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Fostering Decent Jobs and Promoting Financial Inclusion: The Way Forward for MENA Youth ^[1]

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1. Executive Summary

Informal employment (informality) and financial exclusion are linked and prove detrimental to inclusive growth. Informality is characterised by low productivity, which hampers growth and harms the welfare of workers. Financial exclusion slows down household savings and consumption, deteriorating well-being and holding back the growth of micro (informal) businesses due to lack in funding. Hence, promoting formalisation and financial inclusion is a means of fostering youth economic empowerment, especially for women.

This policy brief tackles the following threefold issues:

- **Why youths aged 15-34 in MENA countries face pervasive informal employment (over 50 per cent of the labour force) and unemployment (highest figure worldwide)?**
- **Why two youths out of three lack financial inclusion?**
- **What are the relevant policies formalising informality and promoting financial inclusion ?**

With respect to inclusive growth for youths, all three issues are linked in terms of diagnosis and remedies.

The policy brief looks into the root causes of these issues in three MENA countries: Jordan, Egypt and Tunisia and consists of 5 main sections:

- Following the introduction, section 3 provides an assessment of the employment dynamics in the MENA region. In Egypt and Jordan, transitions between employment, unemployment, and inactivity for youths over the 2010s show persistent labour market segmentation and low occupational mobility, whereas shifts towards formality, self-employment, unemployment, and inactivity depend on gender. In Jordan, labour market dynamics is strongly affected by female inactivity
- The methodology described in section 4 consists of two probit regressions that address financial inclusion in terms of account holding and use of digital services (fintech) for youths in Egypt, Jordan and Tunisia in 2014, 2017 and 2021. Results show that prior to the pandemic, both employees and entrepreneurs are financially included. During the pandemic, the financial gender gap declines, while there is no age gap for fintech use. However, gender patterns and countries variables reduce account holding by entrepreneurs, whereas middle income and low education level lessen fintech use.
- Section 5 and 6 provides the conclusion and policy recommendations. Policies include two strands: Growth and education strategies influencing formalisation and those carrying explicit formalisation objectives, via transversal drivers (enforcing labour regulations and social protection), targeting categories (micro businesses), bringing workers under the scope of labour regulations (young entrepreneurs, female workers). Schemes include incentives such as social protection, vocational training and financial services that prove effective, together with enforcing the law and regulations. Impact assessment displays rather modest outcomes. The EU may provide operational assistance.

Keywords: Entrepreneurship; Financial inclusion; Formalisation policies; Gender; Impact assessment; Labour market segmentation; Logistic and Probit regressions; Occupational mobility; Panel data.

2. Introduction

Youths aged 15-34 in MENA countries (Egypt, Jordan and Tunisia) (i) face pervasive informal employment (over 50 per cent of the labour force, for which they account for thirty per cent) due to a lack of social protection coverage (ILO 2013; Charmes 2019) and unemployment (highest figure worldwide). (ii) Two youths out of three are financially excluded due to absence of account holding and/or use of financial services including fintech (Berguiga & Adair 2023). (iii) These related major characteristics call for relevant policies of inclusive growth fostering both formalisation and financial inclusion



According to OECD (2016), the share of young people (aged under 30) exceeds thirty per cent of the labour force and constitute more than half of the population across the MENA region. The MENA region displays the highest youth unemployment rates worldwide: 29 per cent in North Africa and 25 per cent in the rest of the region. Female youth unemployment is even higher: 39 per cent in North Africa and 41 per cent in the rest of the region, whereas female participation rate to the labour market is the lowest worldwide, which proves detrimental to economic growth and women empowerment. Informality is pervasive amongst youths (Adair Ed. 2022).

Financial inclusion is a key factor in socio-economic development through the reduction of inequalities alongside inclusive and sustainable economic growth (Ayadi et al 2021). Youth labour force in MENA countries is less financially included on average than older age groups are (Demirgüç-Kunt et al 2022). Financial exclusion is due to: (i) Political and regulatory barriers that set the minimum age and proof of identity requirements for opening accounts; (ii) The many services provided by financial institution prove unsuitable or unattractive to youth; and (iii) the limited financial capacity and experience of youth themselves (Sykes et al 2016).

