EADS Regional Trends Report on

Middle East and North Africa

August 2014

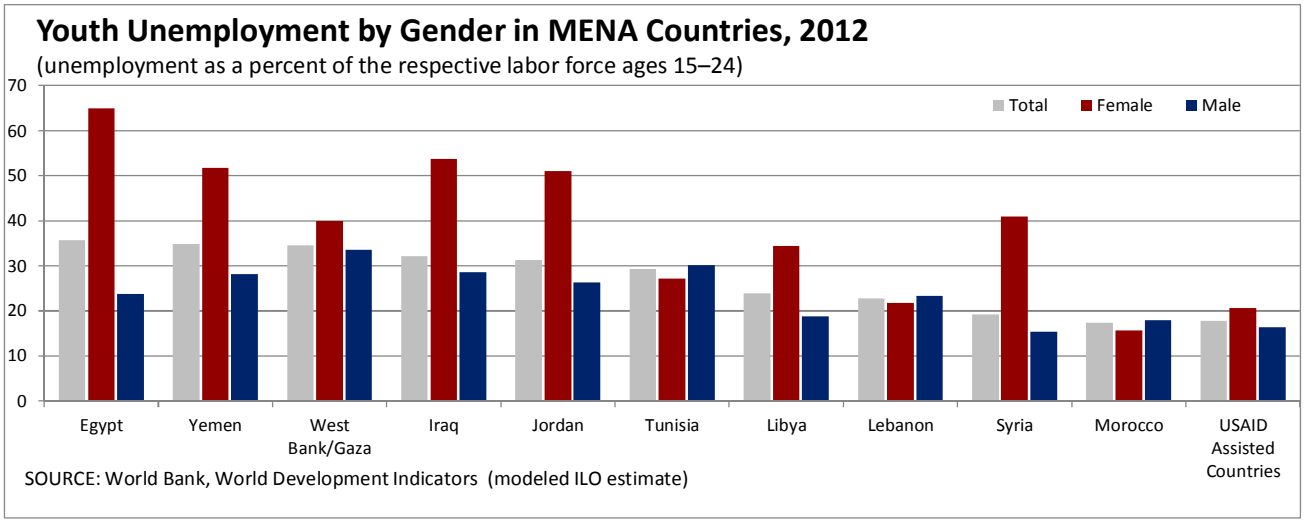
Political transitions and conflict, socioeconomic tensions, and unequal access to economic opportunity are the Middle East and North Africa (MENA) region's current challenges for political and economic transformation. This MENA Trends Report focuses on the following issues: youth unemployment, gender, education, economy, the financial system, and the rule of law. It examines ten Arab countries: Egypt, Iraq, Jordan, Lebanon, Morocco, Libya, Tunisia, West Bank and Gaza, Syria, and Yemen. When comparisons with other regions are made, the focus is on the 121 countries that received at least $2 million in USAID assistance in fiscal year 2012 and are not considered high income countries using World Bank GNI per capita data for 2012.

Youth Unemployment: High Rates, Skills Mismatches, and Labor Regulations

Youth unemployment in the MENA region is the highest in the world at 28.1 percent, compared to 17.8 percent for USAID-assisted countries in 2012. Egypt has the highest rate (35.7 percent), followed by Yemen (34.8 percent), and West Bank and Gaza (34.6 percent). Despite having the lowest young female labor participation rates as percentage of female population ages 15+ at 21.2 percent, the unemployment rate for young women in MENA is the highest (40.2 percent) and almost double the USAID-assisted countries average (20.6 percent). High female youth unemployment rates are mainly caused by social norms and religious practices.

In addition, skill mismatches are a structural labor market problem caused by a failed educational system and the inability of the economy to produce and attract highly skilled jobs. There is a necessity to improve the relevance of education and training to meet the needs of the economy, employers, and learners. A McKinsey Center for Government report, *Education to Employment: Designing a System That Works* describes how the educational system in MENA places little emphasis on problem-solving, group work, and building interactive teaching skills that could develop "soft skills" (team player, communication skills, flexibility, creative thinking, and problem-solving skills).

