



## WP 7 - Human capital, social protection, inequality and migration

# Human Capital, Inequality and Migration in Southern and Eastern Mediterranean Countries

## Towards a coherent policy agenda

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The demographic and societal structures in southern and eastern Mediterranean countries (SEMCs)<sup>1</sup> in the future are expected to undergo profound transformations that will call for new sets of public policies in the fields of employment, societal and human mobility. Indeed, because countries in the region have witnessed a stabilisation of their fertility rates and a decrease of their mortality rates in recent decades, the population projections of the MEDPRO project until

2030 have pointed to an increase in working-age populations. This increase could be an asset for long-term economic growth if certain conditions are met – a phenomenon known as the ‘demographic dividend’.

However, the past trends in education, human capital, skill mismatch, unemployment, migration and increasing levels of inequality point to malfunctioning social policies that, if continued, will turn the demographic dividend into a ‘demographic penalty’. In the field of education, past reforms have concentrated on increasing enrolment rates in order to lower illiteracy rates and narrow the gender gap in access to schooling.

<sup>1</sup> The 11 SEMCs covered by the MEDPRO project are Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, the Palestinian territories, Syria, Tunisia and Turkey.

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Governments' and donors' efforts have been quantitative in nature; the qualitative aspect of education has been somewhat neglected. In the labour domain, research on the region has shown that a series of structural factors negatively affect the participation of women in the labour force. Partly as a result of deficient socio-economic policies in the past, inequality levels have either increased or remained constant in the region since the 1980s. Moreover, education is by far the most important determinant of the region's patterns of income inequality. Access to infrastructure also appears to be an important factor affecting the distribution of opportunities. These elements, coupled with overall poor and 'in transition' institutional frameworks and weak social-protection systems, have gone hand in hand with human movements from the region to the EU, which have too often been framed by several EU member state governments and the media as a source of insecurity or irregular immigration phenomena. Policies to reap the potential benefits and opportunities of this intra-regional mobility have largely been overlooked in favour of an overriding EU-led focus on security cooperation and strengthening border controls.

Such trends are no longer sustainable and call for decisive and innovative political action from both sides of the Mediterranean to devise and implement inclusive and rights-based policies as a gateway to more sustainable and inclusive socio-economic development and growth paths. In this policy paper, we provide policy suggestions to turn the demographic 'penalty' into a 'dividend' while delving into the trends and challenges of human capital, inequality, social protection and migration.

## 1. Unlocking the human capital potential in the SEMCs

Countries in the southern and eastern Mediterranean have achieved significant progress in terms of **accumulated human capital** in the last decades in the following areas: increasing gross enrolment rates at the primary level, which exceeded (in some cases more than doubled) the secondary school level; decreasing the gender gap in gross enrolment rates, particularly at the primary level; and allocating a considerably higher share of public spending on education at the primary and secondary levels. Despite this progress, human capital attainment varies substantially in the region, displaying high levels of urban-rural/low-high income inequality, but it remains low overall relative to the EU-MED average, with the exception of Israel and Turkey. Improving attainment levels can lead to substantial gains if the existing private returns to education are

high. Yet, these returns remain low overall with the exceptions of Egypt, Morocco and Turkey.

There are several reasons for the weak link between schooling and broader economic gains. Educational systems may be suffering from low quality in schooling, including inadequate funding, large class sizes, inappropriate pedagogy and so on. Furthermore, a limited number of formal job opportunities could undermine the economy-wide benefits, especially if the more skilled young workers are also more likely to accept informal job contracts. More importantly, an unduly large public sector may prevent the realisation of productive capacities if public employment is used primarily as a labour market policy to counter unemployment. In addition, underutilised skills, in particular those of women due to the persistent cultural obstacles, continues to undermine the potential economic benefits of schooling.<sup>2</sup> Finally, a mismatch between the skills demanded and supplied, especially in countries that face economic transition, could diminish returns to schooling, either through a large-scale 'brain drain' (i.e. skilled emigration) or through an inefficient allocation of labour domestically.

