

Policy Paper

The Poor and Marginalized in Lebanon: Labor Market Challenges and Policy Implications

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This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 613174

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Executive Summary

This policy paper investigates both structural and cyclical problems affecting labor market outcomes of poor and marginalized youth in Lebanon. The Lebanese economic system has been characterized by jobless economic growth most severely impacting women and youth in the post war era. At the moment, an average of 3,400 new jobs is created each year in Lebanon. This number needs to increase six folds to keep up with the youth entrants into the labor market over the next decade.

Youth employability is generally attributed to demand side constraints that negatively impact the ability of the economy to create new jobs fast enough. These constraints increase the likelihood that more firms will move from the formal to informal sector, which increases youth unemployment. Moreover, youth from poor socio-economic backgrounds find it harder to acquire education and build social networks, making them the prime victims of jobless growth. We identify three important restrictions that dampen the creation of new jobs in Lebanon: i) rigid labor regulations, ii) skill mismatch, iii) and poor governance. On the supply side, youth employability is also inhibited by a number of constraints related to workers' characteristics. These characteristics relate to education, skills, personal characteristics, and knowledges and experiences. The set of workers' skills can be developed through formal education and training. This set is considered to be constrained when a labor mismatch occurs.

Governments intervene in the labor market through active labor market policies (ALMPs) that aim to improve the employability of workers and reduce unemployment. In Lebanon, a number of ALMPs have been introduced with varying degrees of success. An overall assessment of ALMPs in Lebanon indicates that they are ad-hoc in nature. First, training programs are biased towards the supply side of labor with little regard to the actual needs of demand side of the private economy. Second, the provision of employment services is put into doubt by the limited role played by the National Employment Office as a job matching platform between employers and young job seekers. Another limitation is related to rigid labor laws that make it illegal for job hunting firms to operate in the country. Third, self-employment support programs are under-funded. Self-employment is one of the main engines of economic growth and employment, however, despite some government efforts at micro and small enterprise financing, self-employed workers and employers remained at a disadvantage compared to other types of businesses.

Policies that would create dynamic economies with diversified economic sectors and more formal employment would help in alleviating the demand-side constraints that produce poor job growth in Lebanon. There should be a comprehensive and consistent strategy in place in order to maximize labor market outcomes with policy-makers anticipating the effective level of skills needed in the labor market, which would reduce the skill mismatch problem between job requirements and youth skills.

1. Introduction

Youth access to the labor market is considered to be the gateway to integration into the economic structure of society. Across the globe, an important institutional problem that the youth face is the high level of unemployment that many regions and countries suffer from, especially in the aftermath of the 2008 crisis. This problem is of particular concern for the Middle East and North Africa (MENA) region. Latest figures from the MENA region show an alarming situation. According to the International Labor Organization (ILO) (2015), the youth unemployment rate is the highest in the world with an average of 30% in 2015 compared to an average of 13% of all geo-economic regions, while the youth employment-to-population ratio is the lowest in the world with an average of 23% compared to a world average of 41%. The problem in Lebanon is found to be in line with these regional trends where the youth unemployment rate is around 34% (World Bank, 2012) compared to total unemployment rate of 11%. These dismal figures reflect under-exploited production resources that restrain long-run economic growth and result in rising inequality, higher poverty rates and marginalization for the youth. Moreover, marginalized youth are locked out of jobs in the formal sector and do not have access to good quality education, including high education, which are correlated with higher good job prospects and adequate income.

The problem of youth unemployment is engendered, on the supply side, by their employability, which has become a permeating concept in research, public policy, and political discourse about youth in society. Employability can be understood to be the set of skills, personal attributes, familiarities and experiences that provide an individual access to employment (Pool and Sewell, 2007). Given that the set of these attributes is more constrained for the poor and marginalized as their set of socioeconomic characteristics limit their access to employment, their employability is in general more restricted. In addition to supply side factors, the demand side, the prevailing economic structures and dynamics of markets can limit the demand for labor and the final sectoral distribution of employment. This latter factor is important in the generation and persistence of youth unemployment both in Lebanon and the MENA region.

