

»» Supporting the private sector would greatly benefit the countries of North Africa

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No. 119, 1 November 2016

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The North African countries of Morocco, Algeria, Tunisia, Libya and Egypt have experienced enormous change since 2011 on the heels of what has become known as the Arab Spring. Unfortunately, hopes for a fundamental transformation have hardly been fulfilled and Libya has descended into civil war. Growth and more jobs would stabilise the region not just economically but also politically. The private sector could play a significant part here but suffers from considerable competitive disadvantages, corruption and inefficient public administration.

A small slice of a bigger problem

The population of the five countries has grown by more than 50 % since 1990. The share of the population of working age (15–64 years) is expected to increase by 29 million people in the next 15 years. The labour markets have not been able to keep pace with this demographic development. Unemployment and underemployment are widespread, posing a political problem of significant proportions. The official unemployment rates of 9 to 13 % (excluding Libya) are not extremely high, but they paint a much too positive picture. Youth unemployment is particularly pronounced. Labour participation of women is unintentionally a very low 23 % (for comparison: 63 % in East Asia). The level of education has risen and there is an abundance of university graduates, both male and female. But the degrees hardly prepare graduates for private sector employment and the skills mismatch is considerable. A vocational training system aligned with the needs of industry and trade is almost completely lacking. Public administrations, for their part, are big and inefficient, offering few opportunities for continuing professional development.

They often serve to reap economic rents rather than to guarantee a functioning framework for the private sector.

Combined with a lack of social protection, these problems are the main causes of political destabilisation and increase the risk of violent conflict and migratory pressure.

Barriers for the private sector

The private sector generally has the potential to create competitive jobs and, thus, prosperity and participation for the population at large. It is actually quite significant in North Africa but only in conjunction with the informal sector. A vast number of people work in the informal sector as independent service providers with low productivity, they are not registered as businesses and have no social insurance. These informal jobs do not innovate. By contrast, the formal private sector is small and weak. Successful private entrepreneurship becomes the object of covetous desires. The private sector is placed at a severe disadvantage in the competition with politically connected firms. State-owned enterprises and those whose owners are politically well connected (including the army) enjoy substantial privileges, for instance in acquiring real estate or obtaining operating permits, but also in accessing credit or energy. Furthermore, despite high unemployment the private sector has great difficulty finding suitably skilled workers because of the deficits in the educational system mentioned above.

The World Bank rates the economic-policy conditions for the private sector for 190 countries and documents them annually in its Doing Business Index. Because of the problems mentioned, the five North African countries do not

appear in the top one third of this global ranking. Morocco (rank 68) and Tunisia (77) are still in the top half while the rankings of Egypt (122) and Algeria (156) are rather poor, while Libya ranks 188th, the third but last country on the global ranking list. The countries occupy similarly low ranks on the Corruption Perceptions Index of Transparency International.

Starting points for reforms

Far-reaching reforms are necessary for the formal private sector to develop. In civil war-torn Libya, of course, there are hardly any prospects for this at the moment. But the other four countries would in principle have the necessary scope to take such action. Containing corruption and creating a level playing field for all businesses are indispensable prerequisites. Existing legal and informal privileges of politically connected firms must be abolished. In contrast, fair and transparent application of existing legislation is essential, and it must be sustained by efficient public administration and controlled by an independent justice system. Another factor that would be very effective in this context is a free press so that shortcomings can be made public (Tunisia is a positive example). Newly established businesses need better access to start-up finance. A further starting point is the education system, where practice relevance and vocational training are the keywords. In the latter area the region is receiving support from donors under official development cooperation. Further external support, for instance to promote direct investment, could be helpful.

Unfortunately, there is still far too little political will in the countries to undertake reforms of this kind. ■