3. Mediterranean Context

Comparing Egypt, Jordan and Tunisia before and during the pandemic, three distinct MENA non-oil exporting countries, proves consistent for several reasons.

- According to the World Bank indicators, these countries enjoy a similar GDP per capita in 2019 (2017 Purchasing Power Adjustment): \$11,781(Egypt), \$9,534 (Jordan) and \$11,114 (Tunisia).
- The time span for analysing youth informality in Egypt and Jordan amounts to six years throughout the decade prior the pandemic, respectively 2012-2018 and 2010-2016. Addressing youth financial exclusion is covered over the period of 7 years in Egypt, Jordan and Tunisia from 2014 to 2021 which overlaps the pandemic.
- There is no agreed definition of youth. We use an extended category of youth (aged 15-34), which can be split into two sub-categories (15-24 and 25-34), in order to design large and consistent samples.
- Noteworthy is that the countries' background are distinct in so far Tunisia and Egypt experienced strong social unrest and political upheaval in 2011, whereas Jordan did not.

Informal employment has been on rise since the past decade amounting respectively to fifty-nine per cent (Egypt), fifty per cent (Jordan) and thirty per cent (Tunisia) of total employed population outside agriculture, according to Labour Force Surveys in 2021.

Employment dynamics in Egypt and Jordan consists of persistent segmentation and pervasive informality, which is documented for youth (aged 15-34) with two household panel data sets (OAMDI 2019) upon 6,000 individuals in Egypt (2012-2018) and 3,000 individuals in Jordan (2010-2016). Noteworthy is that no panel data is available for Tunisia, which is not included in the labour market analysis (transitions matrices and probit regressions).

Three samples of young people aged 15-34, selected from the Global Findex Database (World Bank 2021) for the three MENA countries represent respectively 1,483 individuals in 2014, 1,354 in 2017 and 1,282 in 2021.

Almost one third of this youth population in these three countries hold an account at a formal financial institution. This figure remains low, although it increased from 21.04% in 2014 to 33.23% in 2021 with a gradual use of digital financial services, mainly credit cards and mobile banking against a declining use in the traditional savings and credit products during the pandemic. Most active young people are employees. The percentage of entrepreneurs (i.e., self-employed) fell in 2017 by 20.38% against 27% in 2014, while that of unemployed increased from 2.73% in 2017 to 5.56% in 2021 due to the pandemic.

Formalisation policies addressing youth may differ across the three countries. Before the pandemic, in the early 2010s, policies are grounded on piecemeal experiments, whereas they become more comprehensive during the pandemic.

4. Approach and Results

4.1. Persistent Segmentation and Pervasive Informality For Youth in Egypt and Jordan:

The income gap between formal and informal employees in Egypt stands below (2012) or beyond (2018) thirty-three per cent, favouring the former at the expense of the latter, and supports the segmentation theory. Formal employment is attractive enough for formal employees to stick to their status and for informal employees to move towards it. The formal/informal average wage gap is usually wider for women than for men as of both 2012 and 2018. Figures are consistent with those of the Sahwa survey upon North Africa in 2015 (Gherbi & Adair 2020), which displays large income gaps (43.65%) between informal and formal jobs, whatever the gender of youth (aged 15-29).

Labour market transitions, logistic regressions and job quality indicators show persistent segmentation, pervasive informal jobs and low occupational mobility, with distinct gender patterns.

- **Persistent Labor Market Segmentation and Gendered Mobility Patterns**

Transitions matrices display persistent labour market segmentation and low mobility affecting formal vs informal workers. Young male workers are less mobile than females, the latter eventually exiting the labour force.

As for Egypt, male formal employees (56.6%) remain within their job status, which provides higher earnings and social benefits. Male informal employees (65.1%) stick to their informal employee job status, which does not provide such advantages. Two out of three female formal employees remain within their job status, whereas few female informal employees (17.4%) stick to their informal job status, most becoming either unemployed or exiting the labour force. In Jordan, over eight out of ten women who were outside the labour force in 2010 remained inactive in 2016, compared to slightly half the men. Most youths (64.2%) remained in formal wage employment and a smaller share (18.6%) shifted to informal wage employment. A notable share (37.9%) stayed in informal wage employment. A significant share (67.3%) of youths remained out of the labour force.