This paper explores issues affecting the youth labor market that are key to decision makers in Arab Mediterranean Countries (AMCs) in general and Lebanon in particular. We identify a number of constraints hindering the employability of young people in Lebanon, which will help policy-makers to take actions and implement policy scenarios in the AMCs. Among the main issues that are important in the Lebanese labor market are job creation, unemployment, precarious jobs, skill mismatch, informality, opportunistic entrepreneurship and the “low productivity-low wages” trap. Understanding these supply and demand constraints on youth employability is an essential requirement towards the implementation of evidence-based policies aimed at mitigating bad outcomes for the poor and marginalized youth. In addition to employment, these bad outcomes severely affect the youth resulting in social exclusion, loss of health coverage, and income inequality.

The issues raised in this paper gain more importance in light of the recent political and economic transitions that began in 2011 following the “Arab Spring” which witnessed the mass involvement of youth in the protests in all countries that witnessed political and social uprisings. Before and after the Arab Spring, AMCs witnessed deep economic challenges for young people that faced anemic job creation dynamics and constrained employment opportunities (O’Sullivan et al., 2011). Given such conditions, the creation of new jobs must take high priority in the policy agendas of AMC countries. In this respect, the challenges are

tremendous as MENA countries need to create more than 1,500,000 new jobs per year for the next 10 years in order to absorb youth in the labor market (Angel-Urdinola and Kuddo, 2011). In Lebanon, given the labor force of around 1 million, in 2008 (Central Administration of Statistics, 2008), this translates into the need to create around 150,000 jobs per year to keep up with the new labor market entrants and job destruction caused by the exit of less productive firms from the market.

In this policy paper, we aim at analyzing the implications of labor market policies for youth with the non-youth population. It focuses on the post-war period, i.e. between 1990 and 2015. Following the SAHWA project definition, we consider the youth to be those aged between 15 and 29 years. The remainder of this paper is organized as follows: Section 2 provides the contextual setting; Section 3 analyzes key challenges in the youth labor market in Lebanon; Section 4 describes the available active labor market policies in Lebanon; Section 5 provides concluding remarks.

2. Contextual setting

Lebanon is shaped by a peculiar political-economic system that governs all economic activities in the country. The economic system in Lebanon is characterized by high level of government involvement mainly through high public debt, the presence of cartels in most industries and markets, and the existence of an entrenched bureaucratic and rent-seeking apparatus under the control of sectarian political parties. In 2015, GDP per capita is estimated at 12,500 US dollars putting Lebanon in the upper-middle income countries. Since independence in 1943, the Lebanese economy has been mostly service-oriented with the coexistence of small industrial and agricultural sectors. The economy suffered large-scale destruction caused by the civil war (1975-1990), and in the post-war period the sectorial composition of the economy became even more geared towards the dominance of the service sector and witnessed a rise in the relative importance of low-productivity sectors as illustrated in Table 1 (World Bank, 2012).

Table1. The GDP Composition by Sector Change between 1997 and 2010

Sector	Average Growth 1997-2010	Composition by Sector in 1997	Composition by Sector in 2010
Agriculture	1.0%	6.7%	4.5%
Manufacturing	1.5%	12.5%	8.9%
Construction	4.3%	8.8%	8.6%
Transport & Telecom	8.9%	5.4%	10.5%
Trade	4.5%	21.2%	21.8%
Public Administration	2.8%	11.0%	9.8%
Services	4.2%	34.4%	35.9%
GDP	4.0%	100.0%	100%

Source: World Bank (2012)

In the wider Arab context, the events that unfolded in 2011 were mainly driven by a discontented youth that revolted to change the poor economic conditions. However, Lebanon did not witness a similar event in 2011 but rather a number of sporadic protests since 2005 in the aftermath of the withdrawal of the Syrian army. These protests reached a critical point in 2015 with social protest triggered by a “garbage collection crisis.” This

social movement was mainly led by the youth which were feeling increasingly socially and economically marginalized in addition to political disenfranchisement.

