

Addressing the Youth Unemployment Challenge: International Lessons Learned that can be useful for Morocco

THOMAS AWAZU PEREIRA DA SILVA



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“Worldwide, young people are three times more likely than their parents to be out of work. In Greece, Spain, and South Africa, more than half of young people are unemployed, and jobless levels of 25 percent or more are common in Europe, the Middle East, and Northern Africa.”

McKinsey Center for Government - Education to
Employment: Designing a System that Works

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Abstract

Current levels of youth unemployment have hovered much higher than average unemployment in many developed and developing countries. European and MENA region countries are the hardest hit with rates climbing to record highs following the global financial crisis. In addition to a specific sensitivity to cyclical economic activity, the main factors that explain youth unemployment are known but more striking in Morocco than in the rest of the world: demographic trends in youth labor force participation; skills mismatches; and labor market rigidity are present. In order to tackle its youth unemployment problem Morocco can use policies resulting from lessons learned internationally such as active labor market policies, more adequate minimum wage settings, more flexible contracts, initiatives to acquire new skills related to current technological changes; and finally, more public-private partnerships (PPP). It is important that the issue of youth unemployment is addressed promptly when youth unemployment rates are high because of the strong correlation between youth unemployment and socio-economic and political instability.

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1. Introduction: compounding forces that might worsen youth unemployment

A protracted problem that might be getting worse, particularly in North Africa and Arab States...

Youth¹ unemployment has been and remains a major social and economic concern in both developed and developing countries with a global average rate expected to rise slightly in 2017 to 13,1% - or 70.9 million young unemployed but significantly below the crisis peak of 76.7 million in 2009. In particular, Arab States and North Africa continue to show the highest youth unemployment rates - oscillating around 30% in 2017 (ILO, 2017 – Global Employment Trends for Youth 2017). Conversely, due to increased school enrolment, global youth labor force participation (LFPR) has shrunk from 55% to 45.7% between 1997 and 2017. Over the same period, the youth labor force decreased by 43.9 million while the youth population increased by close to 140 million. However, many reports project that this education-related decreasing trend will be reversed in the coming years or has already started to reverse. That reversal will worsen the problem.

School-to-work-transition (SWT) has become a longer and more difficult road in most countries today...

In addition, this current youth unemployment problem might also be negatively affected by automation and digital technologies born out of the Fourth Industrial Revolution (Baldwin & Evenett, 2009).² They are transforming production industries and value-added chains at an unparalleled speed and scale and reducing job offerings. It is difficult to determine whether this will have greater impact on new (young) entrants into the job market or existing (older) employees. Nevertheless, the World Economic Forum (WEF) warns that, as a potential result of these trends, youth unemployment might become a “corrosive legacy” impeding and or delaying young generations from entering into traditional forms of economic activity. On a brighter note, experts predict, as new technologies arise, an increase in the demand for skills in science, technology, engineering, and mathematics (STEM) – especially promising since younger workers are more familiar with emerging digital technologies. In any event, the capacity to find a job quickly out of school (the school-to-work-transition) has become harder today.

1 Youth unemployment refers to the share of the labor force ages 15-24 without work but available for and seeking employment (ILO).

2 Baldwin, R. and Evenett, S., (2009). The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20. London: Centre for Economic Policy Research (CEPR).

Why tackling youth unemployment has become an urgent issue for policy-makers?

We alluded to the fact that the above-mentioned LFPR trends can be partly explained by increases in time spent in education. However, global ILO estimates that 21.8% of young people are neither in education, employment, or training – hence are NEET (ILO, 2017a). Other factors therefore are needed to explain lower participation combined with higher youth unemployment rates. In particular, persistent and high youth unemployment comes in part from shifting patterns in the way young workers face and engage labor markets - moving away from the more traditional “job-for-life” approach their parents were once familiar with. Adding a higher propensity for being NEET and less stability in the job brings a new set of social behavior. In North African countries – where one in five people are between ages 15 and 24 – high youth unemployment is perceived as a potential source of social unrest (ILO 2017c). In Morocco and Egypt, for example, youth unemployment rates in 2016 rose to a staggering 21.8%³ and 31.3%⁴ respectively. Contrary to the cycle-related components of unemployment, which usually respond to economic activity, youth unemployment has become more resilient and structural. This situation has the potential to create a “lost generation” of youth who do not contribute to economic growth, representing a high welfare cost to society and becoming a disruptive factor to the social fabric. Those risks therefore warrant special attention by policy-makers.

This paper will first review the main causes behind youth unemployment in the literature. Then, we will relate the findings of the literature to the Moroccan context. Fourth, our paper will suggest policy recommendations. Fifth, we conclude.