Also, labor regulations restrict employability in MENA and are a major constraint to the business environment. According to the *Enterprise Surveys* by the World Bank, 20 percent of the firms surveyed perceived labor regulations as major constraints to conduct work in MENA compared to an 11 percent world average. Moreover, most countries in the MENA region are characterized by low productivity growth, large public sectors, fragile private sectors dominated mostly by small enterprises, and high costs of doing business.



Gender: Inequalities in Economic Participation and Legal Rights

The MENA region has the highest gender-based inequalities in the world, scoring 0.57 on Global Gender Gap 2013 by World Economic Forum, while USAID-assisted and middle income countries (MICs) scored the same at 0.67. Both Yemen (0.51) and Syria (0.57) scored below the MENA average, while Morocco (0.58), Egypt (0.59), Lebanon (0.60), and Jordan (0.61) had a slightly better score. The region's economic participation and opportunity index score (0.38) was just over half of the USAID-assisted countries (0.63) and MICs (0.62). However, MENA scored at a similar rate with USAID-assisted countries and MICs on the health and survival subindex. MENA's educational attainment score (0.91) was very similar to USAID-assisted countries (0.91) and slightly lower than MICs (0.94).

According to Mapping the Legal Gender Gap in Getting a Job report by the Women, Business and the Law – World Bank, Lebanon is the only country in the MENA region that doesn't have restrictions on working hours for women. However, all MENA countries have industry restrictions on women. For example, Egyptian law states that the Ministry of Labor can issue regulations on when women can work at night or in jobs considered unwholesome and morally harmful. In Jordan and Syria, husbands can stop providing essentials, including food and clothing, to their wives if they decided to work without getting their permission.

Domestic and international travel is restricted for women in the majority of the MENA region. For example, married women in Yemen cannot travel outside their homes with the same freedoms as married men. To travel internationally, unmarried women require the permission of their fathers, while married women require the permission of their husbands.

Lastly, according to the report by the Women, Business and the Law – World Bank, Jordan, Lebanon, and West Bank and Gaza do not allow married women to convey citizenship to their children. If the fathers are not citizens, their children may not have access to government health insurance and public universities at subsidized rates, or even obtaining residency and work permits. Moreover, none of the MENA countries allow women to convey citizenship to their non-national spouses in the same way as men.

Scores for Global Gender Gap Indexes, 2013

	General Index	Economic Participation and Opportunity	Educational Attainment	Political Empowerment Subindex	Health and Survival Subindex
Yemen	0.51	0.36	0.70	0.02	0.97
Syria	0.57	0.25	0.97	0.07	0.98
MENA Average	0.58	0.38	0.91	0.04	0.97
Morocco	0.58	0.39	0.90	0.07	0.97
Egypt	0.59	0.44	0.92	0.03	0.98
Lebanon	0.60	0.44	0.98	0.01	0.98
Jordan	0.61	0.41	0.99	0.06	0.97
USAID Assisted Average	0.67	0.63	0.91	0.17	0.97
Middle Income Country Average	0.67	0.62	0.94	0.17	0.97

0 = inequality 1 = equality
SOURCE: World Economic Forum, Global Gender Gap

Education: Systems Failures Leave Workers Lacking Foundational Skills

According to *The Arab Youth: Missing Educational Foundations For a Productive Life?,* a report by the Center for Universal Education at Brookings, the educational system needs to play a central role in the MENA region to build foundations for lasting political stability and to promote a transition to democracy. The report provided the following regional overview of the system in the region:

- Many of the out-of-school kids are girls from poor, rural communities often in regions affected by conflict.
- In 2010-11, more youth were dropping out of lower secondary school than in 2001-02.
- Girls are performing better than boys on literacy and numeracy scores on international tests.
- Learning outcomes vary significantly across MENA countries, where two-thirds to ninety percent of primary-age students in Yemen, Morocco, and Tunisia are failing to learn.
- Girls are less likely to enter school than boys, but they are more likely to make the transition from primary to secondary education. However, young adult women are less likely to be employed than are men.
- MENA education data has gaps since only handful of countries measure literacy and numeracy at both the primary and lower secondary levels.
- Lack of appropriate foundational skills contributes to the employment crisis in MENA.

