Chapter 6

Dynamics of growth, jobs and inequalities in North Africa

Growth has proved to be broadly unstable in North Africa with volatile domestic investment and inadequate productivity gains. Jobs and inequality remain major challenges, despite the vitality of labour markets in some countries and falling inequality. This chapter reconsiders the dynamic and determinants of these aggregates in the countries for which data are available. It then suggests ways of invigorating economic activity while reducing unemployment and inequality. The primary solutions suggested by this chapter include: promoting political stability, accelerating the structural transformation of the economy, and introducing new policy levers targeting youth and female employment.

IN BRIEF

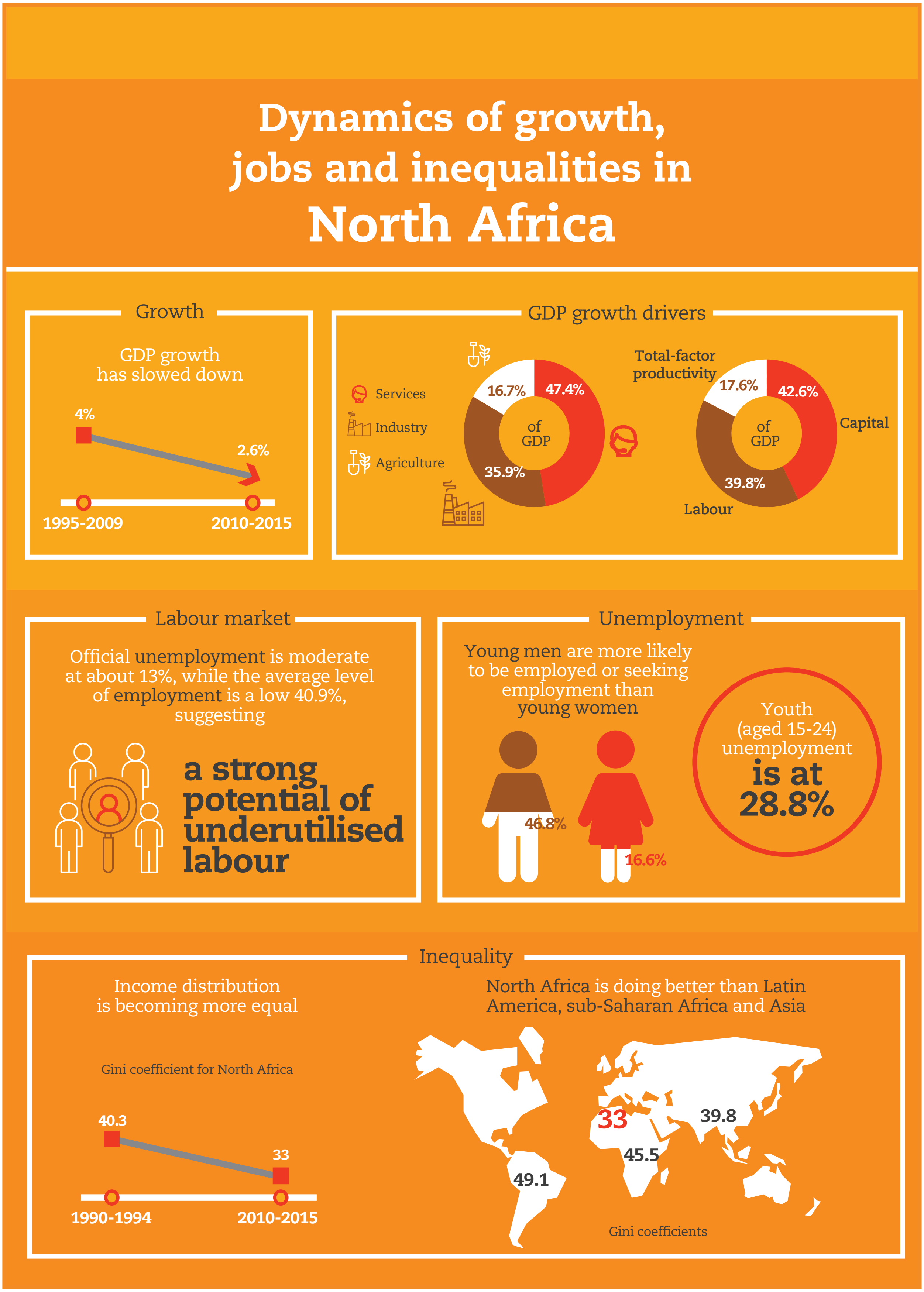
In North Africa growth has brought about a decline in both poverty and **inequality**, enabling the emergence of a middle class in the region. Over the period extending from 1990 to 2015, the Gini index fell by seven points from 40.3 to 33.0. Inequality of opportunity (access to health, education, electricity and sanitation) has diminished significantly in most countries. Income inequality however persists, as the richest 20% earn 7.5 times more than the poorest 20%.

According to the available data, since 2010 North Africa has been broadly characterised by unstable economic performance. **Growth**, which averaged 2.6% between 2010 and 2015 (compared with 4% between 1995 and 2009), has not been sufficient to deal with unemployment or significantly reduce inequality. Productivity gains contributed just 17.6% to growth, versus 42.6% for capital and 39.8% for labour. These figures suggest poor innovation capacity.

Structural transformation in the region remains fairly slow, with services dominating (47.4% of GDP), the industrial sector rising slightly (35.9%) and the agricultural sector contracting (16.7%). Growth remains dependent on external factors such as developments in European demand and international oil prices, as well as domestic factors linked to institutional stability.

In terms of **employment**, official unemployment is moderate at about 13%, while the average level of employment is a low 40.9%, suggesting a strong potential of underutilised labour. Labour markets offer few prospects for high-skilled jobs that would be capable of injecting new dynamism into the economy. Youth unemployment (age 15-24) is 28.8%, which is double the world average. Only 16.6% of young women are employed or seeking employment, compared with 46.8% of young men. Around one-quarter of these young workers live in poverty.

To overcome these challenges, policies will need to improve and strengthen political stability and institutional accountability, accelerate the structural transformation of economies, and target job creation for women and youth via structural policy levers.


Dynamics of growth, jobs and inequalities in North Africa
Growth
GDP growth has slowed down
4%
2.6%
1995-2009
2010-2015
GDP growth drivers
Services
Industry
Agriculture
16.7%
47.4%
35.9%
of GDP
Total-factor productivity
17.6%
42.6%
Capital
39.8%
Labour
of GDP
Labour market
Official unemployment is moderate at about 13%, while the average level of employment is a low 40.9%, suggesting
a strong potential of underutilised labour
Unemployment
Young men are more likely to be employed or seeking employment than young women
46.8%
16.6%
Youth (aged 15-24) unemployment is at 28.8%
Inequality
Income distribution is becoming more equal
Gini coefficient for North Africa
40.3
33
1990-1994
2010-2015
North Africa is doing better than Latin America, sub-Saharan Africa and Asia
33
39.8
45.5
49.1
Gini coefficients

North Africa regional profile

Table 6.1. **Basic indicators for North Africa, 2017**

Population (thousands)	197 490
Land area (thousands of km²)	6 769
Population density (people/km²)	29
GDP, PPP (USD billion)	2 350
GDP per capita, PPP (USD)	12 172

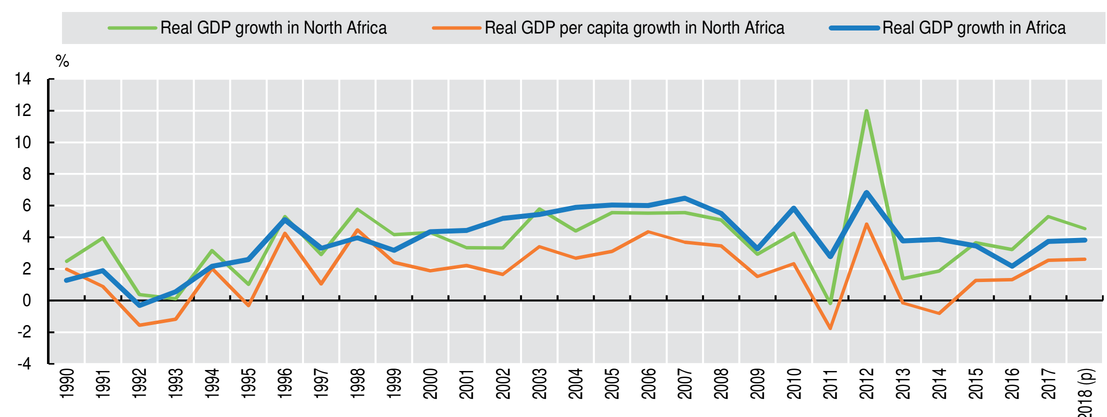
Source: Authors' calculations based on UNDESA (2017), *World Population Prospects* (database); World Bank (2017a), *World Development Indicators* (database) and IMF (2018), *World Economic Outlook Database*.