2. Main Causes behind Persistent and High Youth Unemployment

We summarize below key explanatory factors that contribute, according to the literature, to the high and persistent youth unemployment. A wide range of factors can explain the increasing amount of youth that find themselves in a situation of extreme vulnerability

- **Cyclical activity and fiscal policies impact more youth than average unemployment**

A first factor that explains youth labor market outcomes is obviously cyclical economic activity. Youth unemployment shows the expected inverse relationship with GDP growth (Matsumoto et al., 2012).⁵ However, employment prospects for young people seem to be more sensitive than those of older workers to business cycle variations and economic downturns. According to ILO studies, youth therefore seem more vulnerable to economic cycles and their volatility.⁶ The reasons might be that youth have a more precarious status when entering the labor market and are too often the first ones to be laid off. Conversely, ILO findings⁷ show that countercyclical policies can impact the unemployed youth more rapidly as they can accept temporary job offerings. The report suggests that fiscal policy can be an effective tool to promote youth employment during economic downturns.

3 International Monetary Fund (IMF), (2016). Morocco Article IV Consultation

4 The Brookings Institute – Ghafar, A.A., (2016). Youth unemployment in Egypt: A ticking time bomb

5 Matsumoto, M., Hengge, M. & Islam I., (2012). Tackling the Youth Employment Crisis: A Macroeconomic Perspective. Employment Sector Working Paper No. 124 (Geneva, ILO).

6 International Labor Organization – ILO, (2017). Global Employment Trends for Youth 2017 – Paths to a Better Working Future.

7 ILO, (2017a). Global Employment Trends for Youth 2017 – Paths to a Better Working Future.

Along this line, another factor explaining youth unemployment is the short-term impact of structural adjustments processes⁸ in developing countries such as Morocco⁹. They have had negative short-term consequences on employment: public sector downsizing has resulted in reduced government job availability, often in a context where the private sector is not yet able to fill the employment gaps.

This could explain in part why the MENA region, overwhelmed with (i) particularly volatile growth rates in the past two decades and (ii) important fiscal consolidation measures, has kept high levels of youth unemployment.

- **Demographic Pressure – despite Educational Enrolment and NEET Trends – is increasing the supply of young workers**

A second factor that contributes to youth unemployment is the specific demographic trend in the supply of young workers – despite the decline in youth labor force participation rates (LFPR) globally and across countries. Globally, LFPR have dropped between 1997 and 2017 from 55% to 45.7%, albeit with significant regional differences.¹⁰ This tendency can be explained by increases in time spent in education, reflecting a youth disengagement towards labor market entry – resulting in a global high youth Not in Employment, Education or Training (NEET) rate of 21.8%. But in parallel, youth population grew by nearly 140 million thus increasing the labor force. Therefore, despite the LFPR decline, strong demographic pressures impacting the labor force still seem sufficient for youth unemployment rates to increase, particularly in the MENA region. There, the declining LFPR might be reversing earlier than elsewhere. Compounding these significant pressures are increases in the amount of youth going through the education system to end up facing labor markets with low absorptive capacity. As indicated in the 2017 ILO report on youth and employment: “It seems that in North Africa and given the state of the region’s economies, there is an oversupply of tertiary education graduates.”¹¹

Primary, secondary, and tertiary enrolments continue to expand. Despite an increase in part-time and temporary jobs, students end up entering the labor market by accepting jobs that (i) do not fully utilize their skills, or (ii) are unrelated to their field of study.¹² Eventually, high shares of the youth therefore become either unemployed or fill sub-standard inadequate employment positions. For example, in worse cases, youth unemployment is compounded by post-secondary graduates voluntarily choosing not to work in jobs outside their area of education. According to the ILO, in Egypt for example, 30 percent of unemployed youth refused a job because they felt it “did not match their level of qualification”, leaving large portion of these graduates idle.¹³

- **Educational Skill mismatch**

A third contributing factor to youth unemployment is a skills mismatch¹⁴ between skills acquired in education systems and those demanded in labor markets. In parallel, youth seem to be making poor decisions as to what, for how long and where to study, a result of (i) the disconnect between education and

8 The main reason behind such structural transformations came from fiscal consolidation (IMF 2016 Staff Country Report, page 26).

9 IMF, (2016). Morocco: Third Review under the Arrangement under the Precautionary and Liquidity Line-Press Release. Staff Report and Statement by the Executive Director for Morocco. IMF Staff Country Reports

10 ILO, (2017a). Global Employment Trends for Youth 2017 – Paths to a Better Working Future.

11 ILO, (2017c). Les jeunes et l’emploi en Afrique du nord : rapport de synthèse

12 O’Reilly, J., (2015). Five Characteristics of Youth Unemployment in Europe Flexibility, Education, Migration, Family Legacies, and EU Policy

13 Barsoum, G., Ramadan, M., and Mostafa, M., (2014). Labor market transitions of young women and men in Egypt

14 ILO, (2017c). Les Jeunes et l’Emploi en Afrique du nord : rapport de synthèse

employment institutions, (ii) poor counseling opportunities, and (ii) asymmetric information in terms of job opportunities, labor market trends, and wages.¹⁵

