**Call From Rabat**

**Declaration of the Governments of Morocco, Tunisia and Egypt to Support the Creation of Decent Jobs through Entrepreneurship, the Development of MSMEs and Inclusive Employment Policies**

***The COVID-19 pandemic aggravated an already precarious situation of labor markets in the North Africa region given mounting challenges to expand the formal private sector and create quality jobs*.** By 2019, the regional unemployment rate reached 12.1% and was close to 30% among youth (almost 40% for young women). Indeed, while the labor force was growing at more than 2% per year between 2010 and 2018, employment expanded by only 1.8%. Micro, small, and medium enterprises (MSMEs) were the main engine behind the creation of jobs but operated mainly in the informal sector of the economy, displaying low levels of labor productivity and facing structural constraints to grow. Thus, most jobs created between 2012 and 2019 were informal and account today for 67.3% of all jobs in North Africa.[[1]](#footnote-1) The COVID-19 pandemic, despite swift support by governments, had devastating effects particularly among MSMEs.It is estimated that in 2020, GDP in Egypt, Morocco and Tunisia contracted by close to 7,1% and that in 2021, the level of output was still 5 percentage points below that observed in 2019. Some 3 million jobs were lost due to the crisis. Unemployment rates increased by 2 percentage points, on average, real earnings declined, and the share of informal employment expanded.[[2]](#footnote-2)

***Going forward, Egypt, Morocco and Tunisia will have to create some 8.4 million jobs by 2030 just to keep current employment rates constant, over 14.5 million if the goal was to halve unemployment rates and more if participation rates also increase*.** Indeed, policy targets for participation and employment rates and labor productivity grow will determine the future needs and patterns of job creation, economic growth and investments. In a scenario where participation and employment rates for youth and adults remain constant at current levels, Tunisia would have to create a total of 610 thousand jobs by 2030, Morocco 1.9 million, and Egypt 5.9 million. In a more ambitious scenario where countries aim to reduce youth unemployment by 50% by 2030 Egypt alone would have to create 10.7 million, Morocco 3.1 million and Tunisia 754 thousand.

***It is likely that an important share of these new jobs will have to come from MSMEs particularly as the digital economy changes the role of the firm and make wage employment less prevalent*.** Outside of the manufacturing sector where industries face high fixed production costs that require economies of scale, firms will have fewer incentives for hiring workers under open-ended or even fix-term contracts. On the contrary, new technologies are reducing the cost of outsourcing tasks to self-employed workers or small enterprises. New forms of work are therefore likely to continue to replace traditional wage employment. Workers with stable jobs in large formal companies might become the exception rather than the norm.

***In this context, the Governments of Egypt, Morocco, and Tunisia recognize the importance of social dialogue to underpin the design and delivery of effective policies and the need to give priority and set the legal framework to develop interventions that create decent jobs by promoting entrepreneurship and the development of MSME, while having in place employment policies to protect workers, connect them to new job opportunities, and reduce informality.*** ***The three governments also recognize the importance of changing social perceptions about entrepreneurship and improving entrepreneurial capabilities******paying particular attention to woman and youth.***

**The Need to Improve the Design of Existing Interventions to Support Entrepreneurs and MSMEs**

***Egypt, Morocco, and Tunisia have been leaders in the design of public policies and programs to promote entrepreneurship and the grow of MSMEs***. Egypt, for instance, has been able to develop a large ecosystem to support high-end entrepreneur while setting regulations to facilitate the creation of formal firms. Tunisia has also led in the adoption of a state of the art legal framework to promote entrepreneurship; the *Start-up Act*. Morocco, on the other hand, has implemented several innovative financing mechanisms for entrepreneurs and MSMEs and is now drafting a new law to support small business, as an integral part of the *New Development Model*.

***At the same time, based on the review of international experiences and the results of existing impact evaluations, there is an understanding of some of the challenges facing existing programs in terms of scalability, sustainability, and selectivity***.