As shown by Arbak (2012), when education is adequately valued in the labour market, it is likely to mitigate some of the factors identified above. For example, high private returns to schooling are likely to signal higher schooling quality, a greater number of formal job opportunities and less skill mismatching. Accordingly, Egypt, Morocco and Turkey could benefit substantially if the educational attainment levels continue to grow in line with the present tendencies. The same is not true for Algeria or Jordan, where higher attainment levels will only make a marginal contribution to human capital growth, once again owing to the low private returns. In Egypt, the gains could be substantial if the country manages to improve the private returns to post-secondary schooling.

These observations suggest that future policies in the SEMCs should stress the importance of raising the educational attainment levels, as the expected returns to education are rather high, especially in certain highly populated countries. This calls for a *multi-pronged education policy*. Countries where returns to education are currently high should continue to increase their attainment levels. In others, the principal aim should be to address the structural factors that hamper the link between schooling and economic outcomes. Indeed, future efforts should be dedicated to improving the quality of education, starting with lowering class sizes and

<sup>2</sup> Tsani et al. (2012).

investing in modern teaching techniques and the training of teachers. Most importantly, a concentrated effort is needed to shift the pedagogical approach away from the present ‘rote memorisation’ practices, especially at the primary and secondary levels, towards stimulating critical learning and thinking. To that effect, the SEMCs should orient funding towards education programmes of better quality. The EU can play a notable role in promoting the sharing of best practices and in providing technical assistance to equip the school administrators, staff and the teachers with the needed skills and orientation. Several EU programmes designed to improve the educational capacities of the SEMCs have already been put in place.<sup>3</sup> The aim should be to assess the overall effectiveness of these initiatives while maintaining, fine-tuning and, wherever necessary, expanding the EU’s approach to capacity building in the SEMCs’ educative systems.

Improving the educational standards and adapting them to labour market needs would be of great benefit in reducing the mismatch between the supply of and demand for labour by private sector firms. In that area, cooperation with the EU can help in implementing training and apprenticeship programmes that are in line with international best practices. The EU should reinvigorate its commitment to support apprenticeship as well as vocational education and training in the region, possibly through a deeper and more coherent framework for initiatives through technical assistance, best-practice guidelines and more directly providing training opportunities.<sup>4</sup>

Besides the importance of raising the quality of education and training, formal job creation in the private sector must be emphasised and further developed to absorb the growing labour force, in particular youth and women. To address the skills mismatch, it is essential to reinforce the links of

universities and research centres with the private sector. National policies must give incentives to reinforce these links. The EU can play a crucial role by transferring its technical know-how on setting up institutions and frameworks aimed at developing the private sector in the region, especially those micro, small and medium-sized enterprises (MSMEs) with high-growth potential, with a focus on youth and women. The European Investment Bank’s FEMIP facility (“Facilité Euro-Méditerranéenne d’Investissement et de Partenariat”), in close coordination with other international donors active in the region, should increase its financial and technical assistance support to MSMEs in the region.

## 2. Containing inequality and implementing inclusive social protection policies

In an attempt to measure and predict future levels of inequality in the SEMCs, El Laithy (2012) suggests that over the period up to 2030, the projected economic growth of the selected countries in the southern and eastern Mediterranean region will be associated with greater inequality and a shrinking middle class. This result shows that the richest class benefits most from this growth path. In addition, comparative analysis of the social protection systems in the SEMCs by El Mahdi et al. (2013) shows that these schemes, if they do exist, are very embryonic. For example, the typical pension system of the region is a partially funded PAYG scheme covering survivors, old-age retirement, unemployment benefits, disability, work injuries, sickness and maternity, to varying degrees in the countries of the region. In many cases, important social-protection mechanisms, such as unemployment benefits and health insurance, do not exist (e.g. in Lebanon, Jordan or Syria) or if they exist (Egypt), they are literally ineffective. As to universal health care services, these only exist in Israel. Health care services are provided to special, limited subscribing groups of employees or public sector workers in the rest of the countries, but the quality of the services is rather poor (in Egypt and Turkey) or relatively expensive (since the beneficiary has to contribute a substantial part of the service cost from his or her own private sources), as in the cases of Lebanon and Palestine.

In view of these observations, several policy actions are needed to alleviate inequality:

- well-planned income redistribution policies to go along with economic policies, so as to avoid the expected widening of inequality gaps in the SEMCs;

<sup>3</sup> Several notable examples of past and existing initiatives include those to develop the capacity of higher education teaching under the EU’s Tempus III and IV programmes; the flagship project of the University of the Middle East, the Teacher Education Initiative, which is partly supported by the Spanish Ministry of Foreign Affairs as well as the UN and the US State Department; the EU’s Education and Training for Employment (MEDA-ETE) initiative of 2004–07; and the British Council’s training in the teaching of English to adults across the region.