Labor market mismatches in the MENA region are caused by a failed educational system and the inability of the economy to produce highly skilled jobs. MENA produces more graduates in the humanities and social sciences (relatively more appropriate for employment within public sectors) than in science and technology. All participating Arab countries in the Trends in International Mathematics and Science Study (TIMSS) 2011 scored below the international average in mathematics and science for 8th graders. These results show that the educational system in the Arab world is underperforming compared to the rest of the world in these subjects. TIMSS covered the following MENA countries: Jordan, Lebanon, Tunisia, West Bank and Gaza, and Morocco.

A McKinsey Center for Government report, Education to Employment: Designing a System That Works, relates that employers that actively engage with schools and students get more qualified talented workers. Employers place a greater importance on "soft skills" such as work ethic and teamwork above computer literacy. Nevertheless, the McKinsey report describes how the educational systems in MENA places little emphasis on problem-solving, group work, and building interactive teaching skills that could develop soft skills. Firms express significant dissatisfaction in finding workers in the MENA region with acceptable soft skills.

Mathematics Achievement, 2011

Rank out of 42	Country	Score
1	Korea, Rep. of	613
	International Average	**467**
25	Lebanon	449
30	Tunisia	425
35	Jordan	406
36	West Bank and Gaza	404
40	Morocco	371

SOURCE: Institute of Education Sciences.

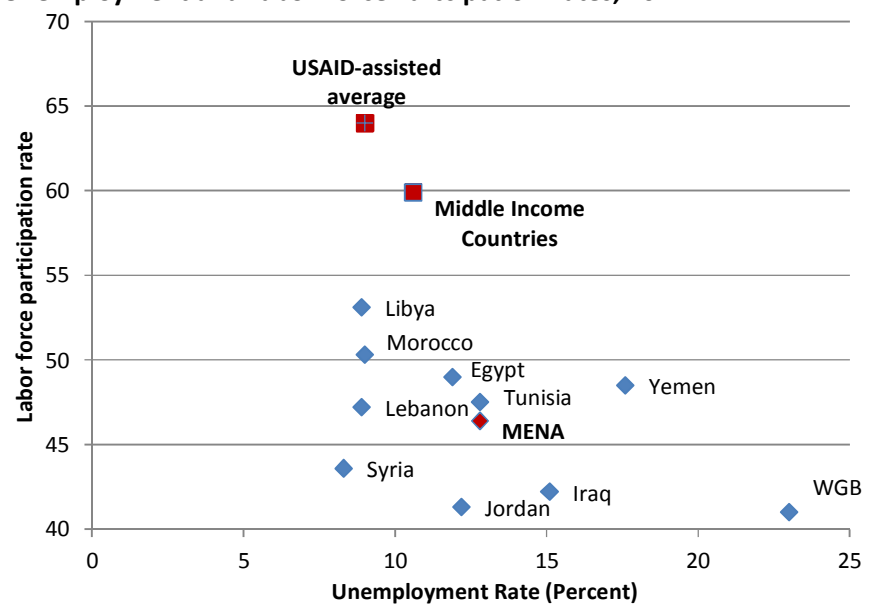
Science Achievement, 2011

Rank out of 42	Country	Score
1	Singapore	590
	International Average	**477**
28	Jordan	449
29	Tunisia	439
34	West Bank and Gaza	420
39	Lebanon	406
41	Morocco	376

SOURCE: Institute of Education Sciences.