- **Determinants of Job Status: Education, Location, and Industry Insights**

Logistic regressions take care of the probability of accessing to a given job status, which depends on age, gender, education, urban residence and services industry.

Youth individuals (aged 15-24) in both countries are more likely to engage in informal employment, both wage and self-employed. Education matters in both countries: Those with at least secondary education have a higher likelihood of obtaining formal wage employment. Urban-rural discrepancies are distinct: In contrast with Egypt, urban youths in Jordan s face a lower likelihood of being formal wage employees, and a higher likelihood of being informal wage employees compared to rural individuals, both in 2010 and 2016. As for industry, workers in services are more likely to secure formal wage employment compared to those in the manufacturing industry.

- **Deteriorating Job Quality: Insights from the Multidimensional Employment Quality Index**

The multidimensional employment quality index, inspired by Alkire & Foster (2011), includes a set of eight indicators distributed across three dimensions of job benefits, job tenure, and working conditions (See Table 1). In 2012, two out of three Egyptian wage employees aged 15-34 had one deprivation, a figure reaching over three out of four in 2018. Similar trends apply to two or three deprivations. According to the number of deprivations, the index displays a deterioration in job quality that is consistent with an informal job status, whereas no deprivation is consistent with a formal job status.

Table 1. The multidimensional employment quality index in Egypt and Jordan

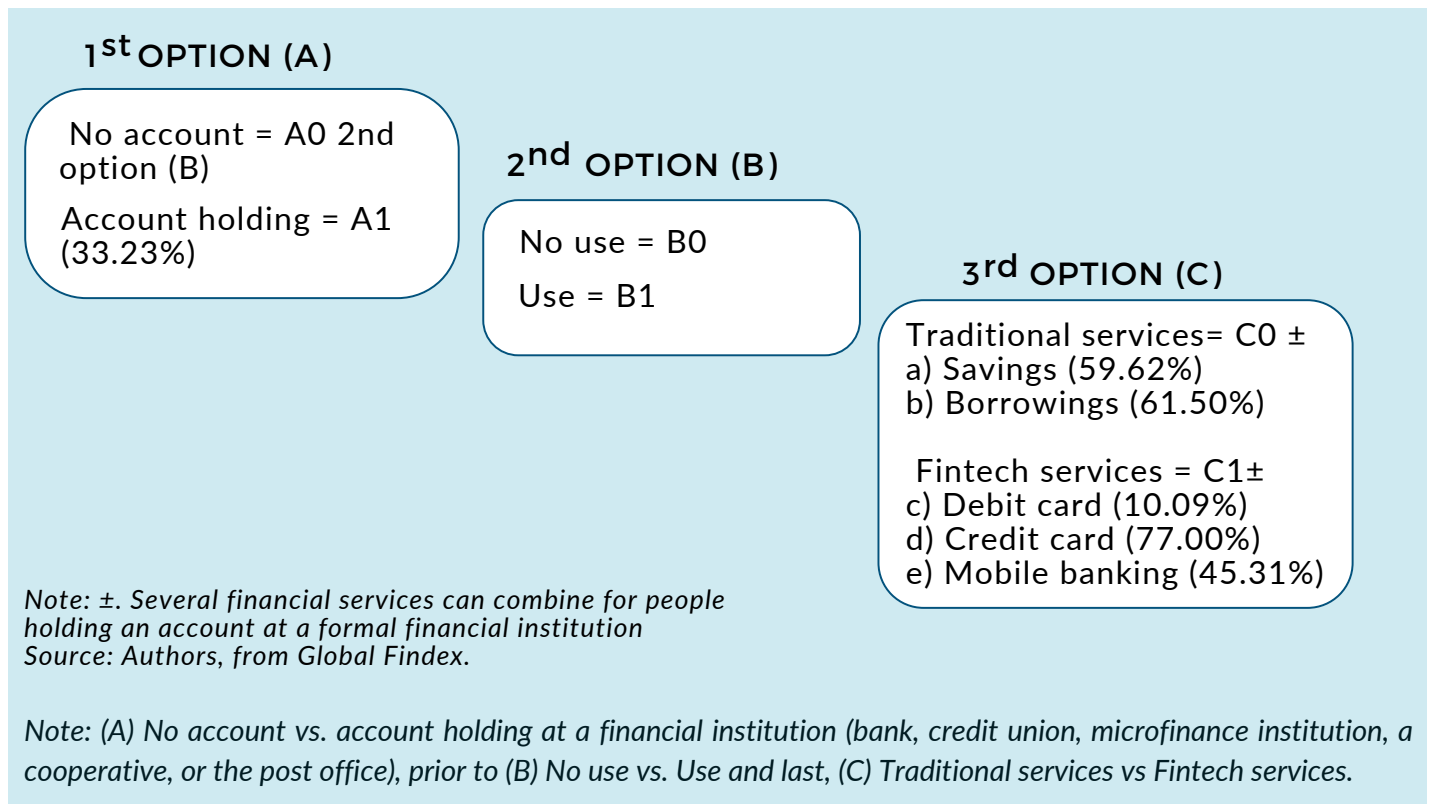
Dimensions	Indicator (weight)	Suffering from deprivations if...
Benefits	Health insurance (1/3) Annual paid leave (1/3) Paid sick leave (1/3)	The job does not provide health insurance The job does not offer paid holiday leave The job does not offer paid sick leave
Stability	Tenure (1/2)	The wage employee aged 15-24 has been in his job for less than a year. The wage employee aged 25-34 has been in his job for less than three years.
Working conditions	Permanent employment (1/2) Social security (1/3) Written contract (1/3) Excessive working hours (1/3)	The job is temporary, not permanent The job is not associated with any type of social security The job is not bound by written contract The wage employee exceed more than 48 weekly hours in his main job