Table 6.2. **Financial flows and tax revenues to North Africa (current USD billion), 2009-16**

			2009	2010	2011	2012	2013	2014	2015	2016
Foreign	Private	Inward foreign direct investment	16.4	13.8	6.4	14.7	12.2	11.3	11.8	13.7
		Portfolio investments	-0.7	0.7	-0.7	1.5	1.2	3.1	1.3	-0.2
		Remittances	17.4	23.0	25.5	30.0	29.0	31.7	29.2	27.6
	Public	Official development assistance (net total, all donors)	3.2	2.7	4.0	5.0	8.9	7.3	5.0	5.4
Total foreign flows			**36.4**	**40.2**	**35.3**	**51.0**	**51.2**	**53.4**	**47.4**	**46.5**
Domestic tax revenues			**107.9**	**117.9**	**140.9**	**145.3**	**145.6**	**141.5**	**119.2**	**111.8**

Source: IMF (2018), *World Economic Outlook Database*, OECD (2018a), *International Development Statistics* (database), and World Bank (2017a), *World Development Indicators* (database).

Figure 6.1. **Growth dynamics in North Africa and Africa, 1990-2018**



Note: (p) = projections.
Source: Authors' calculations based on IMF (2018), *World Economic Outlook Database*.
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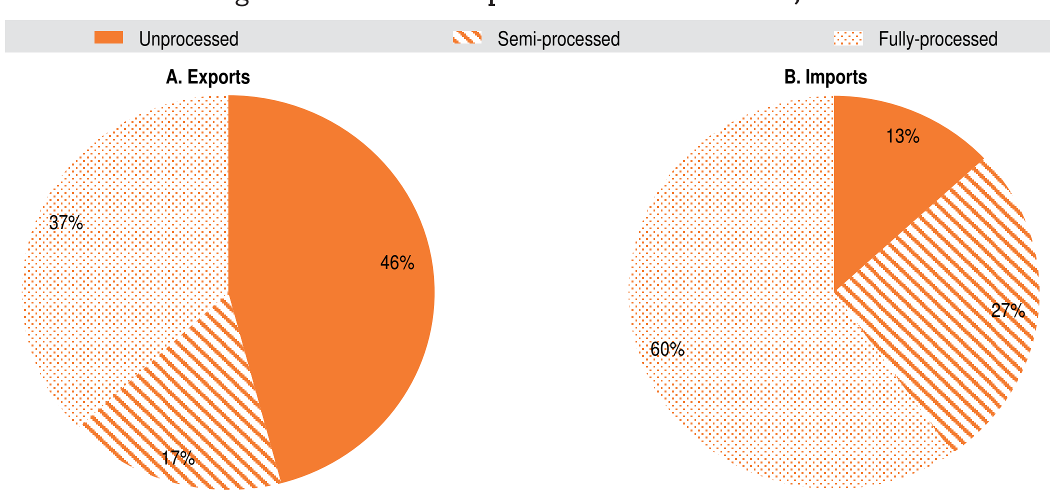
Figure 6.2. **Trade composition in North Africa, 2016**



Source: Authors' calculations based on United Nations Statistics Division (2017), *UNCOMTRADE* (database).
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North Africa occupies a strategic position in the southern Mediterranean, just a few hours from Europe. The population of the region is 197.5 million (15.7% of the population of Africa) spread over 6 769 000 km^2 (23% of the total African continent), giving a population density of 29 inhabitants per km^2. It is the richest region in Africa, with GDP of USD 2.35 trillion, or more than one third (36.8%) of that of the continent. GDP per capita was USD 12 172 in 2017, more than double the African average. The countries of North Africa share several common features: religion, language, culture and source of law. However, a number of differences exist in terms of population trends and economic and social trajectories.

Dynamics and determinants of growth in North Africa

Broadly unstable growth

Growth remains inadequate and volatile. Over the study period, in those countries for which data were available, economic growth was between 2.6% and 5% (Table 6.3), significantly below the double-digit growth of emerging economies. The highest growth was achieved between 2005 and 2009, and the lowest between 2010 and 2015.

After noteworthy progress in the 2000s, growth of GDP per capita weakened over the past five years, given the deterioration of the economic and institutional environment. The region's members were confronted variously with volatility in oil prices, sluggish European demand after the 2008 crash, as well as repercussions of the Arab Spring, the conflict in Libya and waves of terrorist attacks. In addition, average growth was higher in oil importing countries (4%), than in exporters (2.5%), which were left exposed to volatility in oil prices. Growth was most lacklustre in 2011, with the political turmoil of the Arab Spring. This year also marked the start of the fall in GDP per capita.

Table 6.3. **Average GDP growth in North African countries, 1990-2015**

	1990-2015	1990-94	1995-99	2000-04	2005-09	2010-15
Algeria	2.9	-0.3	3.5	4.8	3.0	3.4
Egypt	4.2	3.6	5.1	3.7	6.1	3.1
Libya	2.1	-	-	3.7	5.3	-1.9
Mauritania	3.9	0.9	4.4	2.8	6.1	4.7
Morocco	4.0	3.7	2.8	4.6	4.9	3.9
Tunisia	4.1	5.0	5.2	4.2	4.5	2.1
Mean	**3.6**	**2.6**	**4.2**	**4.0**	**5.0**	**2.6**

Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database).

This general trend in growth conceals several differences, linked to the trajectories of each country.

- Between 1990 and 1994, **Algeria** recorded negative average growth (-0.3%), due to high political instability and the civil war. The election of President Abdelaziz Bouteflika and the introduction of the Civil Concord contributed to an improvement in the economic situation. Oil price instability however contributed to rendering growth volatile.
- Led by tourism, growth in **Egypt** was the highest during the period, at over 3.5% between 1990 and 2009. This sector remains one of the country's growth motors (11% of GDP in 2017, according to the World Travel and Tourism Council, WTTC, 2018), a provider of employment (2.5 million direct and indirect jobs, or approximately 1 in 10) as well as of foreign exchange earnings. Despite government efforts to strengthen economic and employment dynamics, growth has been hampered in recent years by the unfavourable exchange rate, low foreign exchange reserves, a vulnerable banking system and sluggish growth in Europe (the country's principal trade partner).
- In **Libya**, growth has fluctuated strongly as a function of oil production. Oil extraction and refinement are the primary source of income, which depend on the security conditions in the country.
- Growth was stable in **Morocco** and almost always above average for the region, save between 1995 and 1999. It was driven by exports of phosphates and fruit and vegetables to Europe, the boom in competitive services, as well as a rapidly transforming industrial sector. The relatively stable growth contributed to halving the poverty rate in seven years (from 8.9% in 2007 to 4.2% in 2014). The reinstatement of Morocco

into the African Union and its application to join the Economic Community of West African States (ECOWAS) in 2017 are testament to the country's wish to open up to the continent and to further economic integration in West Africa.