Educational institutions are struggling to provide students with the appropriate skills demanded by the labor market today - and tomorrow. As most policy-makers considered developing production industries at home as safe engines of growth and job creation, globalization has changed such prospects and employment dynamics have rapidly shifted (WEF)¹⁶. Nowadays, specialists are rethinking the education-to-(un)employment nexus. This situation is more pronounced in North Africa, a region with one of the highest rates of youth unemployment in the world. McKinsey's education-to-employment (E2E) report states that:

*“While young people are eager to work, more than half of those without jobs say they simply can't find one — all while businesses across Europe insist they struggle to find young people with the skills they need”.*¹⁷

In addition, on-the-job or specific training does not seem to be enough to provide those missing skills. There is evidence showing the role of early unemployment experiences on further job stability. “Low educational attainment, ability not captured by education, financial deprivation and behavioral problems in childhood raise a person's susceptibility to unemployment”.¹⁸

Indeed, new entrants to the labor market face difficulties accessing stable, quality, well-paid employment. They represent, on average, 20-30% of total youth in OECD countries. These high levels are also prevalent in the MENA region.¹⁹ Low quality and insufficient counseling opportunities and education-to-employment assistance in both developing and developed economies negatively impact search-and-match mechanisms. These frictions explain prolonged unemployment (one year or more in unemployment), reducing earnings and leading to more permanent scars in the medium and long-term.²⁰

- **Labor Markets Institutions, Legislation, and Insider-Outsider Rigidities**

A fourth factor explaining youth unemployment is labor market rigidity, especially pertaining to the protection of “insiders” or workers that already have a job. There has been an extensive debate about whether more labor market flexibility and reforms can help the youth in securing stable and quality employment. There is one strand of the literature and some practical experiences showing that more flexible labor market rules contribute to the increase in hiring rates of young workers (Kawaguchi & Mura, 2014).²¹ There is another strand showing little correlation between employment protection legislation (EPL) and youth unemployment rates. And finally, there is one strand in the literature explaining that labor market flexibility sometimes increased merely “on the margins” – also called “two-tier reform” (European Commission, 2010)²², and that led to more inequality in accessing formal and stable job opportunities for youth and skilled new entrants.

15 Molina et al., (2014). Youth Transition to the Labor Market in Morocco International Policy - Practicum of the Harris School of Public Policy at the University of Chicago

16 World Economic Forum – WEF, (2018) The New Production Workforce: Responding to Shifting Labor Demands

17 Mourshed, M., Patel, J., Suder, K., (2014). Education to employment: Getting Europe's Youth into Work

18 Gregg, P., (2001). The Impact of Youth Unemployment on Adult Unemployment in the NCDS. The Economic Journal, Vol.11, No. 475. Published by The Royal Economic Society

19 Scarpetta, S., Sonnet, A., Manfredi, T., (2010) Rising Youth Unemployment During the Crisis: how to prevent negative long-term consequences on a generation?

20 Ackum, S., (1991). Youth Unemployment, Labor Market and Subsequent Earnings. The Scandinavian Journal of Economics, Vol. 93, No.4

21 Kawaguchi, D., Mura, T., (2014). Labor Market Institutions and Long-Term Effects of Youth Unemployment. IZA Discussion Paper No. 8156

22 European Commission, (2010). An Agenda for New Skills and Jobs.

“[...] A segmented labor markets where the burden of flexibility falls on workers with “atypical” contracts has led to youth being considerably more likely to find fixed term or temporary contracts in comparison to prime-age workers.”²³

In addition, changes in employment protection legislations (EPL) might not necessarily modify employers' attitude. Employers would remain cautious with regards to hiring processes for youth particularly when these changes are conducted in parallel to minimum wage adjustments.²⁴ As a result, youth employment might increase but young workers might be hired for temporary, short-term, seasonal contract and would then be the first ones laid-off in times of downsizing or recession.²⁵

On another front, an important open question is whether these various barriers-to-entry into the labor market create more incentives for startups, for the rise of small and medium size enterprises (SMEs), and for self-entrepreneurs. The difficulties of creating a firm alone can stem from barriers linked to economies of scale, product differentiation, capital requirements, access to distribution channels, or even government policy around licensing requirements. All these problems are still widespread today and continue to impede and delay youth, entrepreneurs, and small businesses from entering formal sectors of the labor market.

3. Relevance of the Youth Unemployment Issues for North Africa and especially Morocco

The various factors that we described above are especially acute in North Africa and Morocco. Addressing them expeditiously can bring economic and social benefits to all. Why is it relevant to rapidly address the challenge of youth unemployment in North Africa and Morocco?

High levels of unemployment in times of economic recovery...

Although economic activity has regained momentum in recent years in North Africa and Morocco (with an average GDP growth rate of 3.76% between 2006 and 2016), employment has not followed – low job creation and informality are still predominant (HCP 2017)²⁶. Current youth unemployment levels in North Africa are five percentage points above the 2011 figures (ILO 2017). It is of particular importance for the region given (i) the decreasing youth labor force participation rates that could very well reverse, and (ii) the high degree of labor informality.