Source: Authors.

4.2. Youth and Financial Inclusion in MENA Countries Prior and During The Pandemic:

We address the financial inclusion (account holding and fintech use) of youths (aged 15-34) prior and during the pandemic over 2014, 2017 and 2021, upon three pooled household samples for Egypt, Jordan and Tunisia drawn from Global Findex (World Bank 2021).

- We first model account holding and use of digital services with a decision tree (See Figure 1).



- **Trends in Financial Inclusion: Gender, Age, and Income Gaps Before and During the Pandemic**

We estimate probit regressions models before (2014 and 2017) and during the pandemic (2021), addressing only two aspects of financial inclusion: holding an account at a formal financial institution (Account holding) and the use of digital services (Fintech). Prior the pandemic, young employees and entrepreneurs are gradually becoming better included. During the pandemic, the gender gap shrinks thanks to financial inclusion, while there is no age gap for fintech use. However, account holding by young entrepreneurs declines, whereas poor or middle income and low education level lessen the use of fintech.

Regarding the first aspect of financial inclusion (Account holding), young people have few banking accounts over 2014-2021. It confirms the result of Mouna & Jarboui (2022): Young people are disproportionately excluded from the financial system in the MENA region. Prior the pandemic, the probability of holding an account is especially limited for women, less educated and poor or middle-income individuals. However, the trend improved for women during the pandemic, confirming the decline in the gender gap with respect to bank accounts in developing economies (Demirgüç-Kunt et al 2022).

Regarding the second aspect of financial inclusion (Fintech), young people use fewer digital services before the pandemic but there is no age gap in terms of using digital services in 2021. COVID-19 measures helped accelerating the adoption of digital payments for young women.

As for labour market segmentation, noteworthy is that financial exclusion affects disproportionately the youngest age group, the less educated, poor people and females. However, the gender gap shrinks during the pandemic.

4.3. Formalisation Policies in Three MENA Countries Prior and During The Pandemic:

We assess formalisation policies against the backdrop of persistent labour market segmentation, evidenced by income gaps regarding gender and job status, on the one hand, and promotion of financial inclusion, on the other hand. We address the issues and outcomes of formalisation policies, before and during the pandemic, with respect to targets (businesses vs workers), action levers and incentives (“carrots”), such as social protection, vocational training and financial support, alongside penalties (“stick”), such as law enforcement. Impact assessment displays modest outcomes.