- After an extended sluggish period, growth in **Mauritania** has recovered, exceeding 5% between 2003 and 2015, thanks to historic high international prices of raw materials. Revenue from iron ore exports boomed, going from USD 318 million to USD 2.7 billion between 2003 and 2013, without any increase in export volumes. However, the country has difficulty taking full advantage of its natural resources, particularly fishing and livestock, which restricts the prospect of diversification, sustainable growth and job creation.
- In **Tunisia**, a period of exceptional growth (over 5%) between 1990 and 2010 made it one of the best performing countries of Africa. However, over the 2010-15 period its growth was the weakest in the region (2.1%). Political instability and terrorist attacks undermined the productive sectors, particularly tourism.

Over the past 25 years, apart from Mauritania, the dynamics of North African economies reveal notable progress in terms of GDP per capita. In Tunisia, Algeria and Morocco, per capita income grew by more than 50% between 1990 and 2015 (Table 6.4). In Egypt however, growth has been slower due to tremendous population pressure. Income levels there increased by around USD 1 100 on average between 1990 and 2015, compared with USD 1 200 in Algeria, USD 1 500 in Morocco and USD 1 900 in Tunisia. Mauritania in contrast remains on the margins as GDP per capita did not effectively increase between 1990 and 2004, due to demographic growth (at 2.9%) exceeding production growth (2.7%). As it became an oil producing nation, the country experienced a slight uplift (up USD 318 between 2004 and 2014), although this far from compensates for the accumulated arrears.

Table 6.4. **GDP per capita in North Africa (USD at constant prices)**

	1990-94	1995-99	2000-04	2005-09	2010-15	1990-2015
Algeria	3 360.3	3 331.4	3 792.3	4 338.3	4 594.1	3 910.6
Egypt	1 576.4	1 768.9	1 999.8	2 328.9	2 609.0	2 077.7
Libya	-	8 782.8	9 033.2	11 404.9	8 349.6	9 821.0
Mauritania	1 006.6	1 023.9	994.2	1 199.6	1 268.2	1 105.0
Morocco	1 764.5	1 880.8	2 147.1	2 576.9	3 026.0	2 307.8
Tunisia	2 337.3	2 665.6	3 166.9	3 798.8	4 168.2	3 263.5
Mean	**2 009.0**	**2 389.7**	**3 522.2**	**4 274.6**	**3 459.1**	**3 195.5**

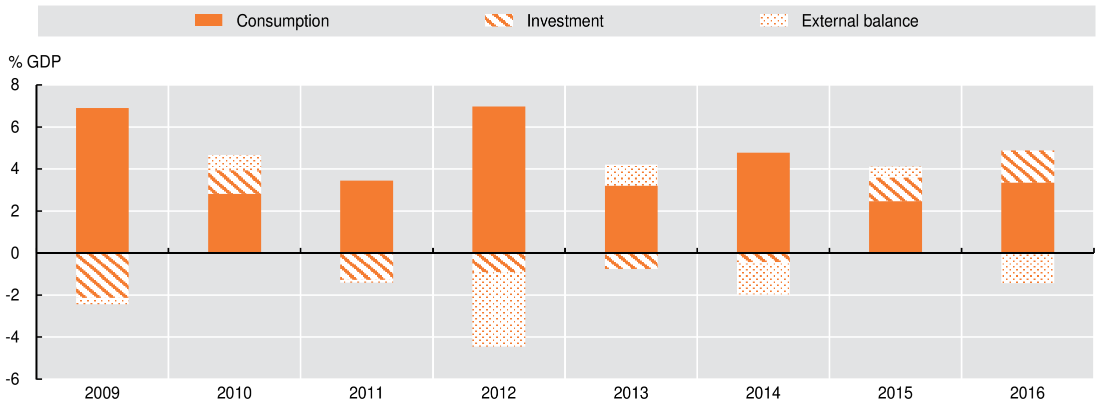
Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database).

Despite sustained internal demand, inward investment remains volatile

Overall, growth remained buoyed by public and private spending from 2009 to 2016 (Figure 6.3). The contribution of investment (public and private) was often negative, given the various internal and external shocks. The negative contribution of investment in 2009 is due to the international financial crisis which impacted on FDI flows, while those of 2011 and 2014 were linked to the uncertainty following the Arab Spring. This volatile contribution of investment underscores the limited effectiveness of certain large public investment projects as well as a low level of transversal coherence in sectoral policies (OECD, 2017a).

Similarly, the trade balance remained negative over this period, apart from 2013 and 2015. Despite an increase in international trade, imports often were higher than exports, indicating a structural imbalance in growth. Reliant on external factors (such as European demand and international oil prices), economic activity remained characterised by poor domestic investment.

Figure 6.3. **Growth decomposition by expenditure in North Africa, 2009-16**



Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database) and IMF (2018), *World Economic Outlook Database*.
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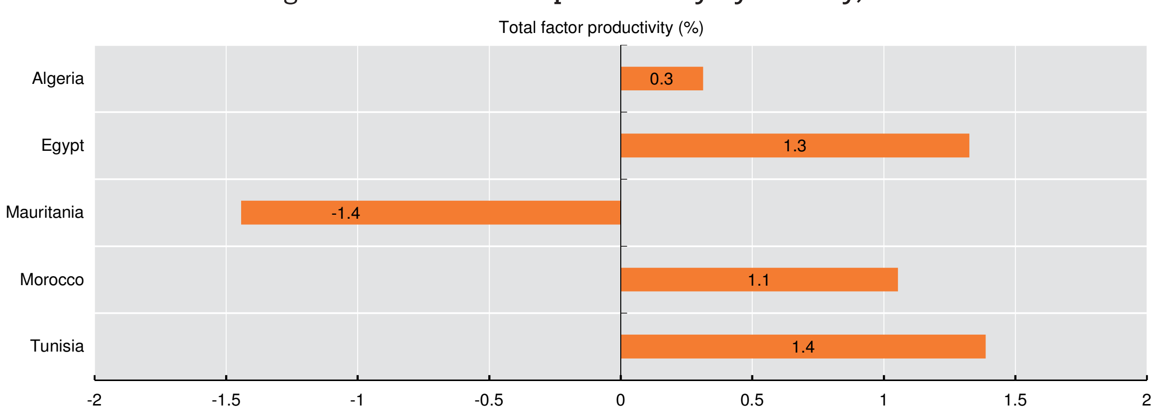
Productivity gains too low to support sustainable development

Labour and capital are not the sole determinants of growth. A third factor, technical progress or total factor productivity (TFP), also contributes. The growth of TFP, identified by a multi-factor approach, represents the share of GDP growth not explained by labour and capital growth.

Productivity gains have not accelerated strongly (Figure 6.4). Countries with good growth prospects post productivity gains between 1 and 1.5% per annum. This broadly poor dynamic is attributable to socioeconomic and political pressures (poor participation of women in the workforce, political instability and dependence on international prices of raw materials).

Figure 6.4. **Total factor productivity by country, 1990-2015**



Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database).
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Low levels of productivity and its volatility contribute to the poor macroeconomic performance of several North African countries (Table 6.5). Between 1990 and 2015, capital was the leading contributor to growth (42.6%), followed by labour (39.8%) and finally TFP (17.6%), which contributes almost half of growth in developed countries.

- The strong contribution of capital could be attributed to massive public investment as well as by FDI. The lower contribution of labour is due to the predominance of unskilled labour.
- The negative contribution of TFP to growth in recent years is due to the repercussions of the 2008 international financial crisis, but also to the Arab Spring, social protests

and waves of terrorist attacks. It is also testimony to the poor capacity for innovation and research and development (R&D) in companies.

- These results attest that these countries must not rely solely on the strong accumulation of capital based on large public infrastructure projects to lift growth and employment.