Poor working conditions for youth...

According to the latest World Bank report on Morocco²⁷, most youth find themselves working in the informal sector where the quality of jobs is limited. Some 1.7 million young people work under precarious conditions in the informal sector – or are self-employed. Some 88 percent of young workers do not have a contract.

23 Eichhorst, W., Boeri, T., De Coen, A., Galasso, V., Kendzia, M., & Steiber, N., (2014). How to combine the entry of young people in the labour market with the retention of older workers?

24 ILO, (2017b). Rising to the Youth Employment Challenge – New evidence on key policy issues.

25 Martin, G., (2009). A portrait of the youth labor market in 13 countries, 1980- 2007. Monthly Labor Review: 3–21. Bureau of Labor Statistics

26 HCP (2017). Le Marché du Travail au Maroc : défis et opportunités.

27 Chauffour, J.P., (2017). Morocco 2040 Emerging by Investing in Intangible Capital

Choosing unemployment over work...

Youth represent approximately two-thirds of the working age population. And yet, adult men benefit most from labor market opportunities with nearly 60% of quality, formal existing jobs held by men with higher education, aged 35 and above, and living in urban areas.²⁸ As more and more youth prefer to wait (i.e. to remain unemployed) for better jobs, especially public-sector employment opportunities, the high and persistent levels of youth unemployment continue to represent a large loss of potential growth and an elevated welfare cost.²⁹ If left unattended, the youth unemployment crisis has the potential to pose serious threats to social stability.

Imbalance between educational outcomes and job offerings...

In terms of education-to-employment mismatches or imbalances, over the period 2012 to 2016, the Moroccan economy created, on average, 26,400 net new jobs per year while the working-age population increased by an average 270,000 per year.³⁰ However, higher educational attainment does not seem to guarantee improved labor market outcomes, including for skilled youth³¹. In Morocco, 72 percent of students leave the education system without qualification.³² A skilled youth remains more likely to be unemployed than his/her average adult counterpart – with variations depending on the type of degree obtained.³³ As a result, social cohesion within the country can be dramatically affected as youth find themselves, regardless of educational level, on the margins of society. A relatively old but telling 2009 study by the CNRS and CREST-INSEE also explains that “crime and unemployment are positively correlated” and that “increases in youth unemployment induce lagged increases in crime”.³⁴

Unequal access to good jobs is high in Morocco – particularly for youth and women – even in comparison with other countries of the region (HCP 2017).³⁵ Personal and family relationships are very important for those who are currently in the labor force. According to HEM³⁶, 28% of those who are unemployed believe it is because of a lack of meritocracy (or the abundance of favoritism practices) during recruitment. Nonetheless, the main reason young people bring up is the lack of job offers.³⁷ The World Bank report and Arab Democracy Barometer (third wave between 2012-2014) point out that “more than 60 percent of Moroccans surveyed believe access to jobs is above all a matter of connections”. Social mobility is depicted as restricted.

Such significant misalignments between the education system and labor market seems to be leading to youth discouragement. The NEET high rates for the region are particularly disturbing, given that inactivity at such early stages of life will have major consequences on employability in the long run.

28 Chauffour, J.P., (2017). Morocco 2040 Emerging by Investing in Intangible Capital

29 World Bank, (2015). Morocco - Social protection and labor: Diagnostic

30 Haut-Commissariat au Plan (HCP), (2016). La situation du marché du travail en 2015 - Kingdom of Morocco.

31 Pereira da Silva, T., (2017). High and Persistent Skilled Unemployment in Morocco: Explaining it by Skills Mismatch – OCP Policy Center.

32 International Monetary Fund (IMF), (2016). Morocco Article IV Consultation

33 https://www.hcp.ma/Taux-de-chomage-au-niveau-national-selon-les-tranches-d-age_a262.html

34 Fougère, J., Kramarz, F., (2009). Youth Unemployment and Crime in France. Journal of the European Association, Vol. 7, No.5. Published by the Oxford University Press

35 HCP (2017). Le Marché du Travail au Maroc : défis et opportunités.

36 HEM Business School is the first private Moroccan management institute to open a research center CESEM - Centre for Social Economic and Managerial Studies

37 Institut des Hautes Études de Management (HEM), (2016). La jeunesse au Maroc : marginalités, informalités et adaptations.

Consequences, opportunities, and risks for the future...

