



Middle East and North Africa Needs Young and Productive Firms to Create Jobs

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The Middle East and North Africa (MENA) region has long struggled to generate enough quality jobs for its large and increasingly educated workforce, but this can be turned around. Governments can make significant strides in job creation by reforming policies used to protect politically connected companies, which would in turn promote competition, and ensure equal opportunities for all firms, according to a new regional World Bank study.

Jobs or Privileges: Unleashing the Employment Potential of the Middle East and North Africa, launched today highlights the central role of promoting competition to stimulate private sector growth. It establishes that young and productive firms generate employment in the regions economies. Policies to protect privileged insiders, however, have constrained competition, and stifled the growth and productivity of these firms.
"The employment challenges of the MENA region are inextricably linked to its economic governance challenges, said Inger Andersen, World Bank Regional Vice President for the Middle East and North Africa. "The economies of the region will need to be more open and provide a level playing field for job creation to increase and meet the needs of citizens.
The report offers a comprehensive analysis of the harm to competition caused by privileges to politically connected firms. In Egypt, employment growth declines by about 1.4 percent annually when connected firms enter new, previously competitive sectors. According to the report, 71 percent of connected firms in Egypt, compared to only 4 percent of all firms, sell products that are protected by at least three technical import barriers. In Tunisia, 64 percent of politically connected firms operate in sectors subject to restrictions on Foreign Direct Investment relative to only 36 percent of non-connected firms.
"Start-ups and innovative firms are the engines of job creation in MENA but they are having trouble growing, said Marc Schiffbauer, World Bank Senior Economist and lead author of the report. "These firms currently face a host of obstacles in the business environment that are too often there because they benefit a few politically connected firms.
The report draws on newly available economic data to identify the patterns of privilege to connected firms, their distortive effects on policies and detrimental impact on job creation. In assembling the most comprehensive firm census database ever put together for the region, the report also contrasts the impact of industrial policy as practiced in MENA countries with the more successful experience of a number of East Asian countries.
The report highlights a number of economic policy reforms across the region such as reducing the scope of privilege which will require a strong public administration, hired on the basis of merit, to implement the policy changes and build open markets that are resilient to the risk of capture. The report recommends that these reforms be implemented in a transparent and open policymaking environment that keeps citizens aware of government action and allows them to provide inputs into policy.
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