Table 6.5. **Sources of economic growth in North African countries, 1990-2015**

		Sources of GDP growth		
Period	GDP growth rate	Capital	Labour	Total factor productivity
1990-94	2.6	0.9 [34.9]	1.4 [54.1]	0.3 [11.0]
1995-99	4.2	1.2 [29.2]	1.8 [43.7]	1.1 [27.1]
2000-04	4.0	1.6 [39.0]	1.5 [38.3]	0.9 [22.8]
2005-09	4.9	2.3 [46.1]	1.5 [29.4]	1.2 [24.5]
2010-15	3.4	2.2 [63.7]	1.4 [40.8]	-0.2 [-4.5]
1990-2015	3.6	1.6 [42.6]	1.5 [39.8]	0.7 [17.6]

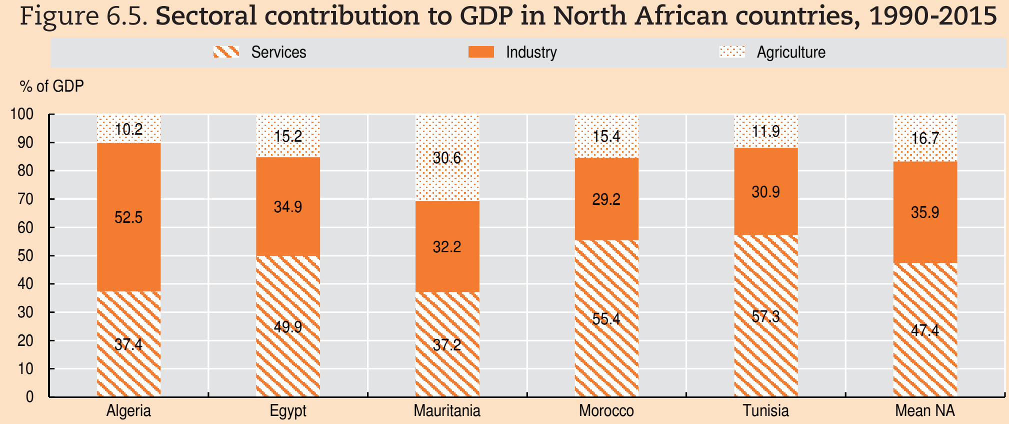
Note: Bracketed figures present the percentage contribution of each factor.
Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database).

Box 6.1. **Sectoral analysis of growth**

Services contributed most strongly to growth, as far as 47.4%, followed by industry and manufacturing (35.9%) then agriculture (16.7%, Figure 6.5).

Mauritania is the only country in which each of these three sectors made an almost identical contribution to growth, whilst services dominated in Tunisia (57.3%) and Morocco (55.4%), and industry and manufacturing in Algeria. Industry and manufacturing increased throughout the period in the region, except in Morocco where only the services sector increased, with the other sectors remaining stable.

Figure 6.5. **Sectoral contribution to GDP in North African countries, 1990-2015**



Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database).
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Specialised clusters emerge as a function of each country's resources: phosphates in Morocco, oil in Libya and Algeria, fishing in Mauritania, and agriculture and transportation via the Suez Canal in Egypt. Countries with oil resources posted a strong contribution of the industrial sector, while an agricultural specialisation coupled with the development of services characterised Egypt and Morocco. Stimulated primarily by services, North African economic growth is taking an unconventional path. The boom in the tertiary sector (commerce, hotels, tourism, ICT, services to individuals, etc.) is attributable to the fact that these require neither significant investment nor skilled labour, in contrast to the industrial sector. The geographical proximity of the region to Western Europe was also an asset for the development of services. However, these countries are aware that they cannot truly develop without industry. Hence the notable efforts made by Morocco to establish primary and secondary processing industries.

Jobs and inequalities: Major challenges

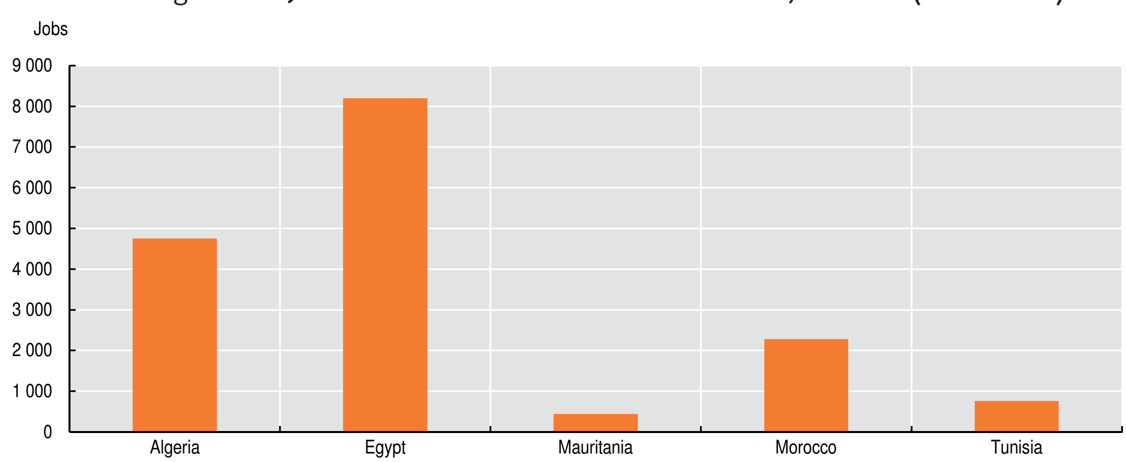
This section first sets out the dynamic of employment and unemployment, followed by developments in inequalities.

A reorientation towards job-creating sectors for youth

The informal sector dominates the labour market exacerbating the vulnerability of those on the margins of society, specifically women and the poorest. The employment rate – the proportion of the active population in work – was relatively low (40.9%) from 1990 to 2015. In 2014, 52% of those of working age were reliant on the informal economy (ILO, 2014). As such, in Morocco 60% of all employment was informal and the informal sector accounted for between 11% and 33% of GDP (High Commission for Planning, HCP, 2011; General Confederation of Enterprises, CGEM, 2014). For workers, informal jobs create insecurity in terms of income and social security. In North Africa, these jobs exist primarily in the construction, transport, service to individuals and commerce sectors. Women and the poorest are overrepresented in these industries (World Bank, 2011). For states, informal activities represent a loss of potential tax revenue, the negative externalities of which impact on the country's growth, as well as that of GDP per capita, public investment and wealth redistribution.

A large portion of the population are excluded from the labour market, in particular youth. Between 2009 and 2016, the proportion of young people not in employment, education or training was 26.5% in Algeria, versus 29.5% in Egypt (ILO, 2017). Gender disparities are also significant: 36.1% of women are not in the labour market in Algeria, and this rises to 42.3% in Egypt. That said, education levels are rapidly rising. The region's economies must create skilled jobs to absorb new entrants into the labour market. The active population of North Africa will effectively expand by 10 million people between 2010 and 2020 according to the ILO, a slightly lower level of growth than that of the 2000-10 period (11 million people).