<sup>4</sup> MEDA-ETE, which ran from 2004 to 2007, supported the Mediterranean countries in the design and implementation of technical and vocational education and training policies. Currently, the European Training Foundation has several country-specific initiatives to “make vocational education and training a driver for lifelong learning, sustainable development, competitiveness and social cohesion”.

- better-targeted services to the poor, such as health, education and social welfare to increase access to subsidised social services;
- more investment in low-cost housing and an extension of infrastructure to cover poor settlements and underprivileged areas to improve their living conditions and thus their welfare status.

Governments can use taxation and transfer payments to reduce income inequalities, and more active employment policies are needed that focus on the poor who are trapped in the informal sector.

To address the inefficiency and ineffectiveness of the social protection systems in alleviating poverty and ensuring social justice, new policies should consider widening the social protection schemes to cover new aspects of insurance, including new segments of society and improving the quality of the services. So far, the major revenues of the systems have been modest contributions by both employers and employees, with the state committed to covering deficits. As the coverage of social insurance schemes is enhanced, the budgetary pressures are likely to grow. Thus, considering new sources for generating revenues and introducing new and more equitable social-protection schemes could help in reducing the governments' subsidy burdens.

### 3. Devising a new approach towards a Euro-Mediterranean migration partnership

Migration flows between the SEMCs and the EU have fluctuated over time and vary according to the country of origin. For instance, while countries such as Turkey, Morocco and Algeria have in the past been important sources of human mobility towards Europe, flows from Egypt, Libya and Syria have been comparatively insignificant. Wars or internal conflicts have functioned as some of the drivers of migratory flows at certain points during the last century,<sup>5</sup> with instability in Libya and Syria in the wake of the so-called 'Arab spring' triggering recent increases in the number of entries in Europe, including an important component of individuals in need of international protection (asylum seekers and refugees).<sup>6</sup> However, other socio-economic and political factors have been identified as playing an important role in explaining migration outflows from the SEMCs to the EU, including GDP gaps between sending and receiving countries, income and employment expectations, security issues and

concerns over the rule of law, and institutional quality.<sup>7</sup>

Migration policy cooperation between the EU and the SEMCs has focused overwhelmingly on control and surveillance of EU external borders, 'capacity building' in the SEMCs geared towards 'migration management' and the so-called 'fight against irregular immigration'. A highly restrictive framework governing migration to the EU has left very few channels allowing mobility for purposes of employment, training or education between the regions. Equally, EU policy cooperation and initiatives focused on the protection of migrants' rights, promoting up-skilling, 'brain circulation' or facilitating the flow of remittances and the portability of social security rights have been limited.

EU cooperation with third countries on migration matters is framed by the EU's Global Approach to Migration and Mobility, the GAMM (re-launched in 2011), which positions Mobility Partnerships as the principal EU policy instrument for setting the framework of cooperation on migration and security. In 2011, negotiations began between the EU and Tunisia, Morocco, Jordan and Egypt with a view to establishing Mobility Partnership agreements. Yet these instruments (essentially non-legally binding Joint Declarations between the European Commission on behalf of interested member states and a third country) have been widely criticised for their approach of strong Eurocentric conditionality while allowing only restricted, temporary and highly selective forms of migration. Mobility Partnerships require third countries to adopt European security policy instruments: readmission agreements with the EU; working arrangements with the EU border control agency, Frontex; cooperation in joint surveillance operations in the Mediterranean sea; and capacity building in other aspects of integrated border management. Together they form a *sine qua non* to access highly provisional 'benefits', such as visa facilitation agreements and labour and circular migration schemes, flanked by capacity-building financial measures.

As such, Carrera et al. (2012) have contended that the EU's Global Approach to Migration and Mobility signals a 'business-as-usual' approach to policy cooperation between the SEMCs and the EU. It is trapped in a logic of short-termism and insecurity, where the narrow goal of containing migration takes precedence over exploiting synergies between intra-regional mobility and economic and political reforms.