The youth unemployment phenomenon has resulted in major productivity and output losses with long-term consequences for young people, their families, and society as a whole. Youth unemployment (i) increases the probability of youth joining the informal sector through the added worker effect³⁸, (ii) it impacts long-term earnings³⁹ – as new workers are unable to build up skills or experience during their first years in the workforce⁴⁰, and (iii) dramatically affects public spending – particularly for economies struggling to remain competitive at the global level. Youth unemployment therefore displays direct and elevated costs as a result of increased benefit payments, lost income-tax revenues, and unexploited capacity.⁴¹

As automation and digital technologies continue to emerge, a deep transformation of labor market conditions with new job openings should arise. However, it is still difficult to see whether such trends will provide more threats to jobs or more opportunities. Moreover, it is even more difficult to determine whether these trends will benefit more the older or younger segments of the labor force. This is an issue of particular interest for countries like Morocco with an already high level of youth unemployment and NEET. In any event, these trends should be carefully examined to provide clues for which sectors youth are and will move into – with a clear trend towards manufacturing, services, and tourism.

Economic growth alone will not solve the issue of youth unemployment in North Africa and Morocco

A 2016 IMF external paper for the MENA region points out that Okun's law does not fully apply in low and lower middle-income countries, even though there is considerable cross-country heterogeneity.⁴² This could suggest that: (i) unemployment in North Africa and Morocco have more structural causes beyond its cyclical component; (ii) the presence of monopolies and oligopolies might hinder the creation and the development of SMEs, which are crucial to ensure sustained job creation for example; (iii) productivity gains in such countries is centered on capital intensive industries; and (iv) the public sector, in these countries, could not afford to maintain its hiring role. Such high structural unemployment and market rigidities might also play a role in accentuating the emigration of skilled workers and a brain drain.⁴³

Development strategies cumulatively implemented over the past fifty years (import substitution, export promotion, and structural adjustment programs - SAPs) have led to structural deficits in terms of basic education, literacy, higher education, and research and development. As such SAPs continue to be implemented, the above human development indicators will register sharp deteriorations.

The logic suggesting improving human development indicators requires high growth rates needs to be reversed. Improving human development indicators such as human resources and skills through education, illiteracy and the development of knowledge are today's real lever of growth economic (HCP 2017).⁴⁴

38 Cho, Y., Newhouse, D., (2012). How Did the Great Recession Affect Different Types of Workers? Evidence from 17 Middle-Income Countries. *World Development*. <https://doi.org/10.1016%2Fj.worlddev.2012.06.003>

39 Ackum, S., (1991). Youth Unemployment, Labor Market Programs and Subsequent Earnings. *The Scandinavian Journal of Economics*, Vol. 93, No.4

40 Morsy, H., (2012). Scarred Generation. <http://www.imf.org/external/pubs/ft/fandd/2012/03/morsy.htm> *Finance and Development* 49.

41 *The Economist*, September 10th, 2011 -The jobless young left behind - <http://www.economist.com/node/21528614>

42 An, Z., Ghazi, T., Gonzalez Prieto., N. (2016). Okun's Law: Unfit for Low and Lower Middle-Income Countries? – IMF Workshop on Global Labor Markets.

43 David, A., Marouani, M.A., (2016). The Impact of Emigration on MENA Labor Markets. *Economic Research Forum*.

44 Haut Commissariat au Plan (HCP), (2017). *Prospective Maroc 2030 - Sources actuelles et potentielles de l'économie marocaine*

4. Policy considerations for Morocco: growth and reforms to reduce the skill mismatch

What are the lessons that Morocco can take from these global features? Morocco is reflecting on its own growth strategy (Agénor & El Aynaoui, 2015)⁴⁵ that, inter alia, attempts to address its chronic youth unemployment problem. However, as mentioned in previous sections, it is still unclear what impact the new technologies will have on the jobs of tomorrow in both manufacturing and service sectors. Some experts are suggesting that the youth can have an advantage over older workers in a context where new skills related to the capacity to cope with new technologies will be demanded. For that, it appears important to launch a sustainable and more inclusive growth that fills the “skills gap” while allowing youth to properly integrate labor markets. It is a complex field. Nevertheless, we suggest in what follows some policy options for Morocco.

a. Macroeconomic and sectoral policies that focus on employment creation especially for youth

Growth is a necessity albeit not a sufficient condition to reduce general unemployment and inter alia youth unemployment. However, Morocco needs growth with adequate policies that focus on jobs. However, as the long-term downward trends in employment elasticity of economic growth persists, it will be fundamental to select growth strategies that stimulate employment creation of a specific brand, i.e. demanding a younger and more qualified workforce (Agénor & El Aynaoui, 2015). In parallel, obviously the adequate structural reforms should allow a larger role and more opportunities for new entrants in the labor market and remove existing rigidities.

These considerations point to a growth strategy that aims at developing a more open economy, focusing on sectors with comparative competitive advantage, investments in these sectors and its related skills as well as ensuring that labor market legislation is adapted to these challenges (Agénor & El Aynaoui, 2015)⁴⁶.

First, opening up the economy could improve the efficiency of the economy and create incentives to purchase productivity-enhancing foreign technologies and favor the expansion of exporting sectors and firms.

Second, a modernization of the traditional agricultural sector together with a highly productive mining sector should provide resources and a more efficient allocation of labor. The potential productivity gains of investments in agriculture, for example, could advance rural economic diversification and advance structural transformation processes – positively impacting job creation for youth (ILO 2017c).