Figure 6.6. **Job creation in North African countries, 2000-15 (thousands)**



Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database) and ILO (2017).
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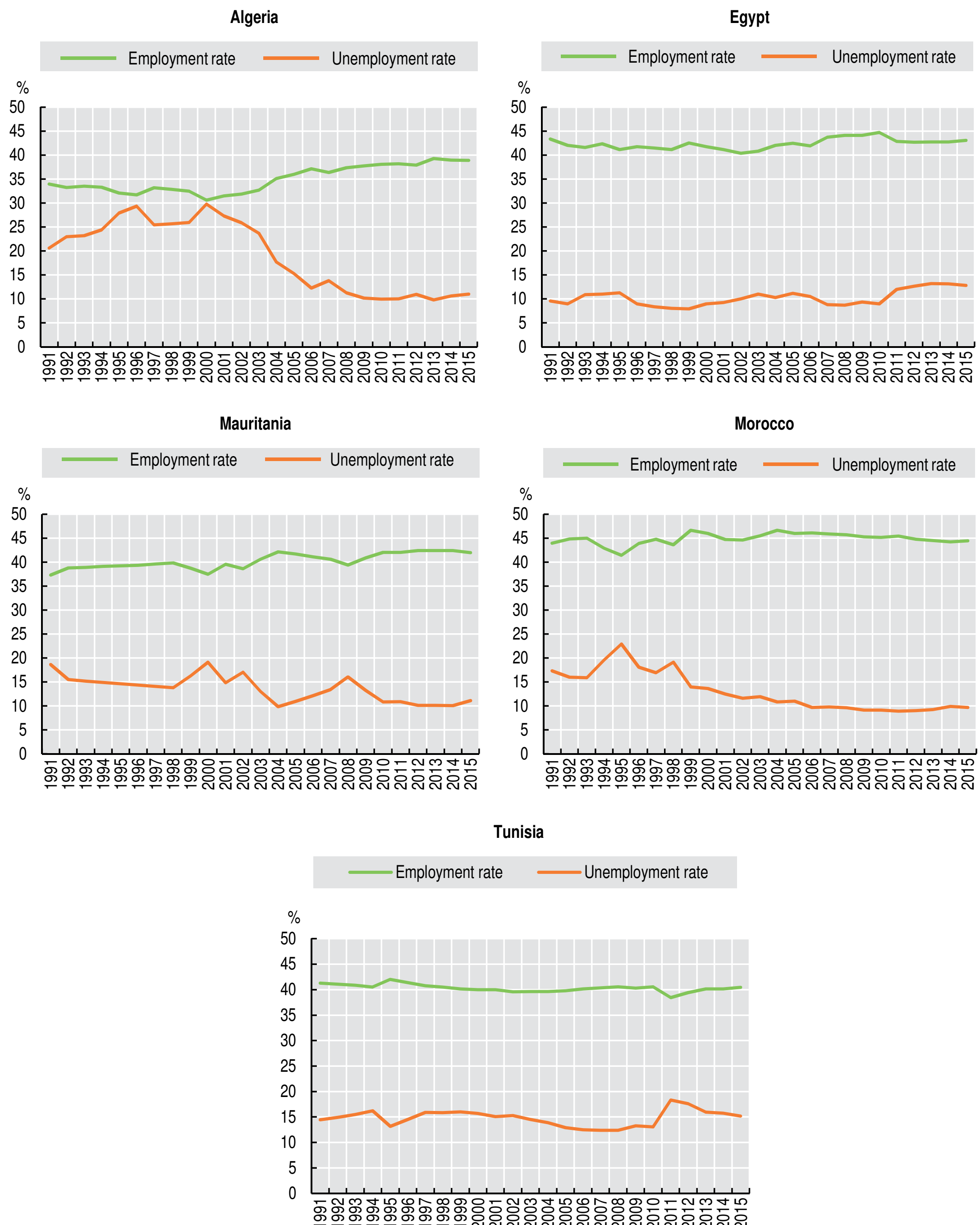
Growth remains insufficient to converge towards full employment. Despite the job creation of the previous years (Figure 6.6), the situation remains difficult for every country in the region (Figure 6.7, and Box 6.2). On average, between 1990-2015 the unemployment rate was 12.8%, while the employment rate[1] remained relatively low (40.9%). This result highlights the high rate of latent labour. By comparison, in OECD countries in 2016 the employment rate was 67.2%, versus 66.9% in European Union (EU) countries. Only twofifths of the labour force is employed in North Africa, while the remaining three-fifths are unemployed. This situation is even more troubling given that the countries of North Africa (apart from Egypt and Mauritania) have started the demographic transition and have increasingly lower dependency ratios (number of dependents for each active member of the workforce). These were 64% on average in 1990 and 52.4% in 2015 (UN DESA, 2017).

Figure 6.7. **Employment and unemployment rates in North African countries, 1991-2015**



Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database) and ILO (2017).
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Box 6.2. **Mixed labour market development by country**

In **Algeria**, the return of political stability injected some dynamism into the job market throughout the 2000s (Figure 6.7). Although official policies to boost entrepreneurship have not achieved all their objectives, they have resulted in an increase of self-employment over the last 15 years that has had a positive impact on the unemployment rate (AfDB/OECD/UNDP, 2017). The number of employers and freelancers grew by 235 000 between 2013 and 2015, or by 8.2%, compared with a more modest rise in the number of permanent waged jobs (+203 000 between 2013-15) and temporary jobs (+166 000). Two out of three workers are salaried (69% of the total, of which 35.9% are in permanent positions).

The job situation in **Egypt**, in contrast, remains poor. Despite a relatively high employment rate (42.6%) and an average unemployment rate of 10.7%, strong demographic growth has prevented any improvement of the overall situation. As such, the 8.2 million jobs created between 2000 and 2015 were unable to absorb the active population, which grew by 10.6 million. The unemployment and employment rates have not moved much over the past 20 years (Figure 6.7). This stagnation is also evident in workforce participation by gender; between 2000 and 2015, 80% of jobs were held by men.

Disparities also exist as a function of education: in 2015, 45.2% of jobs were carried out by people with a low level of education, compared with 37.6% of jobs requiring an intermediate level and 17.2% requiring an advanced level of education. Growth in waged employment has also been rapid, accounting for around 60% of all jobs (up from 10.9 million in 2000 to 16.5 million in 2015), while self-employment rose from 5.2 million to 6.6 million between 2000 and 2015. As such, the labour market is dominated by low-skilled jobs and waged employment, rather than self-employment.

In **Morocco**, both the active population and jobs increased proportionally between 2000 and 2015, at 2.3 million. This dynamic is reflected by an average employment rate of 45.3% over the period, the highest in North Africa, and by falling unemployment at 10.3%, which is the lowest in the region (Figure 6.7). However, the unemployment rate remains very high among urban youth (38.8%). Dominated by waged positions (45.2% of the total) followed by self-employed workers (30%), family workers (22%) and employers (2.8%), the labour market is characterised by a low level of education. Around 75% of workers have at most a basic education, 18% an intermediate level and only 7% higher education. Men occupy 77.8% of jobs, giving a female employment rate of 26.2% in 2015 (versus 22.2% in 2000), concentrated largely in low-skilled jobs. Most active women lack even basic education, 55% versus 24% of men. Only 23% of active women have basic education (compared with 49% for men).

In 2016, the participation rate fell from 47.4% to 46.4% in one year, declining by 1 point while the employment rate dropped by 0.8 points, from 42.8% to 42%. In this respect, the national economy lost 37 000 net jobs (with 26 000 created in urban areas and 63 000 lost in rural ones), compared with an annual average creation of 27 000 jobs in 2015 and 95 000 during the 2008-13 period. Lastly, it should be highlighted that Morocco has made itself more attractive to business and is now ranked as the most attractive in Africa according to the Ernst & Young 2017 barometer, ahead of Kenya and South Africa, which share second place. None of the other North African countries appear in the list of the top ten African countries in which to invest.

Although job creation almost equalled growth in the active population between 2000 and 2015 in **Mauritania** (444 000 jobs compared with 467 498 additional active people), the employment rate has gradually risen, while the unemployment rate has fallen (Figure 6.7). As in most of the other countries in the region, labour market participation remains

