

## **Managing without growth: Challenges confronting the Syrian labour market**

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### **Summary of key findings**

#### **The context**

- ❖ Syria, classified as a lower middle-income economy [with an income of about US\$1,000 per capita], has struggled to recover from the recession of 1999.
- ❖ Per capita growth in recent years has been less than 1 per cent placing the country among the slowest growing economies in the world.
- ❖ Syria is an oil-dependent economy. At current rates of extraction, oil supplies will run out in about 10 to 12 years.
- ❖ The country has maintained respectable growth in human development and appears likely to reach most of the Millennium Development Goals.
- ❖ Household income and expenditure surveys suggest that poverty fell between 1996/97, although inequality went up.
- ❖ Syria faces an uncertain international environment. It remains under the unfriendly gaze of the United States.
- ❖ The Syrian government has sought to adapt to this environment by cultivating closer links with the EU and the friendly Arab States through a regional trade agreement.
- ❖ These initiatives will create both challenges and opportunities, providing access to external markets but also imposing competitive pressure on protected domestic firms and institutions.
- ❖ Rapid labour force growth combined with the faltering pace of GDP growth has led to a 'double squeeze' on the labour market, that is, both on the supply side and demand side.

- ❖ Hence, management of the Syrian labour market will have to more astute than it has been in the past.

### **The labour market-poverty nexus in Syria**

- ❖ About 27 per cent of workers are employed in the public sector, while the balance is employed in the private sector.
- ❖ Within the private sector, the relative size of the informal economy [or the ‘unorganized’ private sector as it is officially called], is around 36 per cent.
- ❖ A little over 50 per cent of the labour force is employed in low productivity agriculture and services.
- ❖ Own account and unpaid workers account for 37 per cent of the work force.
- ❖ Paid workers account for 55 per cent of the work force.
- ❖ Statistics on gender dimensions of the work force suggest that female workers are concentrated in the unorganized private sector, in unpaid work, in agriculture and in services.
- ❖ On the other hand, females have a greater share of public sector employment than males.
- ❖ 66 per cent of all employed university graduates and 82 per cent of all employed graduates from intermediate institutions work in the public sector.
- ❖ The proportions are even higher for female employment.
- ❖ The sectoral distribution of workers with higher educational qualifications lies at the core of understanding the labour market-poverty nexus in Syria.
- ❖ Poverty rates vary between 18 and 12 per cent for those with elementary education and less, while they vary between 6 and 3 per cent for those with secondary education and more.
- ❖ The bulk of poverty - 85 per cent - may be attributed to those who work in the private sector.
- ❖ The available statistics suggest that 36 per cent of paid workers and 26 per cent of unpaid workers live below the poverty line.
- ❖ The public sector has a significantly lower incidence of low paid workers [26 per cent vs 53 per cent] vis-à-vis the private sector.
- ❖ Public sector wages are about 1.5 times the average wages prevailing in the private sector.

- ❖ The analysis of the nature of unemployment in Syria is complicated by alternative estimates ranging from 7 per cent to 16 per cent in 2003.
- ❖ The labour force survey suggests a figure of 12 per cent.
- ❖ These discrepancies are due to differences in methodology that underpin the various surveys.
- ❖ There is no clear-cut official position on what is the appropriate unemployment rate. The Ministry of Social Affairs and Labour endorses the labour force survey estimate.
- ❖ The State Planning Commission is inclined to use a 'range' of estimates. The latter maintains that, in 2003, the minimum number unemployed was around 500,000 workers.
- ❖ The duration of unemployment is quite high: 65 per cent of the unemployed experience a spell of unemployment lasting at least one year.
- ❖ The degree of underemployment - defined as those working too few hours - affects 52 per cent of the workforce who are either seasonally employed or work intermittently.
- ❖ The statistics overstate the degree of 'involuntary' underemployment, as it does not distinguish between those who willingly work too few hours and those who do not.
- ❖ There is also the well-known practice in the Syrian labour market of workers holding 'secondary' jobs. About 13 per cent of workers in the public sector - and about 7 per cent overall - hold secondary jobs.
- ❖ These numbers probably understate the incidence of secondary jobs because of the reluctance of those surveyed to disclose supplementary sources of income.
- ❖ The characteristics of the unemployed suggest that unemployment is concentrated in the 15-29 age group [accounting for more than 75 per cent of the total stock of unemployment] and those with elementary education [47 per cent of the total].
- ❖ The gender composition of unemployment represents a mixed picture.
- ❖ The share of female members of the work force in total unemployment in the 15-19 age group is lower than males, but not in other age groups.
- ❖ The share of female members of the work force in total unemployment is less than their male counterparts for cohorts with elementary education, but not for cohorts with higher educational attainments.