Against this backdrop, poverty in general and youth poverty in particular, can be seen as one of the main detrimental outcomes of the performance of the Lebanese economy. The average poverty rate is 27% in Lebanon (Central Administration of Statistics (CAS) and World Bank, 2015). In 2016, the median income of employed youth in Lebanon stands at 663 US dollars (SAHWA Youth Survey, 2016).¹ Poverty rates increase with informality (daily and weekly paid) and self-employment reaching higher rates than the national average. SAHWA Youth Survey indicates that around 47% of employed youth have no job contract (see Table 2). According to the CAS and the World Bank (2015), underemployed workers (Employee, i.e. weekly and daily employees) have the highest poverty rate (47%) followed by self-employed workers (28%). This is a strong indication that poverty is strongly correlated with informality, which mostly affects youth from marginalized backgrounds.

Table 2. Employment type

	in %
Employer	10.01
Self-employed	16.42
Permanent contract	52.87
Temporary contract	13.48
Apprentice	1.47
Family support	5.74

Source: SAHWA Youth Survey (2016)

Additional data from the World Bank show that the median earning is twice as much in the formal than in the informal sector (World Bank, 2012), which points to a confirmation of the direct link between informality and poverty and marginalization of youth.

3. Key challenges in the youth labor market

3.1. Background on the labor market

The Lebanese economic system has been characterized by jobless economic growth most severely impacting women and youth in the post war era. According to the World Bank (World Bank, 2012), GDP grew at an average rate of 3.7% per annum while employment only grew at 1.1% between 1997 and 2009. At the moment, an average of 3,400 new jobs is created each year. This number needs to increase six folds to keep up with the youth entrants into the labor market over the next decade. According to the SAHWA Youth Survey, in 2016 the youth employment rate was around 34% which is an indicator of the jobless growth. When comparing this figure between urban and rural settings, we find that 76% of employed youth are located in the urban areas. Jobless growth is attributed to demand side constraints that negatively impact the ability of the economy to create new jobs fast enough. These constraints increase the likelihood that more firms will move from the formal to informal sector, which increases youth unemployment. Moreover, youth from poor socio-economic backgrounds find it harder to acquire education and build social networks, making them the prime victims of jobless growth. Job creation has been mainly concentrated in the services sectors whereas manufacturing and agriculture witnessed job destruction as revealed in Table 3.

Table 3. Net Job Creations in Different Economic Sectors

Sector	Net Job Creation (2004-2009)	Compound Annual Growth Rate (2004-2009)
Agriculture	-3,216	-1%
Industry	-12,664	-2%
Construction	16,753	3%
Trade	98,645	7%
Transport, post and Telecom	3,109	1%
Services	53,832	2%
Financial Intermediation and insurance	5,162	5%
Not specified	111	5%
Total	161,731	3%

Source: World Bank (2012)

Next, we discuss these constraints while separating them into those that are derived from demand side and those that on the supply side of the market.

3.2. Employability and demand side constraints

Severe employment conditions and restrictions to employability are expected to pose serious obstacles to welfare improvement, job creation and economic growth in the MENA region in general and Lebanon in particular (Fakh and Ghazalian, 2015). We can identify three important restrictions that dampen the creation of new jobs by the private sector, which are rigid labor regulations, skill mismatch, and poor governance (Amin, 2009; Djankov and Ramalho, 2009; Kaplan, 2009).