Box 6.2. **Mixed labour market development by country** *(cont.)*

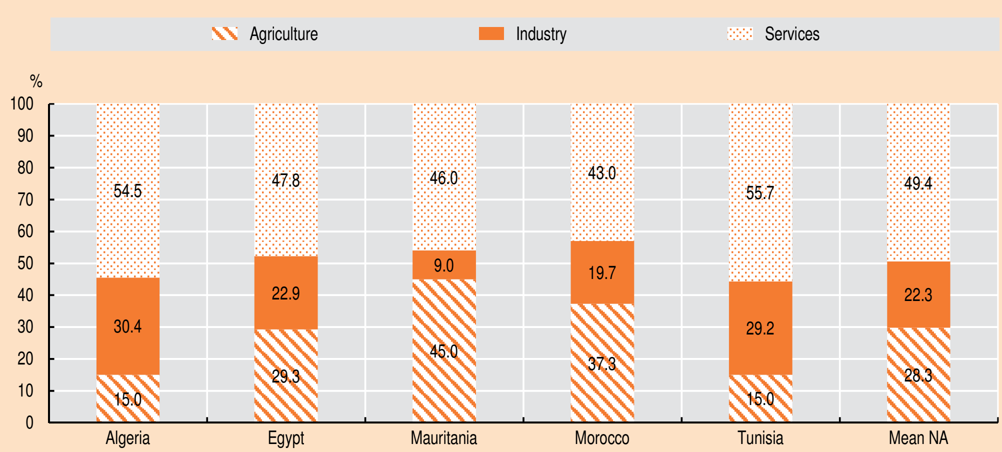
imbalanced for women: of 1 024 000 total jobs in 2015, 715 000 (69.8%) were occupied by men, compared with 309 000 (30.2%) by women. This poor female participation is an illustration of the relatively low employment rate in Mauritania (40.9%). According to a study by the National Office of Statistics (ONS) of Mauritania, just over 45.5% of the employed population possessed a general, vocational or technical education. While half of active workers attained at least secondary level and only 12.2% higher level. More than half of active men (52.9%) went beyond primary level, compared with 57.1% for women. Jobs are primarily created in the private sector (86%) versus 14% in the public sector. Private employment drives the job market in Mauritania, with self-employment (42.8%) predominating.

In contrast to the dynamic Moroccan and Algerian labour markets, the **Tunisian** market has remained stable. The employment rate has stagnated while the unemployment rate has gradually risen to more than 15%, compared with around 10% in Algeria and Morocco (Figure 6.7). Between 2000 and 2015, Tunisia only created 756 000 jobs, while the active population rose by 877 470 people. This imbalance hit young graduates hardest, for whom unemployment persists at worrying levels (31.2% in 2015). Of the 70 000 jobs created each year between 2005 and 2010, only 30 000 went to graduates of tertiary education, despite an average of 65 000 graduates being produced each year.

This situation is tied to the fact that the secondary and tertiary sectors rely primarily on unskilled labour. In 2010, the five leading sectors of the economy outside of government (banking and insurance, telecommunications, oil, production and distribution of electricity, and real estate) had very few university graduates among their workforce (6.7% of total employees). Construction represented 14.8% of all jobs, followed by textiles (11.7%) and hotels and restaurants (4.1%). Waged employment dominates, rising from 65.2% in 2000 to 72.1% in 2015, while self-employed numbers plummeted from 25.1% to 17.3% between 2000 and 2015. Female participation in the labour force remains relatively low (25.5% of jobs in 2015, versus 22.7% in 2000).

In all, the current structure of employment offers few opportunities for highly skilled jobs. The large majority of jobs are created in agriculture and services. These sectors together concentrate more than 72% of all jobs, versus 28% on average for the industrial sector (Figure 6.8).

Figure 6.8. **Employment structure in North African countries, 2000-15**



Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database).
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The challenge of youth employment could be overcome. Demographic growth has in fact slowed in all North African countries. Algeria, Morocco and Tunisia have achieved demographic transition. As noted earlier, the rise in the active population is gradually slowing although pressure on job markets remains intense as young people are increasingly educated. According to ILO forecasts, by 2025, 65% of Moroccans and 73% of Egyptians aged 20-24 years will have attended secondary school (compared with 44% and 65%, respectively today). This trend could create unique opportunities for economic and social development, provided that these reserves of human capital are effectively used.

The creation of added value through innovative industries remains a key challenge. In addition, entrepreneurship should be encouraged among youth and women, as the rate at which companies are created is lower than in other regions internationally. To this end, the countries of the region should incentivise companies to innovate more, and should lift barriers to both the creation of companies and the growth of small businesses. Also, given the existing FDI-friendly investment codes, the countries of the region could move towards sectors in need of qualified labour and join global value chains.

- For example, the logistics and automobile clusters of Tangier in Morocco attracted large investors. These include a 20 000 m^2 logistics platform for Decathlon Group, aimed at supplying 11 stores in Morocco and at exporting to 10 countries from Tangier-Med (including Côte d'Ivoire, Senegal, Tunisia, Turkey, South America and Russia).
- An automobile logistics platform was established in Malloussa, around 20 km from Tangier, to supply spare parts to Ford, PSA Peugeot-Citroën (PSA Group) and Renault. Renault has been present in Tangier since 2007 producing entry-level cars there that are sold in 70 countries. In 2016, automobile production on the two Renault sites in Morocco (Tangier and Casablanca) was estimated at 348 000 vehicles, up from 288 053 vehicles in 2015. In 2016, 118 000 people were employed by the automobile sector in Morocco with 165 000 projected by 2020. Renault's expansion in Morocco drew the attention of PSA Group, and it is now planning on opening a factory in Morocco at the start of 2019 to produce around 200 000 vehicles and engines by 2024.
- Algeria has also had a Renault factory since 2014, capable of producing 25 000 vehicles a year at start up, and this should eventually reach 75 000 units. Already in 2017, the factory produced its 100 000th car. In addition, the German manufacturer Volkswagen opened an assembly plant in Algeria in July 2017.

Developing marks of quality could boost niche markets or new prospects for local businesses and absorb unemployed young graduates in North Africa. Numerous examples exist in the sub-region of small businesses (often with government support) having developed local resources using quality or ethical certifications, or developing their products by targeting specialised markets like that of the North African diaspora. In Algeria, examples include dried figs of Beni Maouche, Ighil Ali pepper and in Morocco, ecotourism, and in Tunisia, Beni Khedache weaving (Giordano et al., 2015).

The level of income inequality remains low

Changes in inequality must be linked to the labour market and economic development over the last 20 years. Since the 1990s, there are both greater numbers of young people arriving on the labour market and, equally, they are better educated. However, there is a lack of skilled jobs to absorb these numbers. With a growing population, difficulties related to employment and wealth creation translate into growing inequality.

The level of income inequality is moderate in North Africa. The average level of the Gini index went from 40.3 between 1990-94 to 33.0 between 2010-15 (Table 6.6), a level closer to that of Western Europe (30.7) or Eastern Europe (33.9) than Latin America (49.1), Sub-Saharan Africa (45.5) or Asia (39.8).

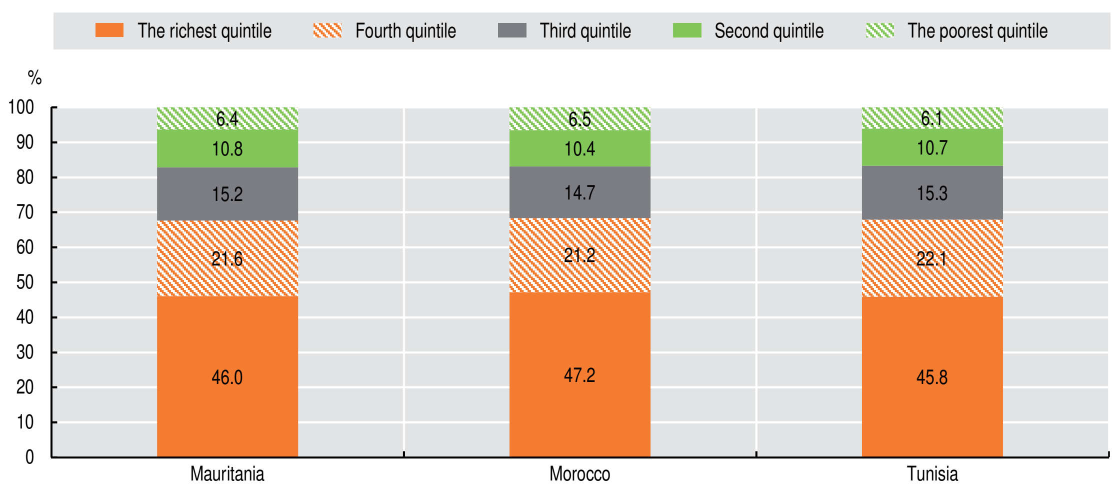
Table 6.6. **Dynamics of inequality in North Africa (percentage, Gini index)**

	1990-94	1995-99	2000-04	2005-09	2010-15	1990-2015
Algeria	40.2	35.3	31.1*	27.3*	24.1*	31.6
Egypt	32.0	30.1	32.5	31.5	31.3*	31.5
Mauritania	50.1	37.8	39.6	35.7	32.4	39.1
Morocco	39.2	39.5	40.6	40.7	41.2*	40.3
Tunisia	40.2	41.7	40.8	37.7	35.8	39.3
Mean	**40.3**	**36.9**	**36.9**	**34.6**	**33.0**	**36.3**

Note: The data required for calculating the Gini index are microeconomic and are collected from household surveys, which are infrequent in North African countries. The values marked with * indicate authors' estimates based on the average growth rate of the Gini index over the preceding periods.
Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database).

