average female share in total full-time employment by firm size, measured in terms of the total number of employees. Large and medium-sized firms have higher average female shares than small firms. Several studies have also found a positive wage-size relationship.[36] The higher wages and benefits offered by large firms may increase the opportunity cost of not joining the labour market and incentivize women's participation.[37] In addition to the higher benefits they offer, large firms can be associated

[33] Fakih and Ghazalian found that private foreign ownership increases the probability of female employment across manufacturing firms in the MENA region. See Fakih, A. and P. L. Ghazalian, 2015. Female employment in MENA's manufacturing sector: the implications of firm-related and national factors. In *Economic Change and Restructuring*, vol. 48, No. 1, pp. 37-69.

[34] ILO, 2015.

[35] The trend across firm ownership structure remained unchanged when considering the size of firms. Across the three firm-size groups, private foreign firms have a higher full-time female employment ratio than private domestic ones.

[36] Dunn, L., 1986. Work disutility and compensating differentials: Estimation of factors in the link between wages and firm size. In *The Review of Economics and Statistics*, vol. 68, Issue 1, pp. 67-73; Brown, C. and J. Medoff, 1989. The employer size-wage effect. In *Journal of Political Economy*, vol. 97, No. 5, pp. 1027-1059; and Schmidt, C. M. and K. F. Zimmermann, 1991. Work characteristics, firm size and wages. In *Review of Economics and Statistics*, vol. 73, No. 4, pp. 705-710.

[37] Sarbu argues that large and medium-sized firms may have less flexible work arrangements, such as telecommuting, relative to small firms, which may hinder women's ability to balance their work and household duties. Therefore, higher wages and benefits may increase the opportunity cost of not joining the labour market and counterbalance women's demands for flexible work arrangements. See Sarbu, M., 2014. Determinants of flexible work arrangements. ZEW – Centre for European Economic Research, Discussion Paper No. 14-028.

with less gender-discriminatory practices and a lower risk of sexual harassment, as they are more likely to have a clear legal and regulatory framework, including rules of personal conduct.[38] The higher proportions of female employees in these firms may, in turn, help ensure an appropriate and safe working environment for women.

E. Women in decision-making positions

Empowering women in roles of leadership and entrepreneurship is a cornerstone of SDG 5. Recent studies emphasize a gender dividend – an economic gain when employing women – in top positions in connection with enhancing a firm's innovation and performance and boosting GDP.[39] Yet, globally – and more so in the Arab region – women tend to be underrepresented in decision-making positions.[40] Literature has long advanced the glass-ceiling hypothesis, which states that not only is it more difficult for women to access higher-level positions, but also the barriers become increasingly higher as women advance up an organizational hierarchy. In corporate business, such barriers include organizational structure and corporate culture, general sociocultural perceptions and norms regarding the capacity and child-rearing role of women, inadequate career opportunities, and discriminatory labour regulations.[41] ILO emphasizes that women tend to exit labour markets around their mid-careers, when their accumulated experiences allow them to hold senior positions,[42] which leads to a shortage of women in senior positions and a reinforcement of gender-based stereotypes. While the corporate realm may lead to a stunted professional growth for women, the number of women in entrepreneurship has been steadily rising.[43]

This section focuses on firm-related factors to assess empowerment of women across selected non-agricultural sectors in the Arab world using two main indicators, namely, the sex of top managers and of firm owners. When it comes to ownership, the focus is primarily on exclusively female-led and male-led firms (all women versus all men) to better capture gender-specific entrepreneurial characteristics and challenges. Figure 27 shows that the Arab region considerably lags behind the world when it comes to the representation of women in management and leadership positions across the selected sectors. Less than 5 per cent of examined enterprises in the region reported having a female top manager compared to more than 15 per cent in the world. In the Arab region, the gender gap in top management widens by almost fourfold relative to the gender gap in full-time employment shares, which may signal the existence of glass ceilings across the region.

[38] Nasr, S and A. Rostom, 2013. SME contributions to employment, job creation, and growth in the Arab world. Policy Research Working Paper No. 6682. Washington, D.C.: World Bank.

[39] Dezsö, C. L. and D. G. Ross, 2012. Does female representation in top management improve firm performance? A panel data investigation. In *Strategic Management Journal*, vol. 33, No. 9, pp. 1072-1089; Mckinsey & Company, 2015. *The Power of Parity: How Advancing Women's Equality Can Add $12 Trillion to Global Growth*; and ILO, 2015.

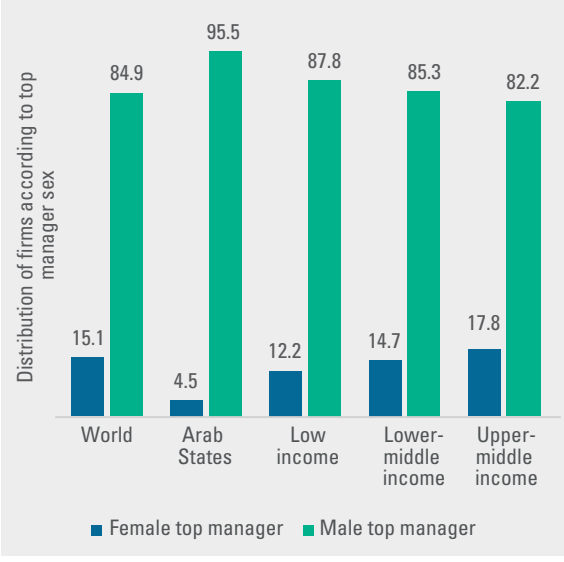
[40] World Bank, 2013. Opening Doors: Gender Equality and Development in the Middle East and North Africa. MENA Development Report. Washington, D.C.: World Bank.

[41] Oakley, J. G., 2000. Gender-based barriers to senior management positions: Understanding the scarcity of female CEOs. in *Journal of BusinessEthics*, vol. 27, No. 4, pp. 321-334; Eagly, A. H. and S. J. Karau, 2002. Role congruity theory of prejudice toward female leaders. In *Psychological Review*, vol. 109, No. 3, pp. 573-598; and ILO, 2016. *Women in Business and Management: Gaining Momentum in the Middle East and North Africa*.

[42] The term coined to describe this phenomenon is "a leaking pipeline".

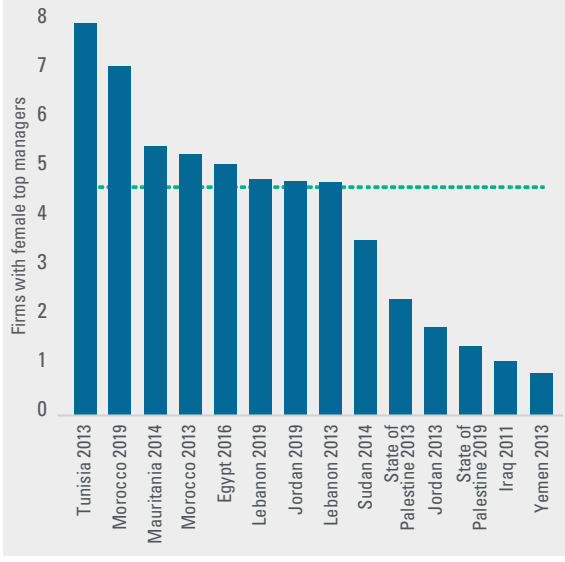
[43] ILO, 2016.

Figure 27. Women in management (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

Figure 28. Women in management, by country (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

Note: The dashed line represents the regional average

According to ILO, the glass ceiling is more salient in the Arab region where gender-related social values and norms have greater influence.[44] In essence, the aforementioned barriers to female employment in the Arab region also impede their career progression. These barriers may even intensify in senior positions as they entail increased responsibilities and job commitment. An examination of country-level performance reveals that countries at the top of the list are essentially the same as those that topped the female shares in full-time employment (figure 28). Tunisia, Morocco, Mauritania, Egypt, and Lebanon outperform their peers. These countries fare better than regional average, yet only marginally. For instance, the percentage of Tunisian firms with female top managers in 2013 was merely half that of the world average. Mauritania, which has a much lower female share of full-time employment than the regional average, ranks second across the region in terms of female top management positions, albeit at 5 per cent. In general, these low figures suggest that the entire Arab region still has a long way to go in terms of empowering women in senior and leadership positions.

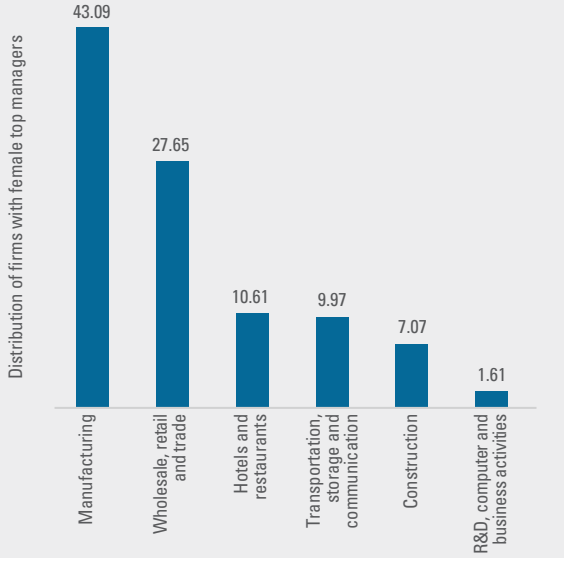
F. Selected firm characteristics

Figure 29 depicts that firms with female top managers are mainly distributed in the manufacturing sector. Among the selected sectors, female entrepreneurism is highest in manufacturing, as shown in the next section, which, in part, explains the high distribution of female management in this sector.[45] Figure 29 indicates that female entrepreneurism is considerably low in the remaining sectors, which signals that, to a certain extent, the sociocultural norms influencing female engagement in economic activity may also

[44] ILO, 2016.

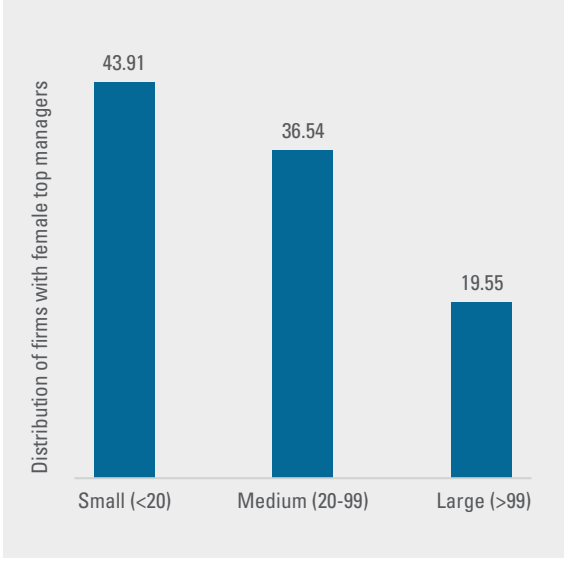
[45] Most firms with women as owners and in top management are concentrated in two sectors, apparel, dressing and fur-dyeing, and food products and beverages.