The first restriction is most pronounced in AMCs, which have the most rigid labor markets compared to other developing countries (Bhattacharya and Wolde, 2012). In Lebanon, 36% of private firms state that the less flexible labor regulations are a major obstacle for the development of business and hiring more people compared with an average of 25% of the MENA region (World Bank's Enterprise Database). The second restriction relates to skill mismatch, which constitutes an important obstacle for job creation. Skill mismatch can be defined as the existence of skills shortage in the labor market. Skill mismatch is highly persistent in the AMCs and has been identified as a severe obstacle for growth (Bhattacharya and Wolde, 2012; Fakh and Ghazalian, 2015). Skill deficits have been often manifested by private firms a major obstacle to hire more people. In Lebanon, we find that 48% of private firms state that skill deficit is a major obstacle that constraints firms to develop their activities and increase hiring compared with an average of 38% for the MENA region (World Bank's Enterprise Database). The third restriction relates to the lack of well-developed institutions that can facilitate job creation in the market (Bhattacharya and Wolde, 2012; Glaeser et al., 2004). Arayssi and Fakh (2015) conclude that, in the post-2011 period, improving the institutional arrangements would lead to an increase on the contribution of manufacturing sector to economic growth and job creation in the MENA region.

The existence of restrictions in the labor market is expected to contract job creation and thus to enhance the long-run unemployment. Indeed, creating fewer jobs is associated with high unemployment, more inequality, and informal employment in the economy, especially

among youth in Lebanon (Sahnoun et al., 2014). When the economy fails to create enough formal jobs, informality arises and absorbs an important share of the active population. O’Sullivan et al. (2011) find that informal employment in Lebanon is among the highest in the AMCs and comes second after Morocco. Moreover, according to the World Bank (2015b), more than 50% of the population in Lebanon does not have health insurance as they belong to the informal labor market with a lack of basic social security coverage. Additionally, informality constitutes 56.2% of the total labor force (Angel-Urdinola and Tanabe, 2012).²

However, private sector demand for labor is also constrained. The educational system that produces inequalities of outcomes between rich and poor and in between regions (The North, for example, has the highest dropout rates coupled with highest poverty rates), nevertheless produces highly skilled graduates. However, firms lack the demand for such skilled work force (Kawar and Tzannatos, 2013, World Bank, 2012). The inequalities in the educational system, low demand for skilled workers, and the high share of informal employment (Kawar and Tzannatos, 2013) restrict demand for labor. Moreover, according to Kawar and Tzannatos (2013), there is a weak match between education and work which is an important determinant of youth employment and compensation. In general, only 40% of graduates work in jobs that match very well their qualifications, while 20% work in occupations that do not match their educational fields. Moreover, the labor market is fluid as evidenced by the fact that the youth will have moved between ten and fourteen jobs by age 38. Many of the youth interviewed in the SAHWA ethnographic study, did confirm this general trend as they were pursuing careers that differed from their academic studies (NCS, 2016).

Moreover, informality has distributional effects (O’Brien, 2003). In Lebanon, there is no publically mandated social security program; as such the existing program is not universal. According to Angel-Urdinola and Tanabe (2012), around 70% of youth aged 15 to 24 are not covered by the National Security of Social Fund (NSSF) in Lebanon compared with 53% of people aged 55 to 64. These numbers are in line with the SAHWA project findings that show that in Lebanon 45.39% of employed youth are not covered by the NSSF in 2016.

3.3. Employability and supply side constraints

Besides demand side constraints, youth employability is also inhibited by a number of supply side constraints related to workers’ characteristics. In general, these characteristics relate to education, skills, personal characteristics, and knowledges and experiences. The set of workers’ skills can be developed through formal education and training. This set is considered to be constrained when a labor mismatch occurs.