Despite this overall trend, disparities exist: inequalities remained almost stable in Egypt and Morocco over the 1990-2015 period, while in Tunisia they fell slightly (-12.4%) and fell more significantly in Mauritania (-35.2%). It must be noted that two of the three countries in which inequalities fell only slightly between 1990 and 2015 – Egypt and Tunisia – were affected by popular risings at the start of the 2010s. Additionally, the Gini index is an imprecise tool as it can produce the same result from situations with wildly different income distributions. Hence the necessity of supplementing the Gini index analyses with studies of income distribution by decile (Figure 6.9).

Figure 6.9. **Income distribution by quintile in North Africa**



Source: Authors' calculations based on World Bank (2017), World Development Indicators (database).
StatLink http://dx.doi.org/10.1787/888933784026

One feature stands out in the three North African countries for which data is available: the emergence of a middle class. Wealth distribution by decile of the population is almost identical from one country to the next (Figure 6.9). The other remarkable fact is the constancy of statistical data over time. In fact, in most countries over the study period these proportions varied hardly at all. This suggests that the reduction of inequalities noted earlier has not resulted in a reduction in the revenue share of the richest, nor a growth in the revenue share of the poorest, but rather the constitution of a middle class under the combined effect of improved education and booming services.

The constitution of a middle class explains the falling Gini index, while gaps between the richest and poorest remain large. A certain number of people still live on less than USD 1.90 and USD 3.10 a day (Table 6.7), which points to complex social dynamics. While economic growth and job creation are important, it is also necessary to direct growth to benefit the poorest and to ensure that jobs are aimed at the most vulnerable. Indeed, although it might appear that rising inequality is difficult to avoid during a period of transition, such disparities must be contained to avoid living standards falling.

Table 6.7. **Dynamics of poverty in North African countries**

Number of people with income below USD 1.90/day (2011 PPP, millions)					
	1990-94	1995-99	2000-04	2005-09	2010-15
Mauritania	0.9	0.5	0.5	0.4	0.2
Morocco	0.7	2.1	1.8	1.0	-
Tunisia	0.8	1.0	0.5	0.3	0.2
Number of people with income below USD 3.10/day (2011 PPP, millions)					
	1990-94	1995-99	2000-04	2005-09	2010-15
Mauritania	1.5	1.1	1.2	1.1	0.9
Morocco	4.5	7.5	7.5	4.8	-
Tunisia	2.2	2.6	1.9	1.3	0.9

Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database).

In spite of decreasing inequality, part of the population remains vulnerable to poverty.

- Algeria had almost completely eradicated extreme poverty through welfare programmes and the gradual improvement in the security situation, but the collapse in international oil prices after 2015 has undermined the State's ability to engage in social redistribution. According to the World Bank, 4 million people – or 10% of the population – face insecurity and risk falling below the national poverty line.
- In Libya, an increasingly large part of the population lives in poverty, with more than 435 000 people displaced and 1.3 million living in food insecurity at the end of 2016.
- In Morocco, around 19% of the rural population is at risk of, or lives in, poverty.
- In Tunisia, extreme poverty remained constant at 1.9% over the period 2013-16 and moderate poverty fell from 8.3% in 2013 to 7.9% in 2015. Regional disparities in terms of standards of living and employment remain significant.

Inequality of opportunity disappears with targeted public policy

Beyond persistent income inequality, inequalities of opportunity can exist within countries and between them. These are primarily linked to disparities in accessing social goods (education, health, decent living conditions and technology). Inequalities of opportunity are perforce correlated to income inequalities, as only the most affluent households can secure social goods. However, public programmes in social sectors (education, health, sanitation) can reduce inequalities of opportunity and mitigate adverse effects despite the persistence of income inequality.

Improved access to social services underlies the net fall in poverty and extreme poverty (Table 6.8).

The results show a convergence not just in the level of human capital, but also a reduction in inequalities around access to education. Apart from Mauritania, the primary and secondary schooling rates were relatively high in all North African countries. These rates improved remarkably over the past two decades. Furthermore, disparities between male and female access to education remains marginal, as on average 46% of students were girls between 1990 and 2015, largely due to a variety of programmes promoting female schooling. In contrast, there are important differences in gender participation rates in economic life. While the region possesses a growing talent pool of educated women who want to work, their employment rate remains one of the lowest in the world (OECD, 2017b).

Table 6.8. **Inequalities of opportunity in North African countries, 1990-2015**

	Algeria	Egypt	Mauritania	Morocco	Tunisia	Mean North Africa
				Education index		
Primary school enrolment rates	93.8	93.3	69.0	88.0	97.7	88.4
Secondary school enrolment rates	70.6	77.1	19.8	46.0	73.7	57.4
Girls' primary school enrolment rates	46.7	46.6	48.0	44.7	47.4	46.7
Girls' secondary school enrolment rates	49.7	46.9	41.5	43.9	49.7	46.3
				Health indicators		
Infant mortality rates (‰)	30.9	36.5	66.3	40.1	25.0	39.8
Life expectancy at birth	71.4	68.6	60.6	70.2	73.2	68.8
				Decent living conditions indicators (percentage of population)		
Access to electricity	97.1	97.6	20.0	70.3	95.3	76.1
Access to sanitation	84.2	86.3	27.0	66.1	83.3	69.4
Access to drinking water	88.4	96.5	44.9	79.5	91.1	80.1
				Technology indicators (per 100 people)		
Fixed line telephone access	8.1	9.5	1.6	9.3	10.0	7.7
Mobile phone access	99.3	110.4	93.1	120.4	118.6	108.4

Note: Technology indicators were taken using averages over the 2010-15 period as pre-1990s these were almost zero, before rising rapidly after 2000.
Source: Authors' calculations based on World Bank (2017), *World Development Indicators* (database).

The performance of North African countries in terms of health and living standards indicators is also remarkable. The average rate of infant mortality (39.8 per thousand), life expectancy at birth (68.8 years), as well as access to electricity (76.1%), sanitation (69.4%) and clean water (80.1%) surpass the standards of developing countries. These average levels however mask both the under-performance of Mauritania in terms of decent living conditions and health, and better progress elsewhere. For example, since 2013 in Algeria, Egypt and Tunisia, electricity coverage is 99%, more than 90% of the population has access to water and sanitation in Egypt and Tunisia, and life expectancy is over 75 years in Egypt, Morocco and Tunisia.

Access to technology represents a shared opportunity in North Africa. The average rate of access to a mobile telephone is 108.4%, while access to fixed line telephony has declined over the past 15 years. Equal access to mobile telephony has thus facilitated access to information and training, as well as to mobile banking and financial services (money transfers and microcredit).

For some opportunities such as rural access to electricity or transportation, inequality reduction could be co-ordinated with large public investments. For example, the average GDP/public investment ratio between 2010 and 2015 was over 20% in Algeria and Morocco, compared with just 9.3% in Mauritania.

Employment and inequalities can influence economic growth

Depending on levels of unemployment, analysing the links between growth, unemployment and inequality can yield two types of correlation:

- For low levels of unemployment, economic growth is accompanied by an increase in income inequality, which in turn feeds economic growth. This situation corresponds with a transition phase, marked by the accumulation of capital and investment to support stronger economic growth.
- In contrast, when the unemployment rate is higher than 15%, higher growth reduces inequality and social programmes to reduce inequality have a positive

effect on growth. This situation particularly corresponds to periods of crisis or crisis recovery, characterised by socioeconomic deterioration, when measures aimed at supporting a reduction in poverty and inequality are necessary to relaunch economic growth.