Figure 29. Female top managers, by selected economic sectors (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

Figure 30. Female top managers, by firm size (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

influence their managerial and career advancement opportunities.

Figure 30 shows that firms with a female top manager are mostly SMEs. It may seem paradoxical that large firms have a lower reported figure of female managers when they are associated with a higher female share of full-time employment and less gender-discriminatory practices, given their transparent regulatory frameworks. Yet, the higher competition for top managerial positions in larger firms may put females at a disadvantage.[46] The following section show that women mostly tend to start microenterprises, which may account for the concentration of female managerial activity in SMEs.

Some women have also sought entrepreneurial careers; yet, roughly 81 per cent of surveyed enterprises in the Arab region are exclusively owned by men. Even if women have some degree of ownership, men maintain most control and thus the largest influence in decision-making, which suggests that female influence is highly confined and the way to gender parity in leadership positions remains long. Less than 3 per cent of surveyed entities report gender parity in firm ownership, and an even lower percentage report exclusive female ownership.

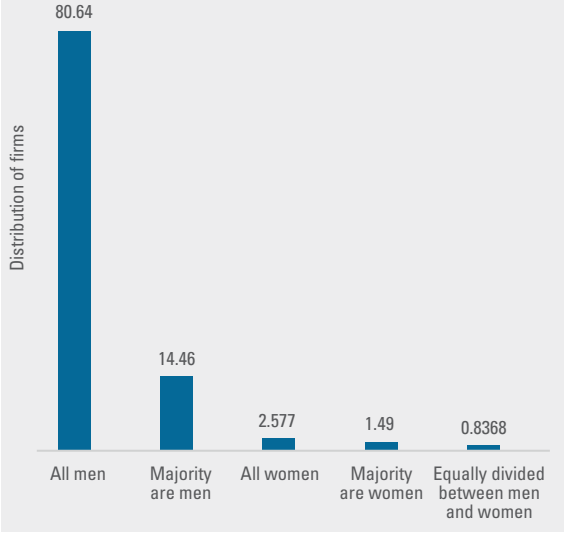
Exclusively female-owned firms exhibit similar characteristics to female-managed firms. The vast majority of female-owned businesses are small (57.1 per cent) or medium-sized (34.4 per cent). This is also reflected in the legal status of women-owned businesses, of which 86 per cent fall under sole proprietorship. Commonly, such firms are small businesses that are easier to set up (relative to other types of businesses), have less formal business requirements and are completely managed by the individual proprietor. Thus, these businesses are characterized by a high degree of autonomy and flexible work arrangements for women. These figures highlight the progressive role of women in private-sector growth and employment. However, the limited scope of female entrepreneurship in the Arab region raises the question whether it is

[46] Amin, M. and A. Islam, 2014. Are there more female managers in the retail sector? Evidence from survey data in developing countries. Policy Research Working Paper No. 6843. Washington, D.C.: World Bank.

restricted to self-employment.[47] The substantial contribution of SMEs, particularly those female-owned, towards employment creation and economic growth is contingent on their ability to expand and realize their full potential growth.

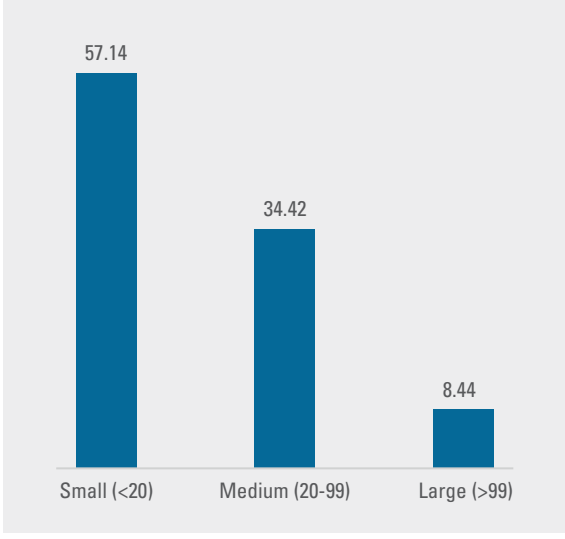
Female owners were asked about the biggest obstacle that affects their firm's operations and performance (figure 34). The most frequent answer was political instability, which is associated with an unconducive investment climate.

Figure 31. Firm ownership, by sex (percentage)



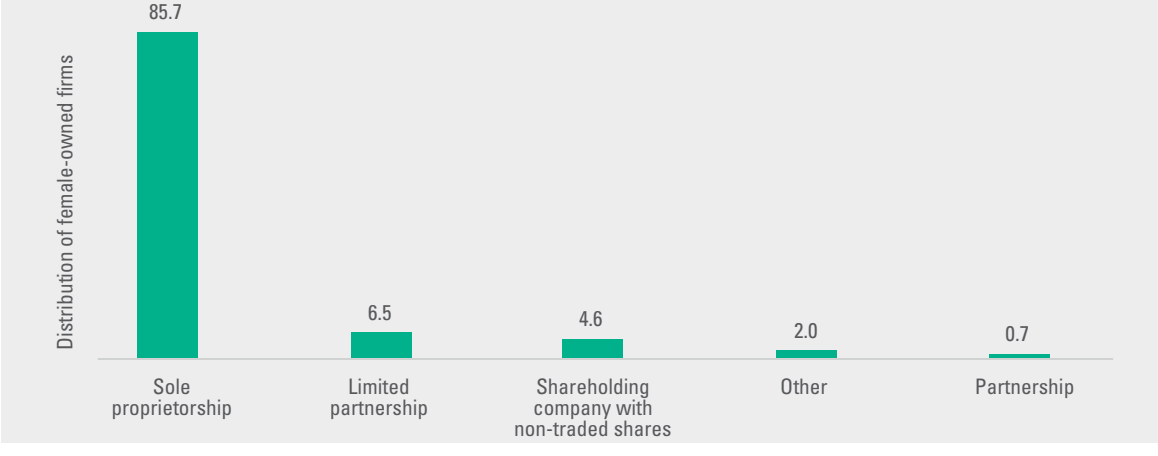
Source: ESCWA calculations based on the Enterprise Survey.

Figure 32. Female ownership, by firm size (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

Figure 33. Female ownership, by legal status of firm (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

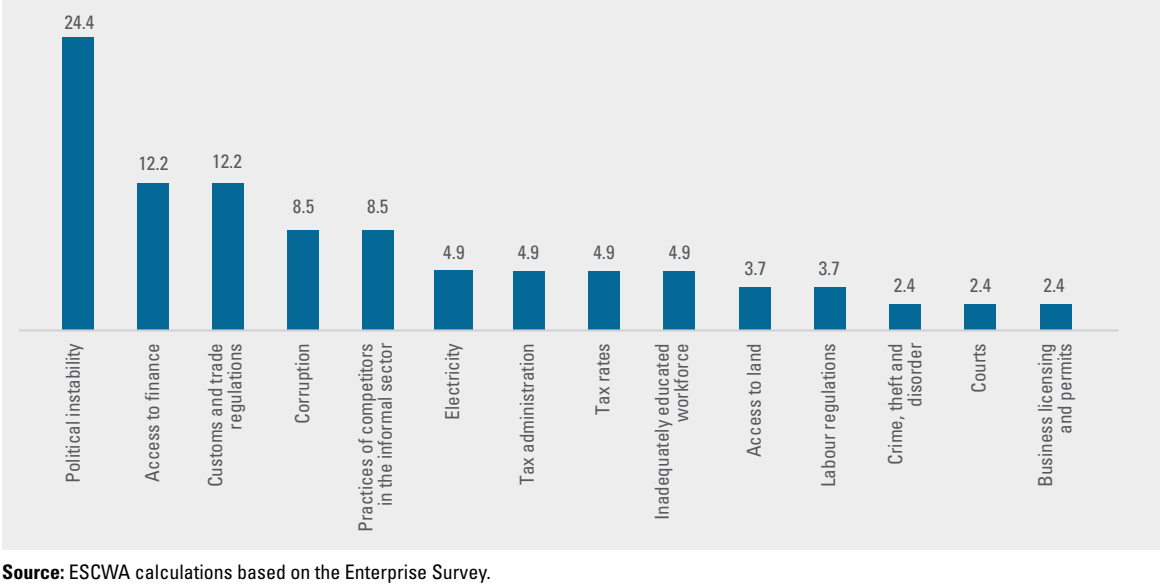
[47] Astebro and Tag examined the relationship between legal status and job creation while distinguishing between two kinds of entrepreneurs, namely, sole proprietors seeking primarily self-employment and those seeking to hire others through incorporating their firms. They argued that, given the fact that the majority of entrepreneurs tend to be sole proprietors, unincorporated firms initially contribute more to aggregate job creation than incorporated firms. Nonetheless, they found that incorporated firms eventually tend to create 50 per cent more employment opportunities than sole proprietorships. See Astebro, T. and J. Tag, 2015. Jobs Incorporated: Incorporation Status and Job Creation. IFN Working Paper No. 1059.

Arab Governments need to prioritize political stability and create an investment-enabling environment to boost private-sector development and economic activity. Access to finance, as second most frequent answer, is a major concern for all enterprises, regardless of sex. Nonetheless, this obstacle may be bigger for female entrepreneurs, particularly in the Arab region. The United Nations Secretary General's High-level Panel on Women's Economic Empowerment[48] notes that female-owned businesses are smaller and largely restricted with respect to access to credit and resources.

In the Arab region, personal status laws and customary practices, in terms of discriminatory property rights,[49] put women at a greater financial disadvantage, restricting their ability to collateralize loans and access credit.[50] Figure 35 shows that approximately 49 per cent of male-owned firms perceive access to finance as either no or minor obstacle relative to 47 per cent of female-owned firms. Among the surveyed female-owned firms, 53 per cent perceive access to finance at least a moderate obstacle, while nearly 23 per cent perceived it as a major or very severe obstacle.[51]

Restricted finance, together with the nature of female-owned firms, may create a vicious cycle in which female-led firms have limited growth and survival prospects. In other words, limited initial capital may confine female entrepreneurship to small enterprises. This may further impede their ability to access venture capital to expand their business as, typically, banks are reluctant to lend

Figure 34. Obstacles reported by female-owned firms (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

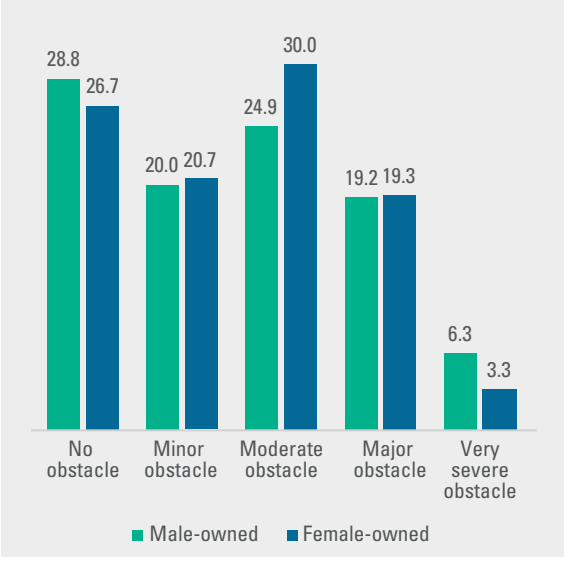
[48] United Nations, 2017. Leave No One Behind: A Call to Action for Gender Equality and Women's Economic Empowerment. eSocialSciences. Available at https://www2.unwomen.org/-/media/hlp%20wee/attachments/reports-toolkits/hlp-wee-report-2016-09-call-to-action-en.pdf?la=en&vs=1028.