Third, prospects for more labor-intensive high-quality services sector growth can be explored (e.g., tourism but also other areas related to deepening the value-added chains around agriculture and mining). In parallel, investments in communication infrastructure, data systems, etc. should continue to support job creation in growing and dynamic sectors of the economy (ILO 2017a).

In any event, to avoid growth volatility, a country like Morocco needs to keep internal and external balances within manageable ranges and in particular in the medium-long run, government finances need to

45 Agénor, P.-R., El Aynaoui, K., (2015). Morocco: growth strategy for 2025 in an evolving international environment. OCP Policy Center
46 Agénor, P.-R., El Aynaoui, K., (2015). Morocco: growth strategy for 2025 in an evolving international environment. OCP Policy Center

remain sustainable, which implies that the fiscal stance should be carefully calibrated to avoid any lasting and unsustainable budget imbalances (ILO 2017b).

b. Labor Market policies, minimum wage regulation and innovative partnerships

Once the growth strategy and macroeconomic balances are well-established, specific targeted active labor policies can help reduce youth employment during economic downturns and transitions (Ebell & Junankar 2017).⁴⁷

Active Labor market policies (ALMPs) to address the variety of labor market disadvantages faced by youth are increasingly used to stimulate the formalization of employment for youth (O’Higgins, 2017). They can be carefully designed to tailor young people’s needs (Kluve et al., 2016)⁴⁸ – with programs such as in-classroom and on-the-job training (Bördös et al., 2017)⁴⁹.

Morocco needs to reduce discretion in the setting of minimum wage. Morocco currently has one of the highest ratios of minimum-to-average wages,⁵⁰ which has an adverse impact on employment and job formalization for women and youth. More adequate minimum wage settings and indexation mechanisms could be put in place to further incentivize job creation in innovative and productive sectors of the formal economy. In particular, minimum wage legislation should not discourage the hiring of new (and younger) workers and the functioning of labor markets. Morocco could reduce unemployment rates for youth and women by 5–20 percent and informal workers by 20–75 percent, through the implementation of a 10–25 percent decrease in minimum wages and 5–15 percent decrease in payroll taxes (Urdinola et al., 2016).⁵¹

A more market-based setting for minimum wage does not preclude considering some form of a more balanced employment protection scheme for temporary workers. That could be important to ensure that young people with little work experience are not discouraged and are able to acquire, enhance, and improve their capabilities and skills to then progressively transition to regular employment.⁵²

In addition to ALMPs, more comprehensive programs and services that target youth-at-risk have shown to produce positive results when compared to programs that solely focus on job search and training only. These comprehensive programs involve a combination of some form of subsidized employment, training, self-employment support, guidance and counselling. Some of these schemes might be difficult to put in place in Morocco but in any event, the government should incentivize the involvement of employers and trainers to create a more inclusive attitude towards youth employment. Various programs already exist in many countries that focus on work experience, adult mentoring, or even remedial education.⁵³

More flexible contracts are needed to support to unemployed youth. Many support schemes for youth

47 Ebell, M., Junankar, R., (2017). Macroeconomic and sectoral issues in youth employment policy from O’Higgins, N. (2017b) - Rising to the youth employment challenge: New evidence on key policy issues, (Geneva, ILO)

48 Kluve, J., Puerto, S.M., Robalino, D., Romero, J.M., Rother, F., Stöterau, J., Weidenkaff, F., Witte, M., (2017). Interventions to Improve the Labour Market Outcomes of Youth: A Systematic Review of Training, Entrepreneurship Promotion, Employment Services and Subsidized Employment Interventions. - <https://campbellcollaboration.org/library/improving-youth-labour-market-outcomes.html>

49 Bördös, K., Csillag, M., O’Higgins, N., Scharle, A., (2017). Active labour market programs: The role of wage subsidies”, in N. O’Higgins: Rising to the youth employment challenge: New evidence on key policy issues (Geneva, ILO), pp. 46–87.

50 Angel-Urdinola et al., May 2015, “Social Protection and Labor Brief.”

51 Urdinola, D., Barry, A., Guennouni, J., (2016). Are Minimum Wages and Payroll Taxes a Constraint to the Creation of Formal Jobs in Morocco? Policy Research Paper – World Bank Group

52 OECD, (2013). Action Plan for Youth - <http://www.oecd.org/employment/action-plan-youth.htm>.

53 McKinsey, (2014). Education to employment: Designing a system that works - <https://web.archive.org/web/20141228233133/http://www.mckinsey.com/featur>.