As such, in North African countries, a growth promotion strategy could generate or eradicate income inequality depending on the employment situation.

Policy recommendations

Improve and reinforce political stability and institutional accountability

Over the past few years, the countries of North Africa have been characterised by a relatively high level of political instability as well as a growing demand for governmental transparency and civic engagement in democratic processes. Broadly, measures of both governmental stability and political risk have deteriorated, particularly in Tunisia, suggesting an increase in political risk (PRS, 2018). Furthermore, the periods of sluggish growth have been characterised by episodes of political instability, which discourages investors.

Recent studies corroborate the negative impact of political instability on growth. This loss of growth could reach 2% according to Aisen and Veiga (2013), by impacting human and physical capital, TFP and FDI. It is thus necessary to guarantee a climate of political stability and a transparent regulatory framework to encourage strong, durable and more inclusive growth to reduce inequality. Greater political stability can be achieved via a firm commitment to combat extremist groups implicated in attacks and kidnappings. In addition, the fight against corruption and the improvement of democratic processes (freedom of expression, transparent electoral processes, strong checks and balances and institutions) are also elements that could improve social tensions and encourage political stability.

Although more progress could still be made, Morocco succeeded in rising to certain political expectations by adopting a new constitution in 2011 that gave new authority to the head of government and embraced a policy of "advanced" regionalisation. Tunisia managed to improve its stability through a national dialogue that gave civil society an important role in resolving social conflict. Four civil society organisations[2] were thus awarded with a Nobel peace prize in 2015 for their "decisive contribution to the construction of multi-party democracy in Tunisia" (Norwegian Nobel Committee, 2015).

Accelerate the structural transformation of economies

The countries of North Africa have already reached an important milestone by achieving demographic transition and by urbanising (AfDB/OECD/UNDP, 2016). However, the real challenge is to shift their economies towards sectors that create added value and offer employment to young and qualified workers. Consolidating the development of the manufacturing sector and expanding the exportable offer to emerging countries, particularly in Africa could help achieve this goal. This route could not only open new growth opportunities for medium-sized organisations, but also reduce dependence on international prices of primary materials and tourism, whilst compensating for sluggish demand from traditional partners.

The case of the automotive sector with the car assembly platforms in Morocco and Algeria provide an example other sectors could follow, including domestic appliances, electronics, textiles and others. The medium-term objective is to establish a real industrial sector, unachievable without foreign investment. Of course, the legal regime is already favourable to FDI and state contributions played a determining role in the automobile sector. This dynamism and political determination should promote the development of public private partnership (PPP) agreements to facilitate the creation of new industries or the offshoring of foreign industries.

In Morocco, the Industrial Acceleration Plan 2014-20 (*Plan d'accélération industrielle*, PAI) aims to increase industry's contribution to GDP to 23% before 2020, as well as to create 500 000 jobs. With a fund of USD 2.2 billion, the PAI aims for massive infrastructure construction, the creation of industrial clusters and targeted support for Moroccan companies to attract FDI in the manufacturing sector.

Local government participation in national agencies enables the promotion of local SMEs to investors, as for example, in the automobile cluster in Tangier. However, the capacity of local businesses to subcontract tasks and meet quality standards of international investors still needs to be improved. Closer co-operation with the private sector and the development of targeted training in a number of sectors could be useful.

Similarly, industrial clusters could facilitate the emergence of productive zones, but these must create links with the surrounding areas to limit geographic disparities which remain high in the region, particularly between the richer coastal regions and the hinterland. In Tunisia, while the Sfax cluster brings together 60 000 companies from relatively productive sectors, these have few links with local companies in other sectors and regions of the country.

To address these shortcomings, governments could work on the functional zones of regions rather than administrative districts. Thus in 2015, under regionalisation reforms, Morocco created the region of Casablanca-Settat which enabled neighbouring towns to benefit from infrastructure and services in proximity to Casablanca, a city with more than 10 million inhabitants. Lastly, the adoption of sectoral strategies adapted to the conditions of each region could create more skilled jobs linked to the needs of the local and national markets.

Target jobs for women and youth via structural catalysts

Female employment rates are still very low in all North African countries, representing a loss of potential productivity. Although these countries have made progress in terms of female education, women's access to the job market is still limited to unskilled or part-time positions. Furthermore, the proportion of women entrepreneurs remains low in Algeria (15%), Egypt (25%) and Morocco (11%).

Bold politics that promote flexibility in the workplace are important for female participation. For example, families must be helped access low-cost childcare by supporting public nurseries thus enabling women to envisage full-time work as a profitable activity (OECD, 2018b). Similarly, longer maternity leaves also have beneficial effects. Currently, in most North African countries maternity leave is 90 days. As demographic transition has been achieved, maternity leave could be extended to six months if desired, accompanied by a 20-30% reduction in salary for the last three months. More generous parental leave is currently offered in North America and Scandinavian countries, with very encouraging results for female employment.

Encouraging female entrepreneurship is also a way of embedding employment policies and reducing gender disparities in the labour market. Despite relative emancipation, the gender gap in entrepreneurship remains higher in Tunisia (10%), Libya (8%) and Egypt (7%) than in other African countries where the gap is on average 3% (AfDB/OECD/UNDP, 2017). To reduce this gap, female-led projects should be supported by banking and decentralised financial institutions (EU/ETF/OECD, 2014). This will improve female employment rates as female entrepreneurs hire more women than men.

Youth employment should also be a defining element of employment policy via three key themes aimed at harmonising education with market needs:

- **The development of skilled vocational training programmes in line with labour market needs.** Skills required to service the primary sector and industrial processing should be encouraged, via among other things supporting industrial and technological research, which is still nascent in these countries. These programmes could aim to support structural transformation via provision of technically qualified labour to work in secondary industries.
- **The introduction of business incubators for young graduates between 20 and 30 years of age.** In effect, young people graduating from vocational training that wish to start a company in their area of training should benefit from support. This support should extend from setting up the project to the first three years of its execution, emphasising a search for matched funding. It is essential to monitor and evaluate the projects to guarantee the success of these programmes and to ensure that entrepreneurs make good use of the funds and create jobs.
- **Professional retraining for long-term unemployed youth.** Additional training could make people competitive in the labour market once more. This assumes that technical and vocational training courses will first be developed.

Notes

1. The employment rate is not directly correlated to the unemployment rate, as unemployment counts labour that is not in work but is available and actively seeking employment. It excludes those who have ceased looking for work or are in education.
2. The Tunisian General Union of Work (*Union générale tunisienne du travail*, UGTT), Tunisia Union of Industry, Commerce and Craft (*Union tunisienne de l'industrie, du commerce et de l'artisanat*, UTICA), the Tunisian human rights league (*Ligue tunisienne des droits de l'homme*, LTDH) and the National Order of Lawyers (*Ordre National des Avocats de Tunisie*).

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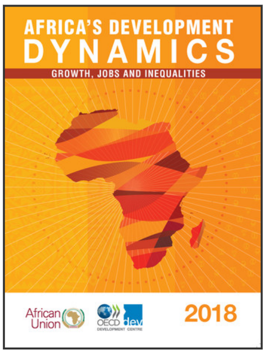

From:

Africa's Development Dynamics 2018

Growth, Jobs and Inequalities

Access the complete publication at:

https://doi.org/10.1787/9789264302501-en

Please cite this chapter as:

African Union Commission/OECD (2018), "Dynamics of growth, jobs and inequalities in North Africa", in *Africa's Development Dynamics 2018: Growth, Jobs and Inequalities*, OECD Publishing, Paris/African Union Commission, Addis Ababa.

DOI: https://doi.org/10.1787/9789264302501-16-en