[49] Inheritance laws, divorce, lack of independence in controlling property, and others.

[50] World Bank, 2013; and ILO, 2015.

[51] The trend remained the same when controlling for the size of firms.

Figure 35. Access to finance (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

to SMEs. In addition, banks generally impose more stringent collateral requirements on businesses owned by women as they are perceived as higher risk.[52] It is noteworthy that the sole-proprietorship nature of female-owned firms also limits their access to alternative credit sources outside the traditional banking system. This underlines the need to attain SDG Target 5.a to give women equal rights to economic resources, access to ownership and control over land and other forms of property, financial services, inheritance, and natural resources.

The current COVID-19 crisis could intensify these challenges for women-owned businesses as SMEs tend to be more vulnerable to demand shocks and supply-chain disruptions. The plunge in sales and cash flows could curtail business operations and place SMEs at higher risk of financial crunches or shutdowns. The latest downturn might hence further exacerbate the credit constraints faced by women-led SMEs and have an enduring impact on these businesses even after lockdown restrictions are lifted.

G. Impact on R&D and innovation

Innovation is a well-recognized pillar of private-sector development and vibrant growth. Some scholars have found that businesses owned by women often adopt more innovative strategies than those owned by men.[53] To examine innovation levels across firms led by women, the percentages of women-owned enterprises that engaged in process and product innovations over the last three years were cross-checked, which revealed three results (figure 36). First, female-owned firms tend to have a relatively high percentage of innovation. Second, high process innovation among female-led SMEs is an incentive to reduce costs to maintain market competitiveness, making firms more efficient and productive. Third, a higher percentage of female-owned firms engage in product innovation rather than in process innovation. Although the impact of process innovation on employment creation is ambiguous, product innovation could boost employment creation as presented earlier in this chapter. Given the limited sample size, it is not intended to generalize these findings beyond the dataset. Yet, these figures suggest that innovative women-owned businesses can be an avenue for increasing overall employability, particularly for the growing educated female cohort who can, in return, contribute to the expansion of firms led by women into new markets. It should be mentioned that innovation is the outcome of investment in R&D. The examined surveys, however, do not include time-consistent data on

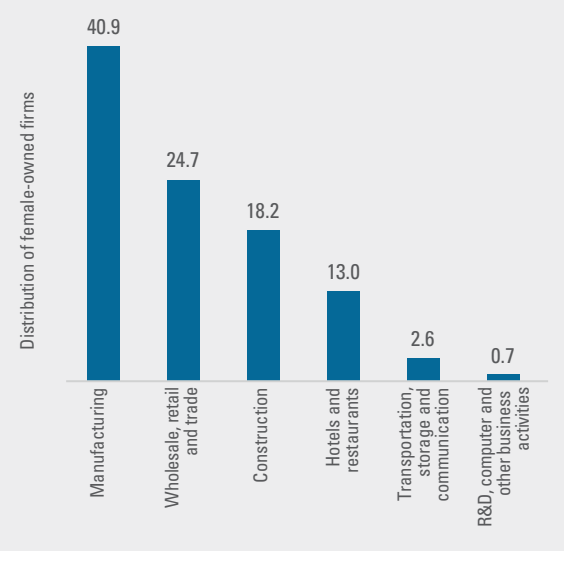
[52] Nasr and Rostom, 2013. This perception of higher risk may be linked to the awareness that Arab women generally have less capital and control over capital than men.

[53] Brush, C. and R. D. Hisrich, 1999. Women-owned businesses: why do they matter? In *Are Small Firms Important? Their Role and Impact*, pp. 111-127. Boston, MA: Springer.

R&D expenditures that would allow to examine innovation outcomes.[54] To get a sense of R&D investment levels in women's businesses, their R&D expenditure in the last fiscal year was examined, which revealed that 18.3 per cent of female-owned businesses

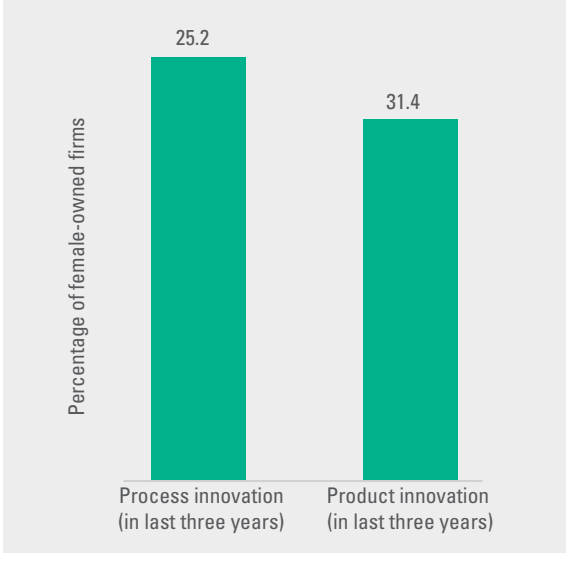
invested in R&D in the most recent fiscal year. The distribution of female-led firms across economic sectors shows a similar pattern to that of female full-time employment and management. Approximately 41 per cent of examined female-owned firms are within the manufacturing sector. This high concentration could be an additional factor to explain the higher share of women in full-time employment and top management in this sector. As will be discussed in the following section, female entrepreneurship can be an avenue to boost female employment and career advancement opportunities.

Figure 36. Innovation among female-owned firms (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

Figure 37. Female-owned firms across selected economic sectors (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

H. The impact of female presence in leadership on the employment of women

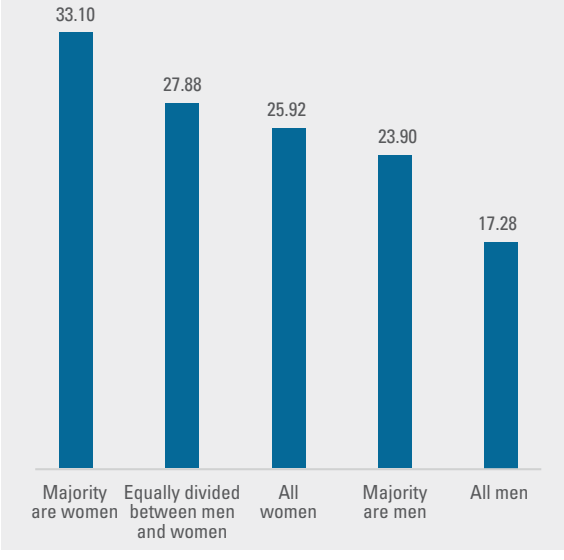
The previous section highlighted the progressive role of women in private-sector development and the potential for employment creation, especially for women. The analysis in this section further shows that women in leadership positions, whether in management or entrepreneurship, could enhance levels of female inclusiveness in the formal private sector, thereby supporting

[54] The variable on R&D expenditure covers the last fiscal year only, while the variable on innovation examines whether the firm engaged in process or product innovations in the last three years. Therefore, this temporal inconsistency does not allow to examine R&D returns in terms of whether or not it led to innovation.

the attainment of SDGs 5 and 8. Figure 38 that, in firms with female top managers, the average female share of total full-time employment is almost twice that of male-managed firms. A similar trend is found in female-owned firms with average female shares of full-time employment of nearly 26 per cent, compared to nearly 17.3 per cent in male-owned firms. Female employment also seems to fare better when the majority of a firm's owners are women. Female leaders could increase both the supply and demand for female employees for various reasons. Women, for instance, may choose female-led enterprises as they are associated with lower risk of sexual harassment and increased opportunities for career advancement and mentorship.[55] At the same time, female executives are associated with less gender-discriminatory hiring practices, which would not only boost demand for female employees but also increase their likelihood of being promoted into higher-paying positions.[56]

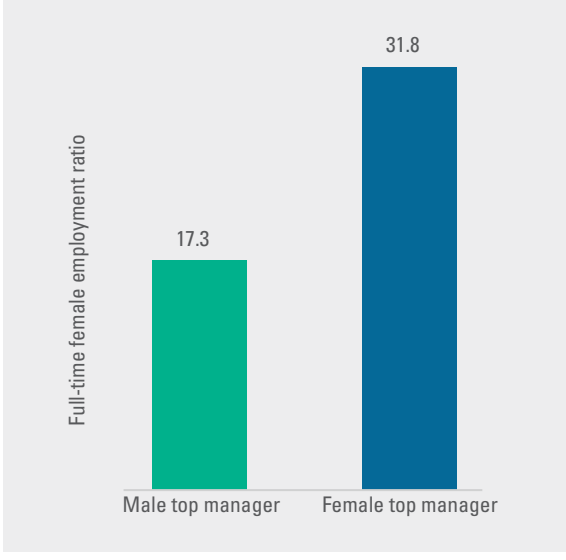
A side analysis revealed that more than 56 per cent of female-owned firms report having a female top-manager, compared with just 1.4 per cent of male-owned firms. Likewise, firms with a female majority ownership have a much higher percentage of female managers than those owned by a majority of men. In essence, females in management and leadership positions provide a paradigm that challenges persistent sociocultural stereotypes which limit female economic participation and career advancement opportunities. As presented earlier, female-owned firms have a higher wage bill than those owned by males, which could incentivize women to join these firms.

Figure 38. Female full-time employment ratio, by sex. of firm owner (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

Figure 39. Female full-time employment ratio, by sex. of firm manager (percentage)



Source: ESCWA calculations based on the Enterprise Survey.

[55] Nasr and Rostom, 2013; and World Economic Forum (WEF), 2017. *Global Gender Gap Report.*

[56] Amin and Islam, 2014.

I. Policy recommendations

Unless all gender-discriminating practices are eliminated, the desired labour market outcomes articulated in SDG 8, particularly target 8.5, will not be reached. The inclusion and empowerment of women at all levels is pivotal for economic growth and essential for the attainment of the 2030 Sustainable Development Agenda. The following are policy recommendations needed to reach additional economic empowerment in the Arab world.