- **Evaluating Policies for Business Formalization and Employment: Lessons from Tunisia, Egypt, and Jordan**

Piecemeal experimental policies prior the pandemic (early 2010s), suggest on the one hand that skills training in Tunisia were effective, together with support for enterprise development including microcredit in Egypt, where the ABA MicroFinance Institution tripled in twelve years its number of formalised business clients as a counterpart of granting micro-credit. On the other hand, employment services in Jordan prove less effective and subsidised employment in Jordan and Tunisia did not trigger sustainable jobs creation.

Regarding the first aspect of financial inclusion (Account holding), young people have formalising businesses using incentives (carrot) is threefold. First, information campaigns on the procedures and benefits of registration, alone, have no impact. Second, a single window such as the Integrated Business Registry System designed in Jordan (2022) gathering various agencies simplify business registration procedures and, alongside incentives to lessen taxes and social security contributions, prove effective. Third, the impact of shrinking registration costs for start-ups and granting subsidies to businesses that register depends on the amount.

Formalising businesses using penalties (stick) includes, as a fourth approach, law enforcement by the labour inspectorate, which exerts a limited but significant impact on driving workers towards formal employment proves persistent for several years.

- **Formalisation policies during the pandemic**

Since the outbreak of the pandemic, Jordan and Egypt have launched several initiatives that align and enrich the former schemes reported in Figure 2, some of which were tackled prior the pandemic.

Incentives	1a. Non-Contributory Social Assistance	No impact or conditional impact
	1b. Contributory Social Insurance	Small temporary impact
	2a. Active Labour Market Policies: Training and Matching	Strong vs. temporary impact
	2b. Active Labour Market Policies: Wage Subsidies	Positive but temporary impact
	3a. Financial Services: Tax incentives	Positive and strong impact
	3b. Financial Services: Deferred Loan Payback	Positive but modest impact
Penalties	Laws & Regulations (if easy implementation)	Positive and strong impact (if fairly applied)
	Enforcement from Labour Inspections	Positive and strong impact

Source: Authors.

As for incentives 1a and 1b concerning households together with businesses, the purpose of social protection schemes is not primarily formalisation, unless combined with other incentives (e.g., financial services 3a). There are discrepancies across countries regarding the share of total population covered by at least one social protection benefit in 2019 or 2020, which amounts to fifty per cent in Tunisia, thirty-five per cent in Egypt and thirty per cent in Jordan (ILOSTAT).

There was no impact on informality targeting vulnerable people in Jordan, whereas grants supporting registration of undeclared labour had some potential impact in Egypt (UNDP, 2023).

Regarding Active Labour Market Policies (ALMPs), incentives 2a such as vocational training programmes can have a strong impact on increasing formality, especially when targeting the private sector in the National Employment Programme 2022 of Jordan. As for incentives 2b public work programmes do not have a lasting impact on informality.

With respect to incentives 3a and 3b, financial services such as tax rebates, subsidised loans and deferred payback alongside credit guarantee exert a strong positive impact upon small businesses. This is a major issue in Jordan, wherein there is no small business tax regime.

Financial issues are into the hands of the Central Bank and the Tax authority, whereas banks and microfinance institutions play a key role in facilitating capital accumulation and improving productivity. Initiatives conducive to economic growth are currently taking place in Jordan (Central Bank over 2021-2024) and Egypt (Credit Guarantee Company involving two agreements with the European Investment Bank in 2020 and 2021), wherein unfortunately microenterprises are not targeted. As for penalties 4 and 5, law and regulations enforcement proves effective and persistent, in as much as the Labour Inspectorate eschews corruption.

5. Conclusion

Informality, the Need for Systematic Data and Law Enforcement

Results suggest that informality is spreading and this trend requires systematic data collection and decision-making. Laws that are adopted may not be enforced, and enforcement is a criterion of institutional quality, which requires monitoring that is often lacking.

Impact of Microcredit and Policy Evaluation

Noteworthy is that there is no impact assessment directly related to informality and financial exclusion. A clear distinction must be drawn between short-term and long-run policies. Microcredit made positive impacts in the short-term (Adair 2022), whilst there is no impact on the probability of establishing new businesses. Positive effects vanish in the long run, perhaps because the loan amount is too small to spur investment, thus calling for a more sustainable approach (e.g., credit guarantee).