Economy: Unstable and Underdeveloped Markets, Inadequate Jobs Growth

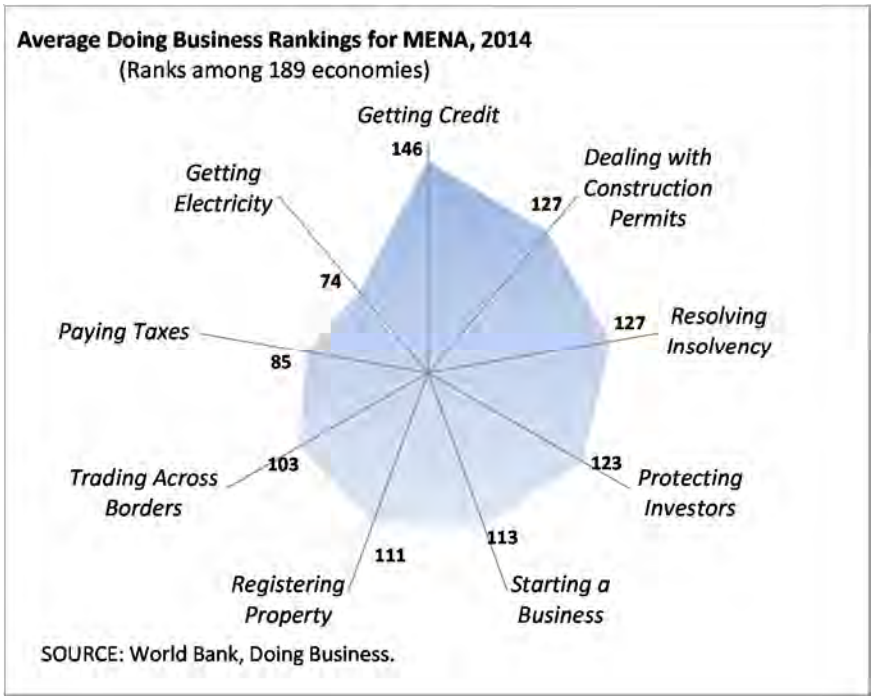
Too few jobs are being created in the MENA region to keep up with demographic pressures, leading to high unemployment and low labor force participation. A growing population suggests that unemployment will remain high in MENA. The unemployment rate in the region (12.8 percent) is higher than the averages for USAID-assisted countries (9.0 percent) and MICs (10.6 percent). Moreover, the labor force participation rate in MENA (46.4 percent) is well below the USAID-assisted countries average (64.0 percent) and MICs (59.9 percent).



SOURCE: World Development Indicators, International Labor Organizations estimate

The MENA region has a challenging business environment and difficulties with the development of its weak private sector. The region's economy is highly unstable, characterized by undeveloped products and factors markets, and lacking in critical infrastructure. Over the last two decades the private sector in the region has failed to transform its countries into diversified high-performing economies. In addition, the region has a limited economic integration with the rest of the world.

The World Bank's 2014 Doing Business average ranking for the countries in the region put the MENA economies at 127th out of 189 countries on the Ease of Doing Business ranking. The three main challenges that face the region are getting credit (146th), dealing with construction permits (127th), and resolving insolvency (127th). Libya ranked the lowest (187th) in MENA on the Ease of Doing Business ranking, mostly because of difficulty in registering property and protecting investors. Tunisia scored the highest in the MENA region (51st), as a result of its regional standing in the following Doing Business indicators: trading across borders (31st), resolving insolvency (39th), protecting investors (52nd), and getting electricity (55th).



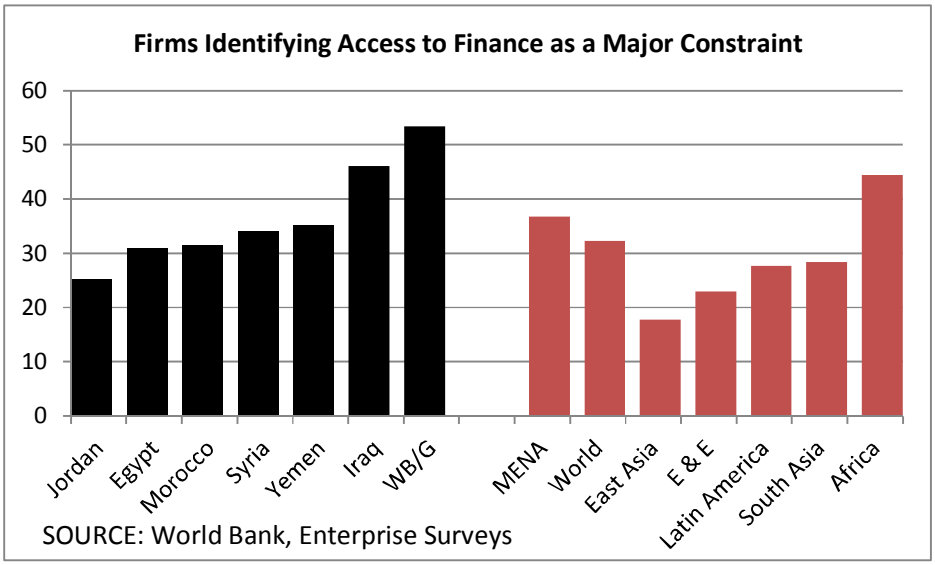
SOURCE: World Bank, Doing Business.