1 **To improve women's labour market prospects.** This necessitates challenging prevalent sociocultural perceptions to allow women's labour mobility across all economic sectors. Further, reforming labour laws towards a better gender-friendly environment is a must. At the firm level, private entities can encourage women's economic participation by better designing their internal maternal and paternal leave schemes. The provision of paternity leave and the development of childcare may assist women to reach a work-life balance and shared responsibilities within the household and family.

2 **Challenge gender-discriminatory perceptions in labour markets and capitalize on the increased level of education of women in all sectors.** The COVID-19 work modalities showcase that increasing female participation in the IT sector is a choice to enhance female empowerment. The private sector should enhance its internal pipelines for promotions such that women and men have an equal chance to attain senior positions and be represented on companies' boards of directors. Promoting female leadership in management and entrepreneurship could have multiple positive ripple effects, including increasing female employment and career-advancement opportunities.

3 **Financial intermediaries, to support female entrepreneurs by providing access to credit to promote growth-oriented entrepreneurship for females.** Giving women equal rights to economic resources, access to ownership and control over land and other forms of property, financial services, and inheritance would increase their ability to collateralize loans and access credits.

4 **To adopt more remote working arrangements as a viable solution to improve women's capabilities post the COVID-19 crisis.** This would allow women, as employers or employees, to reconcile between work and family life. The accelerated pace of digitalization and increased reliance on technology could also create career opportunities in ICT and high-tech industries that women, especially in the region, are increasingly specializing in.

4.

PRIVATE-SECTOR DEVELOPMENT AND CREATION OF DECENT JOBS: THE WAY FORWARD

4 KEY FINDINGS

A four-pillar policy response should be implemented to address the COVID-19 challenges	Support actions for the most vulnerable groups, including informal economy workers and enterprises, are needed	It is indispensable to develop national employment policies, rethink macroeconomic policies and promote private-sector development
Labour and social policies supporting the private sector should respond to the dual challenge of creating jobs and reducing deficits in decent work	Education and training should be reformed, and effective active labour market policies developed, particularly for youth	Gender equality and women empowerment need to be promoted

4. Private-sector Development and Creation of Decent Jobs: The Way Forward

A. Overview

This report advocates that the public and private sectors complement one another rather than compete against each other. It argues that active policies to assist small businesses and provide time-bound wage subsidies to entice the private sector would do more to employ young people than simply transferring financial and other resources from the public to the private sector. Hence, as argued in this report, the appropriate short-term policy lesson is to develop inclusive employment and labour market policies that reduce the current degree of rigidity and segmentation in Arab labour markets, including the attenuation of gender disparities and informal employment. This will continue to pave the way forward for future long-term policy assessment. Yet, for now, the primary concern of policymakers is to overcome the immediate challenges brought by the pandemic. To this end, ILO proposes a four-pillar policy framework to respond to the COVID-19 crisis (see section B below). The long-term reforms of inducing a structural transformation process that enhances the private sector's ability to generate formal and decent employment are discussed in section C.

B. Policy measures to respond to the COVID-19 crisis

ILO has structured its policy response to the COVID-19 crisis around four pillars, which are the following:

- Stimulating the economy and employment:
  - Active fiscal policy;
  - Accommodative monetary policy;
  - Lending and financial support to specific sectors (for instance, health sector);
- Supporting enterprises, jobs and incomes:
  - Extending social protection for all;
  - Implementing employment retention measures;
  - Applying financial and tax relief for micro, small and medium-sized enterprises (MSMEs)
- Protecting workers in the workplace:
  - Strengthening OSH measures;
  - Providing health access for all;
  - Adapting work arrangements (for instance, teleworking);
  - Expanding access to paid leave;

  - Preventing discrimination and exclusion;
- Relying on structured social dialogue for developing, assessing and reviewing evidence-based solutions:
  - Strengthening the capacity and resilience of employers' and workers' organizations;
  - Strengthening the capacity of Governments;
  - Strengthening social dialogue, collective bargaining and labour relations institutions.

With the devastating impact of the crisis on individuals and businesses, policy responses should focus on supporting and protecting workers, employers and their families. This requires large-scale public support and investment, provision of paid sick leave, teleworking, and improved OSH.

Timely, large-scale and coordinated policies are needed to protect employment, help businesses and support incomes. All these measures, however, will not work in isolation and unless accompanied by effective implementation and enforcement mechanisms, as well as accessible complaint channels.

More particularly, countries in the region should consider a range of social protection measures, including wage subsidies, in-kind and cash social assistance to support the poor and vulnerable, and temporary income support to those not registered in social insurance, amongst others.

The most vulnerable groups, including informal economy workers and enterprises, should be prioritized, noting that they ordinarily tend to operate outside the reach of Government authorities and are at a greater risk of plunging deeper into poverty. Support actions include identifying their needs and priorities and determining accordingly the nature and level of interventions needed; reducing their exposure to the virus; ensuring their access to health care; ensuring their participation in social dialogue; providing income and food support to individuals and their families to compensate for the loss of, or reduction in, economic activity; and supporting SMEs both in the formal and informal sectors.[1] Migrants, refugees and internally displaced persons should also be included in governmental response strategies as these are among the most vulnerable and should be supported.

Vulnerable firms, whether SMEs or firms operating in the informal sector or in the most impacted sectors, need not only swift, continuous and expedited governmental support (such as tax holidays, reductions or rescheduling; interest-free loans; wage and employment subsidies) but also help from banks, other financial institutions (such as flexibility with debt; and increased lending, possibly conditional on retaining workers) and other parts of the private sector, with simplified administrative processes to facilitate and expedite access of those in need to the different services and funds provided.

Furthermore, female participation in the workplace is and will continue to be negatively impacted as many women grow more concerned for their and their families' safety. Therefore, governmental responses need to pay particular attention to women, including migrant domestic workers and those in self-employment, informal jobs and other precarious forms of work. Investments in infrastructure and public care services can also support women's employment and help redistribute unpaid care work while freeing women's time.

Youth need to participate in the design and implementation of the response strategy to ensure that their needs and concerns are properly addressed. Targeted measures to support youth employment are key while online training and education should be prioritized to mitigate the risks associated with skills development and education disruption.

In addition to online education, promoting online vocational and skills training is crucial, as workers

[1] ILO, 2020b.

become in dire need to reskill in order to be able to take up new jobs as economies ease their lockdown measures and businesses gradually reopen. These training programmes should also target vulnerable groups, including migrants and refugees, who are at a greater risk of losing their jobs and incomes. Recently, ESCWA, in collaboration with respective ministries, was successful in initiating an online training free of charge for 25,000 Lebanese citizens from all Lebanese governorates. Online courses were held by faculties from an international university in multiple areas of expertise.

As the Arab region has witnessed an increase in informality, poverty and inequality levels over the past decade, driven by multiple factors, including recessions, conflicts and wars, the provision of targeted support becomes even more critical. As noted in a recent paper by ESCWA, the regional poverty level is estimated to have increased significantly since 2019, with an addition of 16 million expected to fall into poverty using national definitions.[2] The outlook is even more grim in conflict-torn countries such as Iraq, Libya, the Syrian Arab Republic, and Yemen, in which poverty levels are projected to have exceeded 75 per cent. Consequently, Government policies to create additional employment in the short term to fight poverty and inequality become pivotal. Two policy options that showed success in various countries suffering from high poverty rates are employment guarantee schemes and employment intensive investment programmes.

Employment guarantee schemes are public work programmes that have been used to provide households with additional income during drought and other natural disasters especially in rural areas. If designed well, public works can allow productivity, work quality, working standards, and the quality of the works to be maintained and low-waged workers to continue to earn a livelihood. Investments in infrastructure can help promote social and economic development, increase agricultural productivity, provide care work, support education and health, and address environmental and climate-related challenges, offering a multifaceted solution, including, but not limited to, decent employment creation. Public investments can contribute to the development of needed public infrastructure while supporting the livelihoods of individuals, especially the working poor, through wage employment, thereby boosting consumption and investment.

Further to the above suggested response measures and policies, the United Nations Policy Brief on the World of Work and COVID-19[3] suggests focusing responses around the following three priority areas, namely:

a. Prioritizing immediate support for at-risk workers, enterprises, jobs and incomes;

b. Ensuring a comprehensive approach to returning to work;

c. Creating decent (formal) and productive jobs for a green, inclusive and resilient recovery.

Priority (a) includes: (i) the extension of social protection coverage and outreach; (ii) employment retention measures; (iii) sustaining business operations, especially MSMEs; (iv) avoiding increasing vulnerabilities through gender-responsive, inclusive, accessible, and targeted measures, based on social dialogue; and (v) immediate rewarding to essential workers who hold the system together, namely, health, sanitation and/or agricultural workers.

Priority (b) consists of policies to address the following: (i) safe and accessible workplaces; (ii) respect for the needs and rights of workers and employers; (iii) taking a holistic approach and sequencing with childcare and schools; (iv) effective testing and tracing; (v) well-designed active labour market policies (ALMPs), including public employment programmes; (vi) capability-building measures for those facing uncertain transitions;

[2] Abu-Ismail, K., 2020. Impact of COVID-19 on Money Metric Poverty in Arab Countries (E/ESCWA/CL2.GPID/2020/TP.10).

[3] United Nations, 2020. Policy Brief: The World of Work and COVID-19.

(vii) flexibility for continuing alternative work modalities for populations at risk; and (viii) looking beyond the short term.

Priority (c) focuses on the following: (i) social protection; (ii) accelerating transition to formality; (iii) job creation through greening economies and investments in nature; (iv) investments in the care economy, or health-care systems; (v) prioritizing skills and jobs for young people; (vi) private-sector policies with a specific focus on MSMEs and public-private partnerships; (vii) leveraging new technologies; (viii) sectoral policies for hard-hit sectors and structural transformation; and (ix) targeting policies for hard-hit groups.

Building on the above three priority areas and ILO's four-pillar policy framework, Arab countries can respond to the crisis without leaving anyone behind. It remains to acknowledge, however, that critical to all of these recommendations is the availability of resources and adequate fiscal space. Countries in the region must review and assess their revenues and expenditures and change the composition of public expenditure to give strategic priority to the much-needed response measures. Coordinated global and regional support for national stimulus packages is also urgently needed.

C. Medium-to long-term measures to address structural issues

The coherent policy recommendations, issued by the United Nations and ILO, to ease economic stress for citizens, businesses and countries are certainly a challenge to implement in the Arab region given current circumstances. However, employment challenges are complex in the region and need to be urgently and properly addressed. The pandemic has only brought pre-existing regional issues to the forefront on a magnified scale.