Youth employability problems from the supply side are often linked to poor educational systems. Since the end of the civil war in 1990, Lebanon has invested significantly in higher education; however, these investments which were largely private investments did not translate into better educational outcomes for the youth. In fact, the main problem facing youth is inequality in access to the educational system (Kawar and Tzannatos, 2013). Heterogeneous access to quality education severely impacts the employability of youth from poor and marginalized families. This problem is most acute in higher education. Although, Lebanon has more than 50 institutions of higher education, with only one public university, only a limited number of them provide quality education at a cost that is prohibitive in

general to youth from poor backgrounds, which leads to a situation in which elites among the youth attend elite private universities. Moreover, regional disparity in accessing education is due to the concentration of institutions of higher learning in the capital city Beirut. This setup contributes further to educational inequality among urban and rural youth. Compared to other AMCs, inequality in education outcomes is highest in Lebanon (Salehi-Isfahani et al., 2014). Another related problem is linked to the large number of universities and colleges producing a large number of graduates that cannot be absorbed by the labor market (OECD, 2015). Additionally, even though around 26% of the student population is registered in Vocational and Technical Education (VTE) programs, students suffer from low quality education, bad equipment, and outdated practical training (Kawar and Tzannatos, 2013). Thus, limited access to quality education creates a vicious cycle of marginalization, underemployment, and unemployment.

The educational system in Lebanon is also lacking at the school level. SAHWA Youth Survey data show an equal distribution of students between the public and private schools in 2016. This may indicate that around 50% of youth belong to households from poor and marginalized backgrounds since private schools are expensive to attend. When looking at the total learning deficit for elementary/primary school children as percentage of all children of this age group for 2012, data shows that: 1) the total share of children not learning is around 46%, 2) the share of children out of school is equal to 7%, 3) the share of children in school but expected to drop out is around 20%, and 4) the share of children in school but not learning is equal to 19% (Steer et al., 2014). These deficiencies add more structural weakness to the ability of the educational system in Lebanon to provide adequate training and capabilities to the young workers from poor backgrounds. This observation is confirmed by the SAHWA ethnographic study where interviewed youth were critical of the link between the educational system and job prospects in addition to the high cost of education that forms a barrier to educational attainment (NCS, 2016).

4. Active labor market policies

Active labor market policies (ALMPs) are generally governmental programs that aim to improve the employability of workers and reduce unemployment. Usually, governments intervene in the labor market through three main programs, which are public employment services, training programs and employment benefits. These programs may shorten the transition period from unemployment to employment. The objective of such programs is to alleviate the skill mismatch problem between job requirements and youth's skills. In Lebanon, a number of ALMPs have been introduced with varying degrees of success. Additionally, ALMPs in Lebanon are not strictly provided by public institutions but also by private contributors that provide a number of programs and subcontracting to private providers (Angel-Urdinola and Leon-Solano, 2013). There are three major ALMPs in Lebanon to assist young people among others, namely: 1) New Entrants to Work Program (NEW) led by the National Employment Agency (NEO) that aims at improving employability for first time job seekers through a combination of the following interventions: (i) life skills training; (ii) job-search and counseling; (iii) on-the-job training (OJT); and (iv) social security vouchers combined with a wage subsidy; 2) Vocational Training Center (VTC) that target to provide training programs in the electronics and mechanics fields; and 3) National Qualification Framework (NQF) for the period 2010-2015

with the hope to determine the expected outputs of the educational programs and certificates in addition to specify the necessary qualifications-education in different professions.

An overall assessment of ALMPs in Lebanon indicates that they are ad-hoc in nature. First, training programs are biased towards the supply side of labor with little regard to the actual needs of demand side of the private economy. In addition, both public and private vocational training programs lead by NGOs do not provide standardized certifications, which leads to confusion about the quality of the training and little accountability about their efficacy. Second, although 75% of those registered at the NEO are youth (World Bank, 2012), the provision of employment services, is put into doubt by the limited role played by the NEO as a job matching platform between employers and young job seekers. In addition, some NGOs provide some services by using their own private network with limited success. Another limitation is related to rigid labor laws that make it illegal for job hunting firms to operate in the country. Third, self-employment support programs are under-funded. Self-employment is one of the main engines of economic growth and employment, however, despite some government efforts at micro and small enterprise financing, self-employed workers and employers remained at a disadvantage compared to other types of businesses.