already exist at the international level: (i) direct financial assistance, (ii) apprenticeship funding initiatives, or even (iii) rigorous and active search-and-training obligations. In Morocco, the majority of social security programs require labor contracts, automatically excluding self-employed and informal wage earners. In addition, in 2015 and at the national level, Morocco displayed an informal employment rate of 80% (close to eight out of ten employed workers do not have medical coverage). In 2016, 5% of employed Moroccans held fixed term contracts (CDD), 27.5% held open-ended contracts (CDI), and 69.4% hold no contract at all⁵⁴. Morocco should explore developing contributive systems for these categories of workers (Urdinola et al., 2016).

c. Education-to-Employment & Training: skills-improvement strategies in shifting labor markets

Morocco can use the international experience showing that employment prospects (especially for youth) are highly correlated with new skills related to current technological changes. Today individuals, businesses, and governments need to adapt by collectively modifying curricula and schooling design to better match job requirements in technology-rich environments (ILO 2017a). This will involve using advanced analytical⁵⁵ techniques that better inform today's decision-making processes.

Morocco needs also to consider the international experience through apprenticeship schemes that can significantly reduce the skills gap between the education system and labor market (The Global Initiative on Decent Jobs for Youth, 2016)⁵⁶. Education systems that are more integrated with labor markets – using apprenticeship, job placement services, or direct firm hiring mechanisms – can better prepare youth for a successful transition into the labor market. Apprenticeship programs should also capitalize on close collaboration between governments, training providers, enterprises, and social partners.

Morocco needs also to decrease barriers to create SMEs and to become self-employed young entrepreneurs. For example, granting SMEs better access to credit opportunities should translate in increased employment opportunities for young workers (ILO 2017a). SMEs are becoming leading employers with over a third of jobs created over the last ten years (OECD, 2013). Large companies are no longer the main sources of employment. There is a substantial need to prepare and empower young people for an entrepreneurship – teaching them the appropriate skills to become innovators and entrepreneurs. These skills and competencies include: leadership, communication, management, teamwork, decision-making, and organizational skills, amongst others.⁵⁷ Along these lines, promoting digital start-ups and new internet-enabled businesses is a promising area for up-and-coming young entrepreneurs. For emerging and developing countries, however, basic infrastructure such as internet access still remains an important barrier. Digital skills-training-programs have been launched, in Kenya for example, that give access to freelance online-work for one million youth.

Morocco needs also to increase the availability and accessibility to quality and innovative Technical Vocational Education Training (TVET) programs to tackle the skills-mismatch crisis. Strong and quality vocational training programs have proven to affect unemployment⁵⁸, increase health, well-being, wages,

54 HCP, (2008). Enquête sur l'emploi

55 Advanced analytic techniques include data/text mining, machine learning, pattern matching, forecasting, visualization, semantic analysis, sentiment analysis, network and cluster analysis, multivariate statistics, graph analysis, simulation, complex event processing, neural networks.

56 <https://www.decentjobsforyouth.org/about>

57 OECD, (2013). Science, Technology and Industry Scoreboard (Report) - http://www.oecd-ilibrary.org/scienceand-technology/oecd-science-technology-and-industry-scoreboard-2013_sti_scoreboard-2013-en.

58 CEDEFOP, (2011) The benefits of vocational education and training. Review of Vocational Education and Training – Learning for Jobs;

and employer productivity⁵⁹. They also improve income equality, social inclusion, and lower crime rates. They also facilitate the formalization of the informal sector.⁶⁰

Finally, Morocco could use more public-private partnerships (PPP) initiatives to also alleviate public spending and deliver high quality education services through skills upgrades and recycling.⁶¹ PPP mechanisms should involve social partners from both the public and private sectors in order to address the skill gap of the unemployed youth.

When and if implemented, the effect of each of the above-mentioned measures should be carefully monitored, especially in the Moroccan labor markets where youth are predominantly present in the informal sector or trapped in part-time or temporary work.

CEDEFOP. (2010). Vocational Education and Training, Key to the Future

59 CEDEFOP, (2011). The benefits of vocational education and training.

60 Ibourk, A., (2012). Contribution of labour market policies and institutions to employment, equal opportunities and the formalisation of the informal economy: Morocco.

61 Pereira da Silva, T., (2018). Policy proposal to Reduce Skilled Unemployment in Morocco using Public- Private Partnerships (PPPs): 3R-PPP – Retrain-Rebalance-Reduce-PPP. OCP Policy Center.

5. Concluding Remarks: Morocco can benefit from international experiences to tackle its high level of youth unemployment

This paper examines the challenges related to youth unemployment and how Morocco, as a country with high rates of youth unemployment, can benefit from international experiences. High youth unemployment has potential severe implications on overall economic stability and social cohesion.⁶²