In response, Arab States need to review their overall policy frameworks in order to not only respond to the current COVID-19-related challenges but also address pre-existing structural labour market challenges. Comprehensive national employment policies (NEPs) need to be developed to address both the demand and supply sides of the labour market and serve as a vehicle for greater policy coherence. Labour market institutions need to be built/enhanced as appropriate along with stronger and more inclusive social protection systems and improved regulatory and legislative frameworks. Arab States need to rethink their current macroeconomic models and support economic diversification. Formalization should also be a priority in the medium-to-longer term given that informal economy workers and enterprises have fewer means to address the repercussions of this pandemic and will thus dive into deeper poverty if no support is provided. Finally, these medium- to longer-term objectives should be pursued through tripartite social dialogue, with greater participation of informal economy workers and enterprises, women and youth and should be guided by relevant international labour standards.

Building on the above, the following sections detail demand- and supply-side policy recommendations aimed at addressing the region's long-lasting structural labour market challenges with particular focus on private-sector development.

1. Developing proactive and comprehensive national employment policies

While some measures have proved to be efficient and effective in addressing a number of employment problems in the region, solving the unemployment and decent work deficits requires a broader approach that looks into various issues, from both supply- and demand-side perspectives. That said, a comprehensive approach to employment policies is urgently needed in the Arab States. Such policies, comprising macroeconomic, sectoral and structural policies

as well as labour market policies and institutions, offer a practical framework for tackling the multidimensional labour market challenges faced by the Arab States, including the inefficiency of the private sector and its limited potential and capacity to create decent jobs.

An open and broad-based NEP process, built around extensive dialogue at all levels, with workers' and employers' organizations, different line ministries and agencies, and other key stakeholders, is essential to ensure increased commitment, accountability, inclusiveness, and success. NEPs should most importantly build upon evidence and an objective assessment of national contexts and should tackle several policy areas in a coherent manner. That said, labour market information and statistics are prerequisites for NEP development while, at the same time, mechanisms for coherence and coordination, such as inter-ministerial tripartite committees, should be established to ensure development of effective NEPs.

2. Rethinking macroeconomic policies and promoting private-sector development

Macroeconomic policies play a crucial role in generating decent work opportunities, which is a main challenge facing all countries in the region. However, such policies need to be carefully designed to be able to encourage decent employment creation, productivity and inclusive growth. A widely held conviction is that downsizing the public sector within a framework of fiscal consolidation should be at the core of any policy agenda that promotes private enterprises as engines of growth and employment creation. Typically, such a view is justified by comparing public-sector employment and the wage bill in Arab countries with international benchmarks. This is certainly useful, but there are analytical flaws and, in some cases, country-specific statistical anomalies that should raise doubts of uncritically embracing the notion that a reduced public sector will produce a robust private sector. A more careful analysis using the notion of an "optimal" size of government, and a more careful comparison of the so-called wage premium enjoyed by the public sector, might yield surprisingly different conclusions, as it seems to have done in the cases of Egypt and Jordan.

The specific debate on the size of the public sector has become unmoored from the findings of enterprise surveys, which do not regard a large bureaucracy in the Arab region as a major impediment to private-sector growth. Of course, concerns about inefficient bureaucracy abound in executive opinion surveys of the World Economic Forum (WEF), but whether the best way to attack bureaucratic inefficiencies is to engage in large-scale public-sector downsizing is by no means obvious. One should realize that the public sector supports the private sector through various means. Hence, it is better to reimagine the debate in terms of identifying public-private synergies. For example, well-designed transparent procurement policies can be used to contract small businesses to deliver certain public services, including cleaning and property maintenance. This is an important link to the private sector because public procurement can be as high as 13 per cent of GDP based on estimates by the Organisation for Economic Co-operation and Development (OECD).[4] Public-private partnerships are also means to promote growth and employment creation, making use of capacities and resources of both public and private sectors.

The agenda of employment creation in the formal private sector should further be linked to the broader issue of structural transformation. Of course, the very act of transferring resources from the public to the private sector is an example of structural transformation, but this report moves beyond that and reflects on the role of industrial and sectoral policies, and that of pro-employment macroeconomic policies more generally, in promoting and sustaining priority sectors and

[4] Organisation for Economic Co-operation and Development (OECD), 2016. Stocktaking Report on MENA Public Procurement Systems.

industries and supporting decent and inclusive employment creation in the private sector. These policies not only need to focus on price and macroeconomic stability but should also target strong and sustainable employment generation.

(a) Fiscal policy

A well-known approach to fiscal policy is that the primary obligation of the Government is to contain debts and deficits in the long run within predetermined targets. Theoretically, this could represent a contrast from traditional Keynesian models, in which the primary issue is to design effective counter-cyclical fiscal policies to smooth business cycles. This focus on debt and deficit management also represents a contrast from traditional models of development finance in which the primary role of the Government in low- and middle-income economies is to engage in a sustainable resource mobilization strategy to support core development goals.

Internationally recognized benchmarks that guide fiscal policy include recommendations that the fiscal deficit should not exceed 3 to 5 per cent of GDP and public debt -o-GDP ratios should not exceed 60 per cent of GDP. This debt-to-GDP ratio worked in many countries, yet some countries failed to have a sustainable debt even with a deficit at 3 per cent or a debt-to-GDP ratio at 60 per cent. These anecdotes make any debt ratios and budget-deficit thresholds questionable and subject to more scrutiny as many factors might play a key role in determining debt sustainability.

Recently, there has been an increasing tendency across different parts of the world to use fiscal rules to reinforce the debt, and deficit, limiting the role of fiscal policy. An evaluation by the International Monetary Fund (IMF), using data for the 1985-2017 period, suggests that there are 96 countries that have adopted two or more fiscal rules pertaining to limits on various budgetary aggregates. There are also several countries that have instituted independent fiscal councils to oversee and monitor the implementation of fiscal rules.

The typical rationale for using fiscal policy for long-term control of debts and deficits is that such a role enhances the credibility of the Government in terms of maintaining macroeconomic stability. This, in turn, is expected to foster market confidence and, thus, promote private-sector growth and employment creation. Hence, fiscal policy is seen as a key instrument to support private-sector development.

The key question is whether fiscal consolidation will spur private-sector growth in the long term, especially given the contractionary consequences of such fiscal action. An optimistic view is that the confidence-boosting effects of fiscal consolidation might more than offset the short-term contractionary consequences. Underlying this optimistic assessment is the implicit assumption that fiscal multipliers are low or even insignificant in many countries in the Arab world. At the very least, this optimistic view maintains that the contractionary consequences of fiscal consolidation are so mild that they can be easily offset by the growth-promoting impulses of structural reforms, such as improved business climate and enhanced labour market flexibility. Evidence from Egypt and oil-importing countries of the region shows that these fiscal multipliers are indeed low,[5,6] but following the recent economic history of Arab economies, there is much to be debated on the long-term growth impact of liberal reforms.

It must also be remembered that fiscal consolidation in the Arab world has been juxtaposed with tight monetary and financial conditions with adverse implications for aggregate demand. As a result, there is no scope within the conventional macroeconomic stabilization package to spur growth unless it is assumed that

[5] Alnashar, S.B., 2017. Egypt's Government Spending Multiplier: Its Size and Determinants. Economic Research Forum Working Paper No. 1165.

[6] Cerisola, M.D. and others, 2015. Assessing the impact of fiscal shocks on output in MENAP countries. IMF.

structural reforms alone will offer an escape route. Not surprisingly, IMF and others recommend fiscal consolidation that is growth-friendly and equitable. This means using the fiscal savings released by containing current expenditure to support investment in infrastructure, health, education, and social protection.

There is a strong case for going back to the traditional tenets of development finance to guide fiscal policy. This means identifying spending gaps and financing needs based on a clear articulation of core development goals. Financing needs for the attainment of SDGs in emerging economies amount to approximately 4 per cent of GDP, but for low-income economies, this could be as high as 15 per cent of GDP, a relevant number for poorer parts of the Arab region.[7] How these spending gaps can be met on a sustainable basis should be the core priority of fiscal policy. This would mean striking the right combination of revenue mobilization, reallocation of expenditure, prudent borrowing, and external funding. Simply undertaking fiscal consolidation to meet debt and deficit targets by compressing public expenditure will yield a lot of pain without any measurable gain.

It remains to acknowledge that fiscal tools that explicitly target employment creation, including spending on active and passive labour-market policies, are key and yield better results than those that take it for granted that employment creation will automatically follow.

(b) Monetary policy for SMEs

The role of monetary policy in supporting private-sector development derives from the general principle that macroeconomic stability is an essential element of a growth- and employment-friendly business environment. While fiscal policy

is given the task of maintaining macroeconomic stability by targeting debts and deficits, monetary policy conducted by an independent central bank should focus primarily or exclusively on maintaining price stability. In operational terms, it often takes the form of maintaining low single-digit inflation. The convention is to target an inflation rate of 2 to 3 per cent for developed countries. Monetary authorities in developing and emerging economies should aim for an inflation rate below 5 per cent.

Pertinent literature has shown that, when price stability prevails, it also coincides with full employment. Hence, the private sector at this point is fully utilizing all available resources. This is the hypothesis of the so-called non-accelerating inflation rate of unemployment (NAIRU). Given that NAIRU is not readily observable, a low single-digit inflation rate can be used as a suitable proxy. Maintaining low, single-digit inflation over the medium term is, thus, the best way to maintain conditions of full employment and, hence, support the private sector.

A parallel literature has examined the so-called growth-inflation trade-off. The idea is that there is a non-linear relationship between growth and inflation, with growth rising at moderate inflation rates, but beyond a certain point, higher inflation is associated with a lower growth rate. This allows to identify the threshold inflation rate. A key finding from the literature is that the threshold rate is around the 1 to 3 per cent mark for developed countries, but it is in the 6 to 12 per cent range for developing and emerging economies according to one study, just over 5 per cent according to another, and 8 per cent in yet another.[8] The implication is that aiming for low single-digit inflation for the developing world in a way that mimics the developed country standard is not necessarily conducive to growth and employment. Setting an appropriate inflation target really needs reliable and regular estimates of a threshold rate that is rooted in country-specific circumstances.

[7] Gaspar, V. and others, 2019. Fiscal Policy and Development: Human, Social, and Physical Investments for the SDGs, IMF Staff Discussion Note 19/03.

[8] Aydin, C., Ö. Esen and M. Bayrak, 2016. Inflation and Economic Growth: A Dynamic Panel Threshold Analysis for Turkish Republics in Transition Process. *Procedia – Social and Behavioral Sciences*, vol. 229, pp. 196-205.

