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## Human Capital, Inequality and Migration in the Southern and Eastern Mediterranean Countries: Towards a Coherent Policy Agenda

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The future SEM region's demographic and societal structures are expected to undergo profound transformations that will call for new sets of public policies in the employment, societal and human mobility fields. Indeed, because countries in the region have witnessed a stabilization of their fertility rates and decreasing of their mortality rates in recent decades, MEDPRO population projections until 2030 have pointed to an increase in working age populations, that can 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' to 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. Governments' and donors' efforts have been quantitative in nature; the qualitative aspect of education has been somewhat neglected. In the labour domain, research in 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 socio-economic past deficient policies, inequality levels have either increased or remained constant in the region since the 1980s. Besides, education is by far the most important determinant of the region's patterns of income inequality and access to infrastructure also appears to be an important factor affecting the distribution of opportunities. These elements, coupled with an overall poor and 'in transition' institutional



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frameworks and weak social protection systems, have gone hand-to-hand with human movements from the region to the EU, which have too often been framed by several EU Member States' governments and media as a source of insecurity or irregular immigrations 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 human capital, inequality, social protection and migration.

## **1. Unlocking human capital potential in the SEMC**

Countries in the SEM achieved significant progress in terms of accumulated human capital in the last decades in view of: increasing gross enrolment rates in primary level which exceeded – in some cases more than doubled- the secondary school level; decreasing gender gap in gross enrolment rates particularly in the primary level; and a considerably higher share of public spending on education for 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 remains overall low 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. However, these returns remain overall low with the exception of Egypt, Morocco and Turkey.

Several reasons can explain 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. Moreover, limited formal job opportunities could undermine the economy-wide benefits, especially if the more skilled young



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workers are also more likely to accept informal job contracts. More importantly, an unduly large public sector may prevent the realization of productive capacities if a public employment is used primarily as a labour market policy to sweep unemployment. In addition, underutilized skills in particular females due to the persistent cultural obstacles, continues undermining potential economic benefits of schooling. Finally, a mismatch between skills demanded and supplied, especially in countries that face economic transition, could diminish returns to schooling, either through a big scale “brain-drain” (i.e. skilled emigration) or through an inefficient allocation of labour domestically.

As shown in Arbak (2012) when education is adequately valued in the labour market, it is likely that some of the mitigating factors identified above are absent. For example, high private returns to schooling are likely to signal a higher schooling quality, more formal job opportunities, and less skills mismatches. 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 have only a marginal contribution to human capital growth, once again owing to the low private returns. In Egypt, the gains can 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 will be 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 improve education quality, starting with lowering class size, investing in modern teaching techniques and training of teachers. Most importantly, a concentrated effort is needed to shift pedagogical approach away from the present “rote memorization” practices, especially in primary and secondary level, to invigorate critical learning and thinking. To that effect, SEMCs should orient funding



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towards more quality education programs. The EU can play a notable role in promoting sharing of best practices, in providing technical assistance to equip the school administrators, staff, and the teachers with the needed skills and orientation. Several EU programs designed to improve the educational capacities of SEMC have already been put in place. 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 to reduce mismatch gap between supply of and demand for labour by the private sector firms. In that area, cooperation with the EU can help implement training and apprenticeship programs 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.

Beside the importance of raising the quality of education and training, formal private sector job creation must be emphasized and further developed to absorb the growing labour force in particular youth and women. To resolve the skills mismatch challenge, it is essential to reinforce universities and research centres links to 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 companies with high-growth potential, with focus on youth and women. Through the EIB- FEMIP facility ("Facilité Euro-Méditerranéenne d'Investissement et de Partenariat"), and 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**



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In an attempt to measure and predict the future prospects of inequality in the SEMC, El Laithy (2012) suggests that over the period up to 2030, the projected economic growth of the selected countries in SEM region is associated with higher inequality and 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 SEMC 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 with 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. Lebanon, Jordan and Syria) or if they exist (Egypt), they are literally ineffective. As to the universal health care services, they only exist in Israel, while they are provided to special limited subscribing groups of employees or public sector workers in the rest of the countries, however the quality of services is rather poor (in Egypt and Turkey) or relatively expensive (since the beneficiary has to contribute from her own private sources a substantial part of the service cost) in 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 expected widening inequality gaps in the SEMC; better-targeted services to the poor such as health, education and social welfare to increase access to subsidized social services; more investments in low cost housing and extension of infrastructure that 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 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 the society and improving the quality of the services. Until now, the major revenues of the system are



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modest contributions by both employers and employees, with the State committed to cover deficits. As the coverage of social insurance schemes is enhanced, the budgetary pressures are likely to grow. Thus, considering new sources of generating revenues and introducing new more equitable social protection schemes could help in reducing the government's subsidized burden.

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

Migration flows between the SEMC and the EU have fluctuated over time and vary according to 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 behind migratory flows at certain points during the last century, with instability in Libya and Syria in the wake of the so-called Arab Spring triggering recent increases in the number of entries towards Europe, including an important component of individuals in need of international protection (asylum seekers and refugees). However, other socio-economic and political factors which have been identified as playing an important role in explaining migration outflows from SEMC to the EU, have been GDP gaps between sending and receiving countries, income and employment expectations, security issues and concerns over rule of law and institutional quality.

Migration policy cooperation between the EU and SEMC has focused overwhelmingly on control and surveillance of EU external borders and 'capacity building' in SEMC countries 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 portability of social security rights have been limited.

EU cooperation with third countries on migration matters is



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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. However, 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 critiqued for their strong eurocentric conditionality approach 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 as the 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 SEMC and EU, 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.

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

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



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human rights, etc.

EU migration policies and cooperation with SEMC 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 SEM countries and Mobility Partnerships should be subject to regular, independent evaluations of their impact and value-added. Further, these international agreements should include flanking measures to facilitate mobility, including measures to support the recognition of international qualifications of third country workers in the EU; guarantees for 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 SEMC which would sequence the steps needed from 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 of mobility as an asset. In this case, mobility schemes are not uni-directional but involve the movement of workers, students,



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business people etc. from the EU to the Southern Mediterranean and vice versa.

Finally, to put this approach into practice requires the EU to move beyond its current 'home affairs' focused approach to 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 with a reallocation of responsibility for (external cooperation on) migration policy towards the European External Action Service would help ensure that the EU's migration policy towards the SEMC 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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