5. Conclusion

The striking fact about the employability issue in the AMCs, including Lebanon, is that the annual employment growth rate in the AMCs is the highest in the world, coupled with the highest unemployment rate in the world including youth unemployment. This paradox raises questions about factors affecting employability and jobless growth, which is a tell-tale of a region that is significantly under-exploiting its labor resources.

Employability of youth and identifying factors that improve education-to-work transitions for young people is a pressing topic in the reform of youth labor market in Lebanon. This policy paper identifies a number of supply and demand side constraints that limit the employability of young people in Lebanon. Policy-makers who would not recognize these labor market constraints will not be able to implement effective policy solutions.

We identify three severe employment conditions and restrictions to youth employability: 1) rigid labor regulations, 2) skill mismatch, and 3) poor governance. In addition to these demand side constraints, youth employability is also inhibited by a number of supply side constraints related to workers' socio-economic characteristics. All in all, both demand and supply constraints are expected to contract job creation and to increase informality. As a result, the unemployment rate and inequalities (i.e. income and in accessing education system) will increase and will become a structural problem in the long-run.

The results of our analysis can be summarized as follows. Many of the observations in Lebanon are also applicable to other AMCs that have the most rigid labor markets compared to other developing countries. Skill mismatch is highly persistent in the AMCs and has been identified as a severe obstacle for growth. AMCs are characterized by the lack of well-developed institutions that can facilitate job creation in the market. Firms lack the demand for such skilled work force. We also conclude that there are high inequalities in the educational system, low demand for skilled workers, and the high share of informal employment. Youth employability problems from the supply side are often linked to poor educational systems. In addition, there exists a regional disparity in accessing education is

due to the concentration of institutions of higher learning in the capital city Beirut. The educational system in Lebanon is also lacking at the school level. Finally, ALMPs in Lebanon are ad-hoc in nature. For example, training programs are biased towards the supply side of labor and self-employment support programs are under-funded.

This paper recommends the following. The quality of institutions and public governance that target to improve labor market constraints, both supply and demand, should be transparent where political pluralism and public governance have been shown to be beneficial for businesses and overall economic activity in the MENA region. Additionally, the association between socio-political and organizational settings and employability is well highlighted in the empirical evidence. Policies that would create dynamic economies with diversified economic sectors and more formal employment would help in alleviating the demand-side constraints that produce poor job growth in the region. There should be a comprehensive and consistent strategy in place in order to maximize labor market outcomes with policy-makers anticipating the effective level of skills needed in the labor market, which would reduce the skill mismatch problem between job requirements and youth skills.

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Endnotes

1. SAHWA Youth Survey is a nationally representative survey of 2,000 youth respondents in Lebanon conducted by the department of Economics at the Lebanese American University in the context of the SAHWA project. The aim of the survey is to explore various issues related to the youth such as education, employment, job mobility, culture and values, migration and internal mobility as well as politics.
2. World Bank (2012) report says that "*At one extreme are youth (age bracket 15-24) whose alarming unemployment rate – 34 percent is explained by high entry rates. This high entry rate is, in part, a consequence of demographics; the growing working age population. The results suggest that youth entering the labor market are able to find jobs faster than other age groups, but the jobs they get, probably informal jobs or self-employment activities, are of short duration*" (p. 17).



Researching
Arab Mediterranean Youth:
Towards a New Social Contract



This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 613174.

The SAHWA Project (“Researching Arab Mediterranean Youth: Towards a New Social Contract”) is a FP-7 interdisciplinary cooperative research project led by the Barcelona Centre for International Affairs (CIDOB) and funded by the European Commission. It brings together fifteen partners from Europe and Southern and Eastern Mediterranean countries to research youth prospects and perspectives in a context of multiple social, economic and political transitions in five Arab countries (Morocco, Algeria, Tunisia, Egypt and Lebanon). The project expands over 2014-2016 and has a total budget of €3.1 million. The thematic axes around which the project will revolve are education, employment and social inclusion, political mobilisation and participation, culture and values, international migration and mobility, gender, comparative experiences in other transition contexts and public policies and international cooperation.