These academic debates have implications for monetary policy in the Arab region. One analyst raised the question which level of inflation the central banks of Arab countries should aim for. The answer should be derived from the literature on the growth inflation trade-off.[9] The long-run inflation rate (from 1980 with projections to 2024) for the region as a whole is 9 per cent, but it would be prudent to aim a little lower, given the findings of a threshold rate noted above. There is also the central issue of designing and implementing a monetary policy framework that best supports a given inflation target. Inflation targeting regimes, guided by low single-digit inflation, have turned out to be highly influential. The policy rate is used in a countercyclical manner to maintain the target inflation rate over the business cycle. But could that be possible in the Arab world, especially since many countries have a pegged exchange rate and many others are in conflict?

A more rigorous econometric investigation by ESCWA corroborates this finding. The evaluation is extended to explore the comparative performance of pegged exchange rate regimes with more flexible arrangements.[10] The evidence is mixed, with pegged exchange rate regimes in Arab countries doing better than their flexible counterparts in some respects, including lower inflation, higher investment ratios, significantly better current account performance, slightly better growth, but higher unemployment. It may well be that "small and open developing economies are better served by a fixed exchange rate",[11] as fixed exchange rates allow more policy certainty in terms of macro variables, especially during high levels of political uncertainties. The key challenge is to ensure that a commitment to the exchange

rate as a nominal anchor does not impose a burden on the private sector through sustained episodes of real appreciation. Furthermore, even if a country seeks to move towards a floating currency regime, as Egypt did in 2016, the transition should be gradual and preceded by appropriate institutional reforms. Otherwise, the adjustment costs might be too high.

The discourse on the appropriate monetary policy/exchange rate mix perhaps assigns too much weight to the role that the exchange rate can play in enabling the private sector to engage in job creation in import-competing and export-promoting activities. The exchange rate certainly matters, but there are multiple factors that matter too in boosting trade performance in the Arab region. These include greater rationalization of tariffs and non-tariff barriers, investment in trade facilitation infrastructure, improved governance, and a talent pool that can support economic diversification. The handicap imposed on Arab countries because of the insufficient presence of these enabling factors cannot be fully compensated by even a well-managed exchange rate regime.

Finally, discussion of the appropriate monetary policy/exchange rate mix needs to go beyond a focus on macro variables and explore the extent to which monetary authorities can eliminate, or at least attenuate, binding constraints on the private sector, as revealed in enterprise surveys and the opinions of key informants from the business community. As noted, lack of access to finance is holding back enterprises in reaching their full potential. Enhancing financial access, or what is now known as financial inclusion, falls within the domain and mandate of monetary authorities. A discussion of this topic ensues in the following section.

In a pro-employment macroeconomic policy framework, targeting a single digit inflation rate is not enough. On the contrary, Governments need to develop their monetary policy in a way that supports SMEs and encourages investments,

[9] Khan, M., 2013. Is Inflation Hurting Growth in the Arab Transition Countries? *Atlantic Council* (March 12).

[10] ESCWA, 2018. *Survey of Economic and Social Developments in the Arab Region 2017-2018* (ESCWA/EDID/2018/1).

[11] Browne, C. and others, 1998. Fixed or Flexible? Getting the Exchange Rate Right in the 1990s. *Economic Issues*, No. 13. International Monetary Fund.

amongst others. This could not be done without facilitating concessional financing targeted to SME's, mainly to help them enhance productivity and grow in their number of employees' overtime.

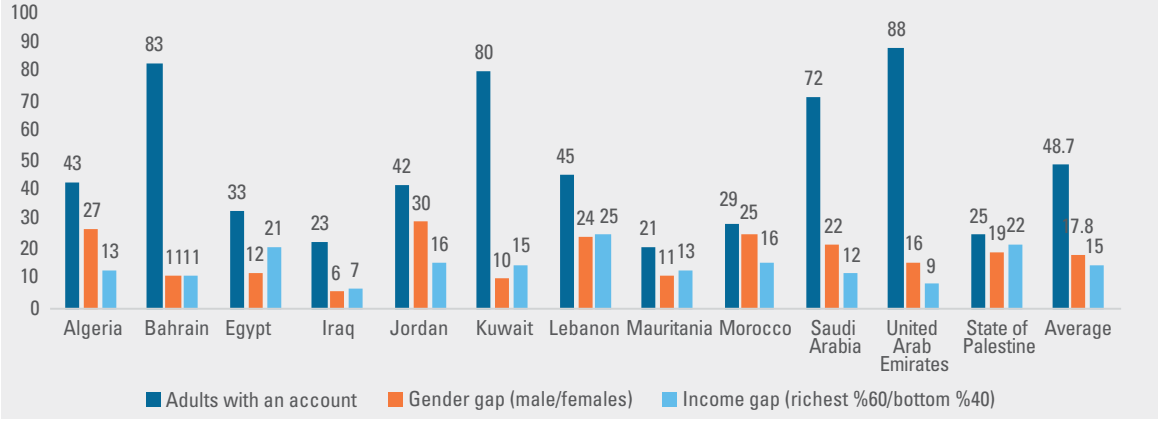
(c) Financial inclusion

Financial inclusion entails encouraging broader usage of bank accounts with formal financial institutions. Both theory and evidence suggest that financial inclusion can facilitate development.[12] One of the core indicators of financial inclusion is the level of ownership of bank accounts. This is the foundation upon which other elements of formal financial services, namely, digital payments, savings and credit instruments, and mobile phone banking, can be built. Globally, 69 per cent of adults (as of 2017) have a bank account.[13] Understandably, there is a big gap in account ownership rates between developed and developing countries, 94 per cent versus 63 per cent, respectively. There is also a significant gap within countries along income and gender dimensions.

Enhanced access for individuals, households and firms to the formal financial system contributes to poverty reduction by facilitating investments in health, education and business. It fortifies the capacity of individuals and households to cope with financial emergencies, such as job losses and crop failures. Digitalization of payments has also shown to reduce the incidence of fraudulent financial transactions.

How does the Arab region compare with the rest of the world in terms of bank account ownership? Figure 40 shows that the (unweighted) regional average is approximately 49 per cent, with a wide intraregional variation. The high-income GCC countries have account ownership rates that range from 72 per cent (Saudi Arabia) to 88 per cent (Qatar). For the non-GCC countries, ownership rates range from 21 per cent (Mauritania) to 43 per cent (Algeria). The gender and income divides in account ownership rates are quite significant in several Arab countries, such as Algeria, Jordan, Lebanon, and Morocco. Hence, the non-GCC countries lag well behind the developing country norm (63 per cent). There is considerable scope in the Arab region for increasing the degree of financial inclusion and reducing disparities along gender and income dimensions. If accomplished, this is likely to boost growth and employment, especially if SMEs become the beneficiaries of financial inclusion.

Figure 40. Bank account ownership in Arab States, 2017 (percentage)



Source: Extracted from Demirguc-Kunt, A. and others, 2018.

[12] World Bank, 2018a. Gains in Financial Inclusion, Gains for a Sustainable World.

[13] Center for Financial Inclusion, 2018. New Global Findex: 69 Percent of Global Population Is Banked.

Financial inclusion cannot only be studied from the perspective of individuals and households, but also from the perspective of firms. A firm-level analysis of financial inclusion is important given that the focus of this paper is on the drivers of private-sector development. As noted at a previous juncture, lack of access to finance is often regarded as a major constraint on business, especially SMEs.[14] Hence, if access to finance can be enhanced, it will boost the role of SMEs in creating jobs, diversifying economies and supporting growth. This is important because, in the Middle East and North African (MENA) region, SMEs account for 96 per cent of all firms in the formal sector and employ about 50 per cent of the workforce.

An econometric investigation, using pooled data for the MENA region, including Afghanistan, Pakistan and the Central Asian region, suggests that the level of economic development (using per capita income as a proxy), credit information availability for small firms (as measured by coverage of credit registries), the quality of governance (as indicated by control of corruption), the degree of economic competition (share of small firms in the private sector) and the quality of the business environment are key determinants of the financial inclusion of SMEs. The same investigation also shows that, if the financial inclusion gap in the region (as measured by the difference between the region and the best performing countries) can be eliminated, growth could, in some cases, be boosted by up to 1 per cent, potentially leading to about 16 million new jobs by 2025.[15]

What would an appropriate financial inclusion strategy look like? The central bank, in consultation with all pertinent stakeholders, cutting across Government ministries, the private sector, civil society associations and international organizations, should lead a national financial inclusion strategy (NFIS). A World Bank evaluation suggests that key success factors for an NFIS entail the following: sustained engagement with all relevant stakeholders; investment in data and diagnostics work; identification of national champions; clear articulation of objectives and targets; prioritization of actions; establishment of efficient and inclusive governance structures; mobilization of resources to support the launch of the NFIS; a clear communications strategy; flexibility to adapt the NFIS to changing economic circumstances; and a well-resourced and robust monitoring and evaluation system to track implementation progress.[16]

In the Arab region, Jordan was the first country to develop an NFIS.[17] The Central Bank of Jordan developed the NFIS in alignment with the SDGs together with the Government, the private sector, civil society, and other key stakeholders. The aim to enhance financial inclusion in Jordan, which currently is a laggard based on international comparators, includes a focus on SMEs, women, other vulnerable groups (most notably refugees), microfinance, digital financial services, financial literacy, consumer protection, and consolidation of credit bureaus, which should be able to assess the credit ratings of SME borrowers. Other countries in the Arab region will hopefully learn from the experience of Jordan that financial inclusion must be a core part of the agenda of private-sector development.

(d) Pro-employment sectoral and industrial policies for improved diversification efforts

Promoting the creation of decent employment through a strategy of private-sector growth requires a set of policies aimed at improving the quality and quantity of jobs created in this sector.

[14] SMEs are defined as those employing less than 100 workers. Small firms are defined as those employing less than 20 workers.

[15] International Monetary Fund (IMF), 2019. Financial inclusion of small and medium-sized enterprises in the Middle East and Central Asia. Middle East and Central Asia Department. Departmental Paper No.19/02.

[16] World Bank, 2018b. Developing and Operationalizing a National Financial Inclusion Strategy, Executive summary (June), p. 2.

[17] Alliance for Financial Inclusion (Afi), 2017. Jordan launches NFIS, first in the Arab region (December 4).

Further to the labour and social policies which are discussed in detail in this chapter, clear employment targeting of macroeconomic policies and the investment in priority sectors that are most capable of generating decent employment opportunities are key.

More particularly, economic diversification that promotes productive employment should be prioritized. Up to date, employment and economic growth in the Arab region continue to be concentrated in a number of low-productivity informal sectors. Structural transformation can instead be achieved through well thought-out industrial and sectoral policies that identify priority sectors with high potential for growth and decent job creation as those that have been identified in chapters 2 and 3. These policies aim to ultimately change the structures of the region's economies and move towards high-value added sectors with high-productivity and great employment growth potential.