According to *Toward New Horizons – Arab Economic Transformation Amid Political Transitions*, a report by the International Monetary Fund (IMF), economic reforms are needed to revive the economy and boost the private sector in MENA. Reforms will need to be focused around the following areas:

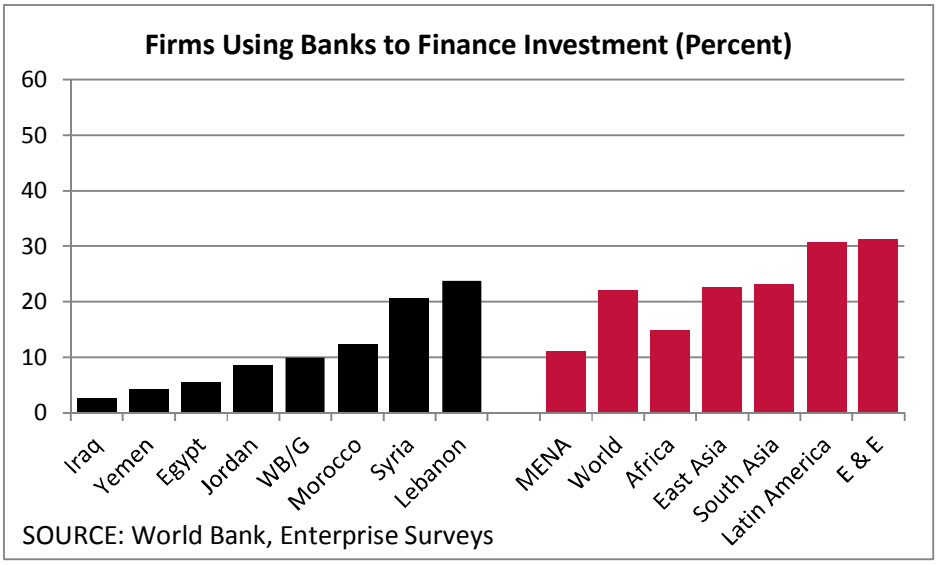
- greater global and regional trade integration,
- business and investment climate reforms to simplify doing business and enhance governance,
- labor market and education system reform to ensure productive employment and generation of human capital, and
- efficient safety nets to protect the poor and vulnerable.

Financial System: Lack of Access Major Issue

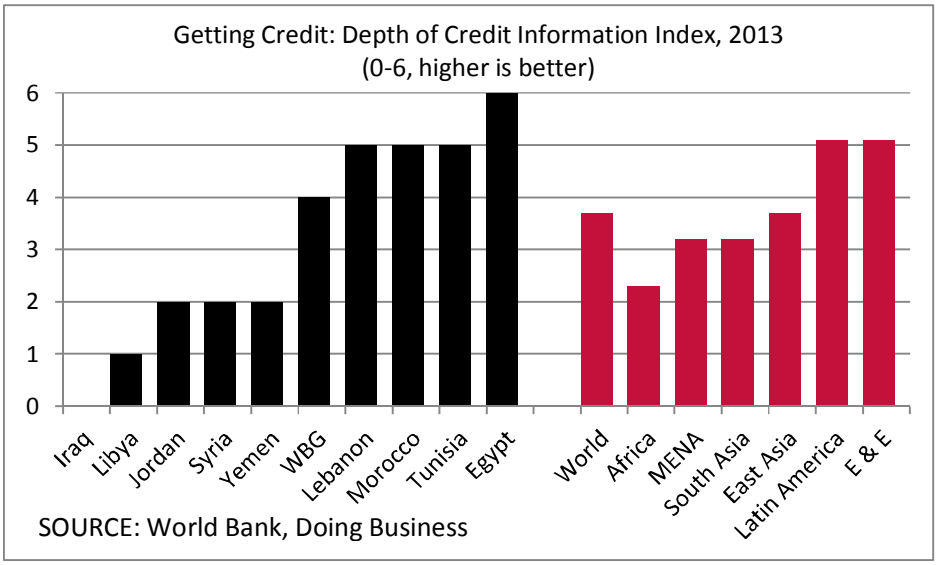
Financial systems in the MENA region are underdeveloped despite sizeable banks, mainly because competition is very limited, with high state ownership, and credit is mainly concentrated in a small and well-connected group of borrowers. However, according to the *Toward New Horizons's* report by the IMF, Arab countries in transition (Egypt, Libya, Tunisia, Yemen, Jordan, and Morocco) compared well with other regions in the world in terms of the size financial intermediation (except for Libya and Yemen). The IMF report also mentions that the average ratio of private sector credit to GDP is higher than in other regions, and bank credit dominates as a source of finance.