* **Scalability**. Impact evaluations suggest that, in general, programs that support entrepreneurship and MSMEs have had limited success, particularly when it comes to job creation. Only one third of the programs that have been rigorously evaluated have had a positive impact on employment and/or earnings. Even when successful, programs that support a few hundred entrepreneurs and MSMEs with high growth potential will not be able to make a dent on the jobs challenge discussed above. For existing initiatives to succeed and create quality jobs, they need to reach a much larger number of firms and self-employed workers, many of whom lack the skills and personality traits of vocational entrepreneurs; they are unlikely to succeed at creating firms from scratch.
* **Sustainability**. Bringing programs to scale requires not only different types of interventions but also being able to mobilize larger amounts of financial resources. Current government programs are financed by relatively small budget allocations and grants from donors. Often, when grants expire so do the programs; they are not financially sustainable. Moreover, the likelihood that new or existing MSMEs are able to grow depends on having access to traditional sources of financing, mainly credit from banks. Equity investments and new fintech initiatives still play a minor role, particularly outside the small group of high-end entrepreneurs. Hence, the current level of public and private investments in entrepreneurs and small firms is not enough to ensure sustainable growth and job creation at scale.
* **Selectivity**. Selectivity is “*the quality of carefully choosing someone or something as the best or most suitable*.” Current public initiatives often struggle to select businesses with potential to grow and create jobs, *and* the type of support services that are more likely to achieve this potential. Indeed, in most countries private entrepreneurship ecosystems are still sparce and fragmented and public interventions to correct this have not been sufficient. Many times, public business development services do not have the capacity and incentives to respond to the needs of a very heterogenous population of entrepreneurs and MSMEs.

**Towards a New Paradigm to Create Decent Jobs by Promoting Investments in Entrepreneurship and the Development of MSMEs**

***The governments of Egypt, Morocco, and Tunisia are considering a change in paradigm in public policies to put jobs at the center of the process of economic and social development***:

* Economies grow when more people work, when each job becomes more productive and when people move from low to higher productivity jobs.
* Households escape poverty when workers have access to better jobs and receive higher earnings.
* Decent jobs contribute to the accumulation of human capital, reduce incentives for mass migration, and promote social stability.
* Decent jobs also contribute to the expansion of aggregate demand and can increase the resources that governments have to implement social policies and supply public goods.

***There is a recognition that outside the public sector, employment creation ultimately depends on investors and entrepreneurs’ decisions to start new, or grow existing, businesses*.** For these investments to take place, there are three preconditions. First, the existence of investment opportunities with competitive expected rates of return, which implies balancing macroeconomic stability considerations with employment objectives, and having an adequate business environment with no barriers to entry. Second, the ability of investors to appropriate the returns on their investments, which requires good governance, security, and the rule-of- law. Finally, access to finance, which depends to a large extent on the level of development of the banking sector and capital markets.

***However, markets alone are unlikely to allocate investments to the sectors that have the highest potential to improve employment opportunities for most workers in North African countries.***The main reason is that, in general, private investors do not consider the social value (the social externalities) of jobs. In fact, investments naturally driven by profits might seek to reduce labour costs and therefore labour demand. At the same time, investments that have the potential to generate jobs and therefore have a high social rate of return might not take place if higher risks and transactions costs reduce financial rates of return.

***Governments therefore have an important role to play in setting specific targets in terms of employment creation for different population groups and nudging private investments to strategic economic sectors and value chains.***  Achieving these objectives will require integrated employment policies coordinating interventions at three levels:

* ***Macro and regulatory policies*** to create the conditions that enable private investments, including by ensuring market contestability so that incumbent firms do not discourage the entrance of competitors. These policies have been the focus of traditional development strategies but while necessary are not sufficient.
* ***Labor policies and programs*** to protect workers, (re-) connect them to jobs, and facilitate labor market transitions from inactivity/unemployment into a job or from low to higher quality jobs, taking into account the diverse barriers to equality of opportunities, including for women.
* ***Sectoral/regional policies and programmes*** to promote economic transformation and support entrepreneurships and the development of MSMEs, and support employment creation in specific regions and sectors for different populations groups, thus enabling social and gender inclusion.