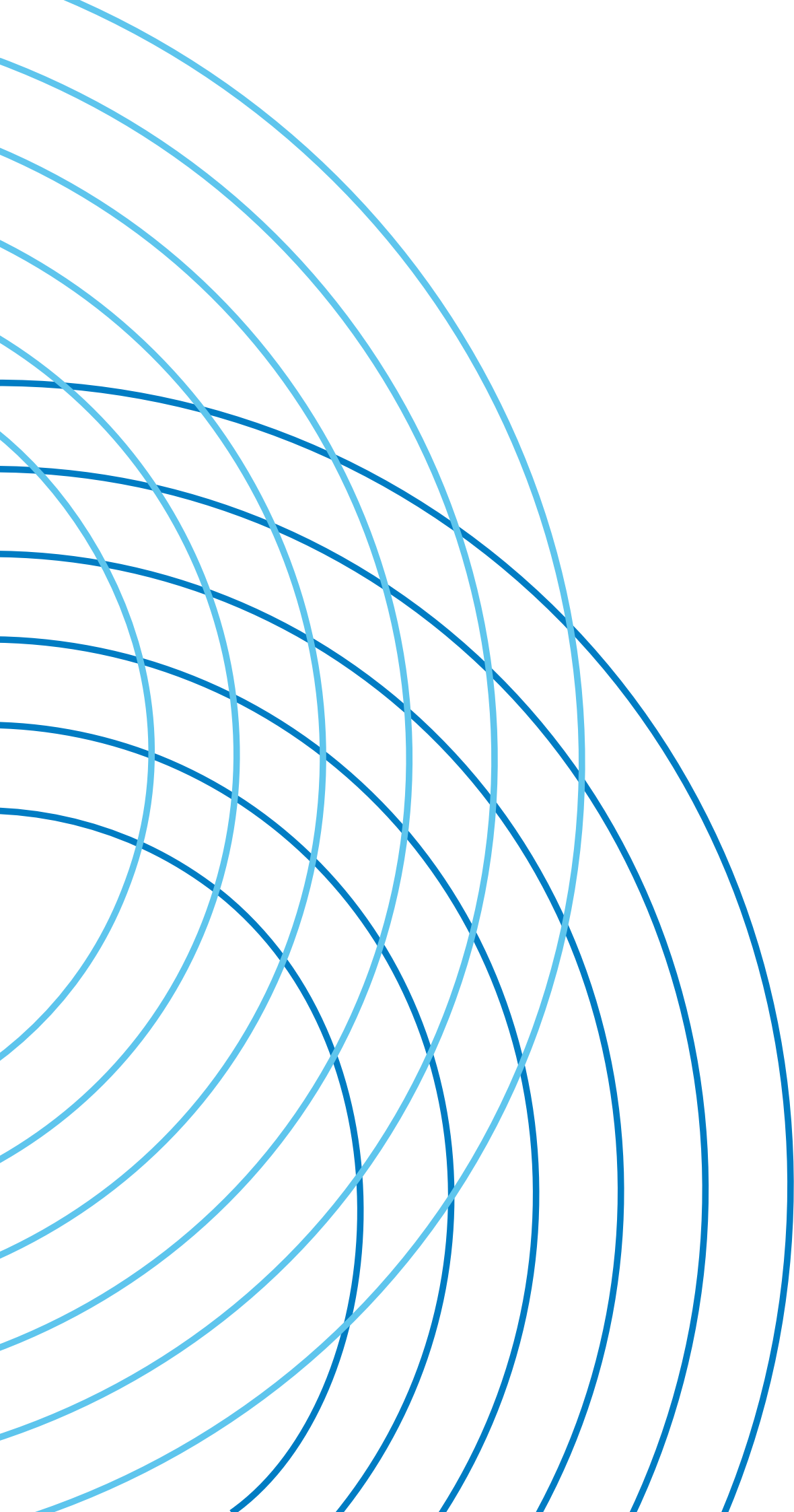
The main factors that explain youth unemployment are well-known and more striking in Morocco vis-a-vis the rest of the world: specific sensitivity to cyclical economic activity; strong demographic trend despite the decline in youth labor force participation rates (LFPR) globally and across countries; the skills mismatch between skills acquired in education systems and those demanded in labor markets; and labor market rigidity, especially pertaining to the protection of “insiders” or workers that already have a job.

Morocco can consider using the policies learned from many international experiences to tackle its youth unemployment problem: active labor market policies (ALMPs); more adequate wage (minimum) setting and indexation mechanisms to incentivize job creation in innovative and productive sectors of the formal economy; more flexible contracts; decrease barriers to create SMEs and encourage self-employed young entrepreneurs; initiatives to help the youth to acquire new skills related to current technological changes; apprenticeship schemes; increasing the availability and accessibility to quality and innovative Technical Vocational Education Training (TVET) programs to tackle the skills-mismatch crisis; and finally, more public-private partnerships (PPP) initiatives.

It is important that the issue of youth unemployment is addressed promptly when youth unemployment rates are high. Research points to a strong correlation between youth unemployment and socio-economic and political instability⁶³ If prolonged, youth unemployment can lead to negative consequences at both the individual and societal level.

62 Saaf, A., (2017). Cohésion Sociale, Institutions et Politiques Publiques. OCP Policy Center.

63 Urdal, H., (2006). A Clash of Generations? Youth Bulges and Political Violence.







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