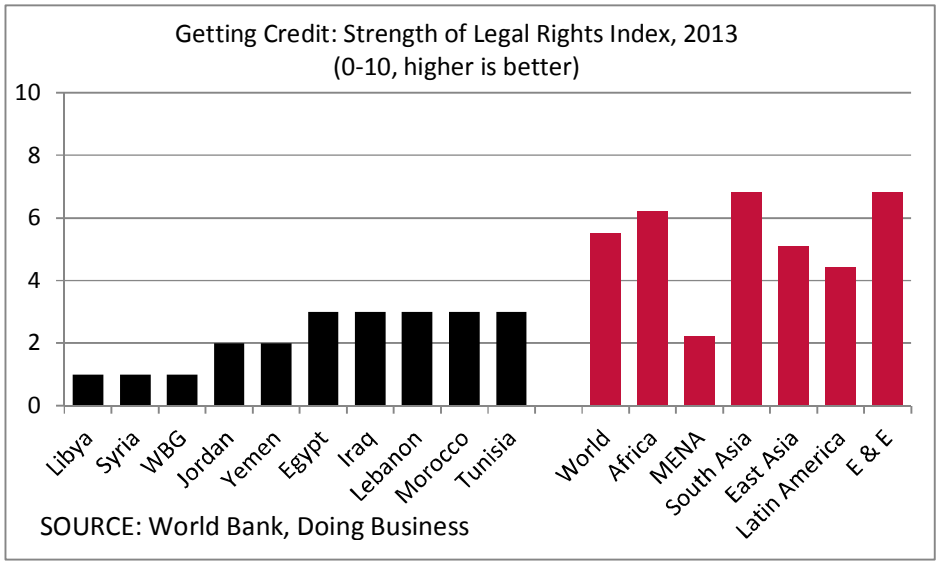
Lack of access to finance is a major issue for firms and individuals in the MENA region. According to the Enterprise Surveys by the World Bank, more than 35 percent of the firms and individuals in the region identify access to finance as a major constraint, a higher percentage than in all other regions except sub-Saharan Africa (44.5 percent). West Bank and Gaza had the highest percentage (53.4 percent), followed by Iraq (46.1 percent), and Yemen (35.2 percent). Low access to finance is the result of weak financial infrastructure, low competition, credit concentration in large and



well established companies, and underdevelopment of the nonbanking financial sector. Access to finance for firms and most people remains very limited in the MENA region. MENA (11 percent) has the lowest percentage of firms using banks to finance investment, followed by Sub-Saharan Africa (14.9 percent) and East Asia and Oceania (22.6 percent).



The MENA region ranks last in the area of credit rights as measured by the strength of legal rights index by the World Bank's Doing Business Indicators. The region averaged 2.2 (on a scale 0-10, higher is better), after Latin America and the Caribbean (4.4), and East Asia and Oceania (5.1). In MENA, Libya (1), Syria (1), and West Bank and Gaza (1) were the worst performers on the index. Also, MENA scored low on the depth of credit information index, averaging 3.2 (on a scale 0-6, higher is better). According to the IMF report, MENA has severe weaknesses in almost all components of collateral regimes. Also, insolvency regimes suffer from the lack of efficient exit mechanisms and protection for secured credit.