Financial Inclusion and the Gender Gap

Financial inclusion is on the rise and the gender gap has decreased with respect to account holding and use of fintech during the pandemic. However, two thirds of youth remain financially excluded.

Promising Policies for Decent Jobs and Financial Inclusion

Promoting social and solidarity enterprises (SSEs), and extending microfinance to informal enterprises, are promising policies for fostering both decent jobs and financial inclusion. Policies implemented on a macro scale (extending social protection) yield generally positive and moderate small-scale effects, which prove more effective than those resulting from a group-specific policy.

6. Policy Implications and Recommendations:

Hereafter, implications and recommendations emphasize the means targeting the goal, which is promoting the formalisation of informality and financial inclusion, which require EU support to the MENA region that will prove operational.

6.1. Education, skills, law enforcement and reliable data as ways to target youth unemployment, informality and gender inequality

Recommended objectives are as follows:

- Education and Training prove efficient: Invest in education and vocational training to enhance the employability of the workforce. Develop targeted youth employment programs, with a focus on skill development and education, will facilitate the transition from informal to formal employment for and youth including women.
- Gender Equality in labour force participation: Implement initiatives such as skill development programs and flexible work arrangements, alongside promoting positive discrimination in Social and Solidarity Entities, can help women access and remain in the labour force.
- Extending social protection and enforce regulations prove efficient. Promoting job benefits requires incentives for encouraging employers to provide non-wage benefits like paid leave and health insurance to enhance the overall quality of employment. Enforcing regulations that support job stability and limit excessive work hours in order to improve employment quality.
- Collecting reliable data and assess policies: Assistance from Eurostat for data collection upon enterprise surveys will gauge MENA informality. Designing/assessing the implementation of 'carrot and stick' formalisation policies, can benefit from the support of EU Employment Directorate, the European Platform Tackling Undeclared Work and MFIs.

Ongoing monitoring and assessment will pave the way to benchmarking best practices and help policymakers make informed decisions.

6.2. Making entrepreneurship more sustainable, thanks to financial inclusion:

- Facilitating start-up business creation and sustainable enterprises. Design and provide appropriate assistance for funding and financial instruments. Downsizing loan requirements, increasing loan amount and lowering interest rates: linking the Euro-Mediterranean Guarantee Network (EMGN) and the European Investment Bank (EIB), to design a Guarantee scheme.
- Foster the development of the SSE, with an emphasis on cooperatives. Assistance from EU Directorate for designing a legal framework for SSE, including fiscal incentives. Enabling financial institutions to address the needs of the SSE, especially for female entrepreneurs.
- The EU academia can provide scholarships and technical assistance to design and reinforce curricula in Management of the Social Economy, train SSE workers for upscaling businesses and fostering interfaces between SSEs and lenders (e.g. business model design and standard accounting practices). Assistance from Eurostat to create a satellite account gauging employment and value-added of the SSE.

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About FEMISE

FEMISE, the Forum Euroméditerranéen des Instituts de Sciences Économiques, is a Euro-Mediterranean network of over 100 economic and social research institutes from both shores of the Mediterranean. Established in Marseille, France, in 2005 as an NGO, FEMISE promotes dialogue on economic and social policies to foster cooperation and mutual benefit between Europe and its Mediterranean partners. Coordinated by the Economic Research Forum (ERF) in Egypt, FEMISE focuses on strengthening research capacity, fostering public-private dialogue, disseminating research findings, and building partnerships to support regional collaboration and sustainable development.

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The European Institute of the Mediterranean (IEMed), founded in 1989, is a think-and-do tank focused on Euro-Mediterranean relations. Guided by the Euro-Mediterranean Partnership (EMP), European Neighbourhood Policy (ENP), and Union for the Mediterranean (UfM), it promotes cooperation, mutual understanding, and intercultural dialogue to build a shared space of peace, stability, and prosperity. IEMed is a consortium of the Catalan Government, the Spanish Ministry of Foreign Affairs, the EU, and the Barcelona City Council, with contributions from civil society through its Board of Trustees and Advisory Council.

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