To sum up, private-sector policy design should focus not only on country-specific factors but also on sector-specific conditions, without generalizing a policy approach as different countries have different initial conditions and resources as well as diverse levels of sectoral development and growth along with varying overall socioeconomic conditions. As shown in a recent ESCWA paper which applied a computable general equilibrium model to test the viability of a long-term structural transformation scenario of the Egyptian economy,[18] achieving long-term favourable and synergistic productivity, employment and growth outcomes is possible, provided the following:

- First, for a more effective innovative process, Governments should make appropriate interventions with rule-based policy discipline.[19] To promote diversification and advancement, developed nations use several support methods, including encouraging patent systems and large public procurements, investing in R&D and new infrastructure and boosting educational institutions and private enterprises, amongst others;

- Second, Governments should exert more efforts to encourage FDI and private investments in sectors such as manufacturing and services, which contribute the most to the economy and have high export-growth potential. Preferential credit schemes, tax exemptions and/or concessional long-term land lease agreements as well as partnership agreements with other countries (China specifically) are ways to achieve this. However, a coordinated trade and industrial policy strategy is required to guarantee that such methods are in line with the policies of trade agreements, including with the World Trade Organization. To add, non-traditional commodity exports are increasing. Even though their present contribution to the trade balance and to growth is low, they have a significant positive outlook;

- Third, Arab countries should use their public funds more effectively. Export-focused SME projects should be paired with investments in capacity-building in innovative sectors and in renewable energy and water security, particularly in green economy developments. This can raise the profitability of public investments, alleviate poverty and reduce scarcity of two major resources. The economy can be positively impacted in the long term, with an increased efficiency and crowding-in of public and private investments if the above projects are performed simultaneously with additional governance improvements and a fair taxation policy.

[18] ESCWA, 2019a. Egypt: From Stabilization to a Knowledge-based Economy: A Computable General Equilibrium Modelling Approach (E/ESCWA/EDID/2019/WP.2).

[19] According to Hausmann and Rodrik, interventions tend to create market distortions. By imposing policy disciplines, such as encouraging investment in the modern sector beforehand, and by rationalizing production afterwards, Governments can counteract possible distortions. See Hausmann, R. and D. Rodrik, 2003. Economic development as self-discovery. *Journal of Development Economics*, vol. 72, Issue 2, pp. 603-633.

In summary, Arab Governments need to rethink their current economic policies and target the employment of skilled labour along with the generation of more inclusive growth.

3. Labour and social policies to support the private sector: responding to the dual challenge of creating jobs and reducing decent work deficits

The agenda of private-sector growth and employment in the Arab countries includes both quantitative and qualitative dimensions. A previous discussion noted the scale of the employment challenge in the Arab world, namely, the need to create well over 100 million jobs by 2030. This challenge is compounded by the fact that the jobs agenda in the Arab region must cope with large-scale decent work deficits, not just in conflict-affected countries but also in more "normal" nations. This pertains to the high youth unemployment rate and the number of youth not in education, employment or training (NEET), in addition to high overall unemployment, deeply entrenched gender disparities (particularly in the sphere of employment and labour force participation), extensive presence of both income and non-income dimensions of poverty in many Arab countries (especially among the LDCs), persistence of informality, inadequate social protection coverage, heavy reliance among the oil-rich and affluent Gulf States on low-skilled and low-wage migrant labour, and unsatisfactory education and learning outcomes leading to significant skills mismatches.

(a) Formalization and expansion of social protection

Closely linked to the issue of private-sector development is the issue of formalization. The transition from the informal to the formal sector, along with broader efforts to support decent employment creation in the private sector, can complement the above-mentioned approaches of structural transformation and economic diversification, especially in countries where nationals continue to prefer working in the public sector because of the better working conditions that the latter offers. More particularly, Arab States need to develop an integrated framework that aims to address the various decent work deficits based on a proper assessment of their national contexts.

Against this backdrop, expanding social protection coverage becomes key to providing adequate protection from rising poverty and vulnerability in the region and to fulfilling the fundamental human right to social security. Up until now, most social insurance schemes in the Arab region cover only public- and private-sector workers with regular contracts, while other categories of workers, such as those operating in the informal economy, are excluded. Furthermore, most Arab States offer subsidies on goods, notably for fuel and food, without sufficiently benefiting the most vulnerable groups of the population.

That said, Arab States should first and foremost consider the implementation of national social protection floors to provide basic social security guarantees, including at least the following:

- Access to essential health care, including maternity care;
- Basic income security for children, providing access to nutrition, education, care, and any other necessary goods and services;
- Basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity, and disability;
- Basic income security for older persons.[20]

Progressive achievement of higher levels of protection should also be pursued within a comprehensive social protection framework and comprehensive social security systems. Further emphasis is also placed on the need for adequate social protection coverage as non-standard forms

[20] ILO (n.d.). Social Security in the Arab States.

of employment, including in the gig and platform economy, become increasingly important in the current and future labour markets, necessitating adoption of innovative regulations and mechanisms to protect all workers and individuals.

(b) Review of labour regulations and minimum wage policies

Excessively onerous labour regulations are an obstacle to business operations, and there is a case for amending labour legislation in a nuanced and targeted manner while ensuring the implementation and enforcement of applicable legislation. Additional employment creation requires revising labour regulations to support inclusiveness and fairness in the labour market and accommodate more workers, including women. In this regard, labour regulations could be made more gender-friendly in order to reduce gender disparities. Generous redundancy packages that impose a burden on firms could be reduced and offset by a well-designed and incentive-compatible unemployment benefits scheme. Minimum wages could be applied in countries where they are either limited to the public sector or restricted to nationals.[21]

The approach adopted here is to focus on the notion of labour market inclusion and how appropriate policies that cut across labour regulations, social protection, education, and training, including active labour market policies, can attenuate decent work deficits, thus boosting the quality of employment in the Arab region. For instance, a well-established method of assessing the strictness of labour regulations is to make use of the OECD's Employment Protection Legislation (EPL) Index, which considers legislative protection pertaining to permanent workers as well as restrictions on temporary employment. The higher the value of EPL (range 0-6), the greater the restrictive nature of labour regulations. Saudi Arabia and Tunisia generally lie below global benchmarks. Hence, in these countries, labour regulations do not appear to be stricter than international norms. Nevertheless, as previous discussion has noted, labour regulations are perceived by the business community in the Arab region to be a constraint on business operations. Here, the question arises from a purely economic perspective as to whether widespread liberalizing of labour markets, including, for instance, the removal of obligations to pay minimum wages, would boost employment in the private sector.

Starting with minimum wages, they exist in many Arab countries, but often only for the public sector or only for nationals (Bahrain, the United Arab Emirates, Saudi Arabia are good examples). One could raise the question whether there a case for using minimum wages as a general labour policy instrument rather than limiting it to the public sector or nationals of a country. The standard rebuttal is that minimum wages applied across the board will create disincentives for private-sector employment. However, the employment effects of minimum wages have been intensively studied and a rigorous meta-analysis shows that minimum wages have had little detectable impact on employment. While more vulnerable groups appear to be more adversely affected by minimum wage rises, the effects tend to be small on average.[22] The evidence suggests that a well-managed minimum wage policy through statutory minimum rates or collectively bargained wage floors can be effective at improving the wages of low-paid workers without any negative effects on employment rates.

Of course, minimum wage policies need to be combined with complementary measures, such as education and skills policies and ALMPs, to tackle the problem of low-wage employment. Nevertheless, the Enterprise Survey evaluation, combined with the meta-analysis of the minimum wage-employment nexus in emerging economies, are highly relevant to the case of those Arab

[21] WEF and World Bank, 2018. *Arab World Competitiveness Report 2018*.

[22] Broecke, S., A. Forti and M. Vandeweyer, 2017. The effect of minimum wages on employment in emerging economies: A survey and meta-analysis. *Oxford Development Studies*, vol. 45, Issue 3, pp. 366-391.

countries in which there is significant incidence of low pay and working poverty. A reduction in working poverty, while desirable, can also boost aggregate demand by enlarging the size of the domestic market and becoming a new source of job creation.

An unemployment benefits scheme, which would lead to a reform of redundancy packages and shift the financial burden of unemployment benefits from enterprises to the Government, might not be well received in a region struggling with fiscal consolidation. However, it remains desirable and may be justified by the argumentation that budgetary savings engendered by general fiscal reforms should be used to support labour market policies that have a direct bearing on the welfare of workers, while reducing the burden on job-creating enterprises.

Labour regulations in the Arab countries are also not gender-friendly. This is particularly important given the large gender disparities in the labour market. Examples include bans on night work for women (except for the health sector), moderate provisions for maternity leave and a paucity of provisions for paternity leave. Amending these regulations and combining them with such initiatives as providing on-site childcare facilities might provide an incentive to boost women's employment in the private sector.

(c) Promoting gender equality and women's empowerment

Despite efforts to promote gender equality and non-discrimination in the labour market, Arab women continue to have particularly high unemployment rates coupled with low labour force participation rates. This requires more than simple supply-side interventions, as unemployment is largely due to a lack of demand for high-skilled workers and the inadequate working arrangements in the private sector, which also constitute important factors behind women's discouragement from joining the labour force. In addition, increasing the safety of public transport and improving working conditions for women, including through the provision of childcare and maternity benefits, are essential to attract skilled women into the labour force. However, with the lack of demand for such skills, the root cause of the problem is found to persist. Against this backdrop, Government interventions need to focus on generating such demand, without disregarding the importance of enhancing skills and removing supply-side bottlenecks.

Overall, and building more directly on the findings of chapter 3, improving women's labour market prospects necessitates addressing gender disparities, first by challenging prevalent sociocultural perceptions to allow women's labour mobility and access to the full range of economic sectors, including capital-intensive fields, and, second, by reforming labour laws to encourage female economic participation and employment in the private sector. Labour law reforms, as mentioned earlier, should focus on the provision of maternity benefits, while taking into consideration the financial burden imposed on private-sector employers. Private entities can encourage women's economic participation by establishing their internal maternal and paternal leave schemes. The provision of paternity leave and childcare benefits may help women maintain a work-life balance and attain shared responsibilities within the household and family, as articulated in SDG 5.4. The recent pandemic has also re-emphasized the role of teleworking and remote arrangements as viable work solutions, which would also allow women, as employers or employees, to balance between their work and family responsibilities.

Further to the above, women continue to face critical obstacles in climbing their career ladders. The private sector should enhance its internal pipelines for promotions such that women and men stand an equal chance to attain senior positions. The analysis further shows that promoting female entrepreneurship and leadership could have multiple positive ripple effects, particularly in terms of increasing female employment and career-advancement opportunities, as well as

contributing to overall employment and wealth creation in the aggregate economy.

It is, therefore, necessary to create a suitable business environment and ensure women's financial inclusion to promote growth-oriented entrepreneurship and reap the overall socioeconomic benefits. Financial intermediaries could support female entrepreneurs by providing access to credit so that women-owned firms may grow to their full potential, increase their productivity and create job opportunities. It should be noted that the promotion of businesses run by women complements, but does not substitute, the need to address women's employment across the private sector in its entirety, especially given that women's entrepreneurship is still comparatively low in the Arab region.