***In terms of sectoral, regional, and labor policies the Governments of Egypt, Morocco, and Tunisia have identified 7 strategic reforms and innovations to maximize the impact of existing programs on jobs.***

1. **A legal framework to give governments and social partners an explicit mandate to promote entrepreneurship and the development of MSMEs and setup the necessary institutions and regulations.** These would include definitions to characterizes different types of entrepreneurs and enterprises; mechanisms to identify, register and profile these enterprises (see below); general guidelines in terms of the types of support services that need to be developed; a policy framework to encourage the formalization of informal MSMSs; institutional arrangements for to guide policy reforms and support their implementation and oversight; budgetary allocations to finance the different policies and programs; and guidelines in terms of monitoring and evaluation.
2. **Strategic investments in value chains to create decent employment by developing business opportunities for entrepreneurs and MSMEs, including in lagging regions**. With the right implementation arrangements, programs to develop strategic sectors and value chains can address the problem of *scalability*.
3. **Public private partnerships (PPPs) to implement investment funds that mobilize public and private resources for entrepreneurship and job creation**. These funds can address the problem of *sustainability* by allocating financial incentives to private investors within specific value-chains conditional on creating commercial opportunities for MSMEs and jobs for youth. The funds can then tailor financial instruments for the entrepreneurs and MSMEs that want to benefit from new commercial opportunities. Any intervention should primarily incentivize business success; profits, competitiveness and returns.
4. **Innovations in labor and social protection policies to better protect all workers, help them connect to new jobs by addressing barriers to equality of opportunities, and promote the formalization of the economy.** This will imply reforms to improve the effectiveness and inclusiveness of existing active labor market programs and employment services; changes in the design of social insurance programs to delink access from the labor contract and finance redistributive arrangements from general revenues instead of pay-roll taxes; adopting modern administrative systems to enroll workers and collect contributions; and having support programs to help low-productivity MSMEs enter the formal sector.
5. **Statistical Profiling Systems to target support to different types of entrepreneurs, including those involved in high value-added startups.** These systems can help address the *selectivity* problem by helping identify different categories of entrepreneurs (subsistence, vocational, transformational), the constraints they face, and the level of support they require.
6. **New delivery systems for support services, including training, based on payments for results**. These systems are likely to improve the incentives that services providers have to respond to the needs of a heterogenous population of entrepreneurs and MSMEs and also address *selectivity* issues.
7. **State of the art monitoring and evaluation systems to ensure that the different initiatives are having the expected results and introduce corrective measures when needed.** These systems combine real-time administrative data about the operations of the programs with tracer-surveys to follow their beneficiaries – enterprises and individuals – over time and obtain information about employment outcomes. They are a precondition to make payments based on results.

***The three Governments also recognize the need to mobilize sufficient public resources to support the design and implementation of the new initiatives and private investment*.** With the right design, investments in entrepreneurship, MSMEs development programs, and employment policies can generate high social rates of return. All countries already spend considerable resources in these programs. The goal is to reallocate expenditures towards the most efficient initiatives. In the case of Tunisia, for instance, public expenditures in the order of 3 to 6% of GDP could have a significant impact on employment and labor productivity, with annual social rates of return above 20%.

***To achieve the goals described above and create enough jobs over the next decade the three governments will setup independent Technical Commissions (TCs) to oversee the preparation and implementation of priority reforms*.** These will facilitate social dialogue with representatives from central and local governments and social partners as well as civil social society, including entrepreneurs and recognized experts in the fields of employment, private sector development, and entrepreneurship. Over the next six months the TCs will outline a road map for policy analysis; social dialogue; and the preparation of the necessary legal and regulatory framework, and implementation arrangements. While the focus of each TC is on national public policies, they will maintain periodic exchanges with the TCs of the other countries to share experiences and disseminate goods practices in the design and implementation of different reforms.

1. ILO 2020. Rapport sur l’emploi en Afrique (Re-Afrique) - Relever le défi de l’emploi des jeunes. [↑](#footnote-ref-1)
2. See African Development Bank reports on the impact of COVID-19 on MSMEs in Egypt, Morocco and Tunisia. [↑](#footnote-ref-2)