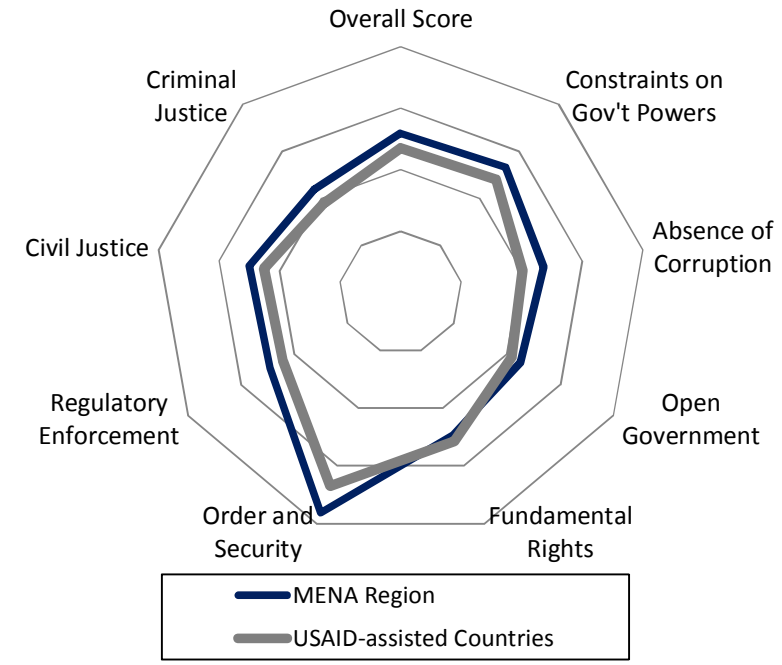
Rule of Law: Area Where MENA Ranks Above Average

MENA countries as a whole ranked in the top half of the world in most categories in the Rule of Law Index 2014 by the World Justice Project. The lead performer in the region was Jordan (38th out of 99), followed by Tunisia (41st), Lebanon (49th), Morocco (52nd), and the worst performer was Egypt (74th). According to the report, MENA faces challenges in the fundamental rights factor, limited accessibility of official information, and low limitations on government powers.

Jordan was the best performer in the MENA region, with high marks in the areas of security, civil justice, criminal justice, absence of corruption, property rights, and effective regulatory enforcement. The country ranks poorly in fundamental rights, particularly in rights to life and security and freedoms of association, religion, expression, and privacy. Jordan ranked 155th out of 197 on overall press freedom in Freedom House's Freedom of

the Press. Lastly, Jordan has gaps in the areas of constraints on government powers such as lawful transition of power and limits by legislatures.

Tunisia scored well regionally in several rule of law dimensions, including constraints on government powers, open government, and fundamental rights. However, compared to upper middle income countries, Tunisia still faces challenges in fundamental rights, mainly in freedoms to privacy and religion and right to life and security. In addition, the country scored below the regional average when it comes to corruption in the police and military. According to the Global Corruption Barometer (GCB), Tunisia's police are highly affected by corruption, scoring 3.9 out of 5 (5 being highly corrupt).



SOURCE: the World Justice Project, Rule of Law

Lebanon scored the best regionally in fundamental rights because of freedoms of association and expression and right to privacy, life, and security. Also, the country outperformed most MENA countries on the constraints on government powers dimensions because of the vibrant civil society, free media, and effective legislative oversight. Lebanon scored the worst regionally in terms of absence of corruption and it scored very low (2.6 out of 7) on anticorruption and transparency by Freedom House – Countries at the Crossroads report. Lastly, the region ranks poorly on civil justice due to delays, discrimination against marginalized groups, and corruption in the justice system.

Morocco has been showing improvement in its rule of law subcategories as a result of ongoing reforms in the areas of regulatory enforcement, order and security, and open government. However, similar to the rest of the MENA countries, Morocco is weak in the dimensions of protection of fundamental rights and control of corruption. According to GCB, Morocco's legal system and judiciary are highly affected by corruption. Lastly, Morocco's criminal justice system ranked badly because of improper government influence, harsh conditions and discrimination at correctional facilities, and lack of due process of law.

In general, courts and administrative agencies are slow and ineffective in Egypt. The country ranked badly in civil justice and regulatory enforcement. Also, fundamental rights are very weak in Egypt, ranking 90th because of violations of the right to the life and security, right to privacy, and freedoms of expression and religion. However, compared to its income peers, Egypt performed well in the areas of absence of corruption and criminal justice.

Additional Information
For questions or more information, please contact the author, Georges Fadel, at gfadel@devtechsys.com. For country-specific data and additional information about the countries covered in this report, please visit the ESDB Country Portal at http://esdb.eads.usaidallnet.gov/query/do?_program=/eads/esdb/countryPortal.