<sup>5</sup> Palestine (1950–85), Tunisia (1960–65), Algeria (1960–65) and Lebanon (1975–90) provide relevant examples here.

<sup>6</sup> Carrera, Den Hertog and Parkin (2012).

<sup>7</sup> Najman (2011).

The above trends underpin long-term challenges that ought to be considered by policy-makers in the years to come, particularly in view of the Arab uprisings, which showed the fundamental discontent of people and especially youth in countries like Tunisia and Egypt.

A new approach is hence needed that replaces the paradigm of mobility as an insecurity/threat with one exploiting the potential of mobility to foster economic growth, human capital and political reform. For this approach to materialise, stronger links should be established between migration and other domains of sectoral policy cooperation between the EU and SEMCs, including trade, employment, education and training, and human rights.

EU migration policies and cooperation with the SEMCs should be re-focused on the central aim of opening and supporting legal channels of mobility, including for employment and education. The potential window opened by the recognition of EU competence to legislate on ‘the internal dimension’ of labour immigration policy in the Lisbon Treaty could be explored as a means for the EU to engage more actively (on grounds of implied external competence) in the domain of labour immigration with third countries.

International agreements rather than Joint Declarations should be used as the framework for cooperation on migration between the EU and the SEMCs, and Mobility Partnerships should be subject to regular, independent evaluations of their impact and value added. Furthermore, these international agreements should include flanking measures to facilitate mobility, including those to support recognition of the international qualifications of third-country workers in the EU, guarantees on the portability of social security schemes and the promotion of programmes to encourage training and educational exchanges.

Rather than a rigid conditionality approach, policy cooperation on migration and mobility should be based on an equal partner dialogue. This could take the form of a ‘roadmap to mobility’ agreed between the EU and the SEMCs, which would sequence the steps needed by both sides to arrive at a mutually beneficial framework for migration management, offering specific incentives for cooperation and reform on both sides. Mobility should not be ‘exchanged’ for measures stemming irregular migration flows, but could be used to encourage reforms geared towards safeguarding human rights, building independent courts and narrowing socio-economic differences. Likewise, the roadmap should include obligations for the EU and its

member states to improve compliance with human rights standards, including in EU migration and border policies.

Visa facilitation (and liberalisation) for various categories of individuals would be a key component of the roadmap. The partnership would be based on the principle of equality and on mobility as an asset. In this case, mobility schemes are not unidirectional, but involve the movement of workers, students, business people, etc. from the EU to the southern Mediterranean and vice versa.

Finally, putting this approach into practice requires the EU to move beyond its current focus on ‘home affairs’ towards external cooperation on migration (driven primarily by interior ministry representatives in the Council and DG Home Affairs officials in the European Commission). An internal institutional re-organisation by the EU reallocating responsibility for (external cooperation on) migration policy towards the European External Action Service would help ensure that the EU’s migration policy towards the SEMCs is rooted more firmly in other external policies and programmes aimed at promoting economic growth, employment, education, trade and the strengthening of rule of law and human rights protection.

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## About MEDPRO

MEDPRO – Mediterranean Prospects – is a consortium of 17 highly reputed institutions from throughout the Mediterranean funded under the EU’s 7<sup>th</sup> Framework Programme and coordinated by the Centre for European Policy Studies based in Brussels. At its core, MEDPRO explores the key challenges facing the countries in the Southern Mediterranean region in the coming decades. Towards this end, MEDPRO will undertake a prospective analysis, building on scenarios for regional integration and cooperation with the EU up to 2030 and on various impact assessments. A multi-disciplinary approach is taken to the research, which is organised into seven fields of study: geopolitics and governance; demography, health and ageing; management of environment and natural resources; energy and climate change mitigation; economic integration, trade, investment and sectoral analyses; financial services and capital markets; human capital, social protection, inequality and migration. By carrying out this work, MEDPRO aims to deliver a sound scientific underpinning for future policy decisions at both domestic and EU levels.

<b>Title</b>	MEDPRO – Prospective Analysis for the Mediterranean Region
<b>Description</b>	MEDPRO explores the challenges facing the countries in the South Mediterranean region in the coming decades. The project will undertake a comprehensive foresight analysis to provide a sound scientific underpinning for future policy decisions at both domestic and EU levels.
<b>Mediterranean countries covered</b>	Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey
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