(d) Reforming education and training and developing effective active labour-market policies, particularly for the youth

Executive opinion surveys show that a lack of an adequately educated and trained workforce represents a handicap for the private sector, especially in some Arab countries. This reinforces the evidence that students from the Arab region exhibit unsatisfactory learning outcomes, according to international benchmarks. The recently launched Human Capital Index (HCI) of the World Bank, and applied to Arab countries, corroborates this finding. This suggests the need to reform education and training so that students are endowed with the right mix of cognitive and non-cognitive skills to meet the needs of the labour market.

The 2019 Arab Youth Survey corroborates the above findings. Some 75 per cent of young Arabs are unhappy with the quality of their education and more than 50 per cent would like to pursue higher education in the West.[23] As has been noted, enterprise surveys in the Arab region usually show that the lack of adequately trained workers is constraining the capacity of the private sector to expand, although this is not always among the highest concerns of businesses. Perceived skill shortages co-exist with high unemployment among young people. This is, of course, a manifestation of skills mismatches. The standard view is that young graduates in the Arab region are keen to acquire skills that they believe will lead them to secure employment in the public sector and invest in rote learning to compete in examinations designed to screen applicants. Given these salient features of the education and training system, the core elements of a policy agenda can be sketched as follows:

To start with, key weaknesses of the education and training system, namely, low completion rates, especially at the primary level, and unsatisfactory learning outcomes, need to be addressed with a holistic policy package. This would entail overhauling the curriculum, inculcating creative and critical thinking, raising competency in STEM subjects, and investing in teacher training and facilities, together with much greater involvement of business in curricula design and delivery and greater investment in career counselling and guidance. This might require either higher levels of funding for education and training or more efficient use of existing resources, or both. At the very least, such a policy agenda should be supported by a rigorous analysis of spending needs, taking into account the need to alleviate the skills mismatches that hold back private-sector development.

For those in the workforce who are seeking to improve their employability, ALMPs focused on training and job search are pertinent. Developing economies generally spend about 0.50 per cent of GDP on ALMPs. While relevant up-to-date data are not available for Arab countries, it is suspected that these countries are unlikely to spend much more than

[23] ASDA'A BCW, 2019. Arab Youth Survey, p. 8.

the global norm.[24] International experience suggests that jobseekers benefit from in-class technical training combined with work experience acquired through internships and apprenticeships. Training programmes that combine technical skills with non-cognitive skills (reflecting interpersonal attributes) seem to help in enhancing the employability of trainees.

Governments in the region should ensure that there are adequately resourced employment services that rely on both public and private providers. The primary responsibility of these services is to support jobseekers with a full range of services, such as counselling, training, information about job opportunities, and job search assistance. Digitalization of employment services is desirable.

There is the issue of whether Governments in the region should support entrepreneurship training as part of their repertoire of ALMPs, especially given the challenge of creating wage employment through existing firms. This has turned out to be a popular option with the international community, including the ILO, which provides considerable support. Impact evaluations of ALMPs, including entrepreneurship programmes across the world, indicate how effective these proposed interventions have been in the past and are likely to be in the future, both in the Arab region and elsewhere. The appropriate lesson to be learned is that ALMPs have a role to play but must be implemented in conjunction with broader economic and social policies.

D. Conclusion

The Arab region is often prompted towards structural reforms to improve the business climate mainly by reducing the regulatory burden on the private sector within the framework of fiscal consolidation. However, there is a caveat of limitations that can be addressed by labour market inclusion, which bridges labour regulations, social protection, education, and training. Along with ALMPs, these labour market inclusions can attenuate decent work deficits, thus boosting the quality of employment in the region. Nonetheless, labour regulations aimed at enhancing or promoting inclusion and changes to social protection systems are important for reducing formal work deficits. Slow growth, cyclical unemployment, poverty, vulnerability, and informality, along with low female participation in the workplace, the proliferation of conflicts, the COVID-19 pandemic, and the digital disruption associated with the 4th Industrial Revolution have devastatingly fragmented the economic environment. With 75 per cent of young Arabs unhappy with the quality of their education and more than 50 per cent seeking to emigrate to the West,[25] a lack of resolve will only perpetuate an already unhealthy economic environment for young professionals seeking to grow (and further diminish female participation in the workforce).

In the Arab region, fiscal consolidation has been confined by limited monetary and financial conditions. These constraints, combined with adverse implications for aggregate demand, do not grant the necessary conditions for conventional macroeconomic stabilization, economic growth and decent job creation. Furthermore, structural reforms on their own cannot be counted on to solve preexisting structural issues in the region. Employment challenges are both quality- and quantity-related and should therefore be

[24] World Bank, 2019. *MENA Economic Update: Reforms and External Imbalances: The Labor-Productivity Connection in the Middle East and North Africa*, p. 36.

[25] ASDA'A BCW, 2019, p. 8.

addressed using the right mix of policies aimed at creating more and better jobs for all, including for the most vulnerable groups. Unlocking the potential of the private sector in the region to actually drive economic growth and decent employment creation is key, especially with increased pressures on Government budgets to address challenges brought by the recent pandemic and other preceding regional shocks that have impacted employment over the past decade. Only by revisiting the development model followed by Arab countries in a way that allows for enhanced productivity and increased decent work will the region be better positioned to achieve its development goals. Such efforts need to take into account the additional challenges brought by the future of work and the new emerging forms of employment, including, for example, the gig economy, which the COVID-19 pandemic has only accelerated.

Annex

Definition of technical terms

Below is the definition of certain terms based on the ILO Glossary of Statistical Terms1 and the World Bank Enterprise survey.

Capital share: Total rental cost of machinery, vehicles and equipment and total rental cost of land and buildings divided by the total annual sales of the firm in the last fiscal year.

Employment elasticities: Employment growth divided by output growth using the mid-point formula.

Employment growth: The growth in the number of permanent full-time employees between three fiscal years and the last fiscal year before the survey.

Employment: Persons in employment are defined as all those of working age who, during a short reference period, were engaged in any activity to produce goods or provide services for pay or profit. They comprise employed persons "at work", namely those who worked in a job for at least one hour; and employed persons "not at work" due to temporary absence from a job, or to working-time arrangements (such as shift work, flexitime and compensatory leave for overtime).

Labour force participation: The labour force participation rate expresses the labour force as a percentage of the working-age population.

Labour force: The labour force comprises all persons of working age who furnish the supply of labour for the production of goods and services during a specified time-reference period. It refers to the sum of all persons of working age who are employed and those who are unemployed.

Labour productivity: Total annual sales in current dollars divided by total employment in the last fiscal year.

NEET: Youth not in education, employment or training.

Output growth: The growth in sales between three fiscal years and the last fiscal year before the survey.

Process innovations: If a firm introduced new/significantly improved process during the last three years, it is considered to have done process innovations.

Product innovations: If a firm introduced new products/services during the last three years, it is considered to have done product innovations.

Total factor productivity: The difference between total outputs and factor inputs. We use firms' sales for total production, while we use wages, capital replacement of machinery and intermediate goods as production inputs.

Unemployment: Persons in unemployment are defined as all those of working age who were not in employment, carried out activities to seek employment during a specified recent period and were currently available to take up employment given a job opportunity.

Unemployment rate: The unemployment rate expresses the number of unemployed as a percentage of the labour force.

[1] https://ilostat.ilo.org/resources/concepts-and-definitions/glossary/.

Wage share: Total labour cost divided by the total annual sales of the firm in the last fiscal year.

Working-age population: The working-age population is commonly defined as persons aged 15 years and older, although the age limits can vary from country to country.

Calculations of factor shares elasticities and total factor productivity

We use a Cobb-Douglas production function to estimate total factor productivity (TFP). Using the natural logarithm of the following equation:

$$Y_t = A_{it} K_{it}^{\alpha} L_{it}^{\beta} I_{it}^{1-\alpha-\beta}$$

where K_{it} is capital of firm i in country t, $L_{it}$is labour of firm i in country t and I_{it} is intermediate goods of firm i in country t.

This production function theoretically explains which factor inputs determine outputs in manufacturing. For our calculations, we use firms' sales for total production, while we use wages, capital replacement of machinery and intermediate goods as production inputs. TFP is calculated as the difference between total outputs and factor inputs. As a first step, we calculate factor input elasticities through differentiating the following equation over time:

$$lnY_{it} = lnA_{it} + \alpha lnK_{it} + \beta lnL_{it} + (1-\alpha-\beta) lnI_{it}$$

where α, β and $(1-\alpha-\beta)$ are output elasticities to capital, labour and intermediate goods, respectively.

These elasticities are calculated by regressing the log of output on the log of capital, labour and intermediate goods. Predicted output values are calculated for each firm in each country while including country dummies. Following previous work, all monetary values are converted into US dollars and then weighted by the United States 2010 GDP deflator. As mentioned previously, we also excluded outliers beyond 3.0 standard deviations away from the mean to avoid bias. We also dropped countries that have less than 120 manufacturing firms with TFP data. It is worth noting that other research attempts, such as Saliola and Seker2 and the World Bank enterprise note number 23,3 used different regression specifications. However, our results do not deviate in terms of the ordering of factor-input elasticities, while little variation in magnitude was observed compared to their findings. Based on our calculations below, we see that regional capital elasticities are the lowest among other factor inputs due to higher capital intensity relative to labour intensity in manufacturing.

After calculating the elasticities of output-to-factor shares, we calculate TFP A_{it} as follows:

$$lnA_{it} = lnY_{it} - \alpha lnK_{it} - \beta lnL_{it} - (1-\alpha-\beta) lnI_{it}$$

[2] Saliola, F. and M. Seker, 2012. Measuring Total Factor Productivity Using Micro-level Data from Entreprise Surveys.

[3] Saliola, F. and M. Seker, 2011. Total Factor Productivity Across the Developing World. Enterprise Note Series Working Paper 23.

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The working age population in Arab countries is characterized by stagnant labour force participation, high unemployment levels, and limited sustainable and inclusive employment creation. Even before the COVID-19 pandemic, over 14 million Arab individuals were jobless. The pandemic is expected to compound the issue of employment creation even further, putting additional pressure on policymakers to develop more effective strategies in the short run, and strengthen their structural transformation efforts in the medium and long terms.

Since the formal private sector is deemed to be a sustainable employer, the present study examines why this sector's growth and its employment creation potential has been held back in the Arab region. It examines the underlying reasons behind the endemic failure of the formal private sector to grow and generate more jobs, and provides concrete solutions on what can be done to reverse this trend. The study's findings highlight possible economic outcomes that can be more inclusive, and driven by higher productivity, higher employment and better technology use for a more equitable labour market, especially for women and young people.

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