- ❖ The unemployment-poverty nexus is quite close for groups with elementary education, but the converse is true for other groups.
- ❖ At the regional level, more than 50 per cent of the total unemployment may be attributed to just four governorates, but they are not the regions with the highest incidence of poverty.
- ❖ The governorates with high underemployment rates are not necessarily those with high poverty rates.
- ❖ In general, the correlation between unemployment/underemployment and poverty is either statistically insignificant or of the 'wrong' sign.
- ❖ This means that neither a regional unemployment map nor a regional underemployment map is reliable for geographical targeting of impoverished communities.
- ❖ Child labour is around 18 per cent of the labour force.
- ❖ It is much more prevalent in poorer rural areas than in urban areas, in agriculture than in manufacturing and is concentrated in certain regions of the country.

### **Policy issues**

- ❖ The government, private sector and the international community agree on the critical need to foster investment-led growth to bring about durable employment creation.
- ❖ The State Planning Commission maintains that the economy has to produce 185,000 new jobs which is lower than alternative estimates provided by others.
- ❖ The minimum growth rate required to maintain 'flow' equilibrium in the labour market is set at 6 per cent, but a growth target of 7 per cent is required to make a significant dent on the existing stock of the unemployed.
- ❖ The State Planning Commission forecasts that the 7 per cent growth rate will be reached by 2010 and that annual investment flows of US\$ 8 to 9 billion amounting to 47 per cent of GDP would be required to support such growth targets.
- ❖ These investment requirements are substantially higher than private sector estimates and have not been achieved in the past.

- ❖ In discussions on investment-led growth, employment elasticity does not seem to have played a pivotal role, although cross-country evidence suggest a link between rapid declines in poverty and high employment elasticity.
- ❖ Identifying employment elasticity as a key policy parameter can enable the government to reduce the burden on growth alone to engender employment creation.
- ❖ The State Planning Commission maintains that bureaucratic impediments to new investment flows represent a major policy challenge, but one should also add that the lack of modern and robust financial institutions make it difficult to tap new investment funds.
- ❖ There are some promising developments, with the legislative framework being in place for launching a stock market.
- ❖ Trade liberalization is on the policy agenda, but privatization does not seem to be.
- ❖ In recent years, the Syrian government has also launched a supra-ministerial Agency to Combat Unemployment [ACU] to complement the long-term strategy of investment-led growth.
- ❖ The ACU is supposed to operate until 2005, disburse funds worth US\$ 1 billion over five years [2001-2005] and create 440,000 jobs over that period.
- ❖ Its policy instruments are credit for funding business start-ups in the SME sector, microfinance, training and re-training, public works.
- ❖ The ACU is scheduled to create 250,000 by end-2005. This falls short of the job creation target.
- ❖ The ACU claims that this is due to a funding shortfall and also emphasizes that the ultimate way to create durable jobs is through investment-led growth.
- ❖ The ACU has played an important role in lending political visibility to the issue of unemployment.
- ❖ Its long-term future is uncertain. Given the intellectual capital invested in this venture [more than 70 PhDs in its staff of 1700], the ACU could be transformed into a policy advisory unit with the strategic mandate to work on labour market-poverty linkages in collaboration with the State Planning Commission and the Ministry of Social Affairs and Labour.
- ❖ In terms of mitigating child labour, the current approach focuses on penalizing families and firms using child labour.

- ❖ The Ministry of Social Affairs and Labour is keen to adopt an alternative approach in which firms and families are given financial incentives to invest in children's education.
- ❖ About 19 per cent of Syrians are vulnerable to at least a transient spell of poverty. Furthermore, the incidence of seasonal employment and intermittent work is quite high. Hence, employment security and social protection are important policy issues.
- ❖ In terms of social protection measures, the aim should be to cover both the formal and informal sectors through unemployment insurance, public works and microfinance schemes.
- ❖ Unemployment insurance does not exist in Syria, but as a surrogate stiff anti-firing legislation is used to discourage employers to fire workers. This has not been effective.
- ❖ The available evidence from other developing countries suggests that unemployment insurance can be designed in such a way that it is fiscally affordable and has minimal disincentive effects.
- ❖ Public works have been initiated by the ACU, but it needs to be made a regular feature of Syrian labour market policies.
- ❖ Microfinance schemes are in their infancy. The ACU is also involved in microfinance schemes, but it might be more effective to transfer the functions to other specialised agencies.
- ❖ Syria certainly has the opportunity to adapt and experiment with microfinance schemes and be inspired by best practices elsewhere.
- ❖ In the realm of wage policy, the public sector plays a wage leadership role.
- ❖ The government has granted across-the-board wage increases of 20 per cent to the public sector in May 2004, recommended wage increases between 5 to 20 per cent for the private sector and is poised to increase [by January 2005] nation-wide minimum wages by more than 40 per cent.
- ❖ These initiatives may not be the most effective way to increase the returns to labour.
- ❖ Wage disparities may worsen because the public sector has higher average wages than the private sector, while substantial increases will benefit workers who are currently employed but could hurt those seeking work.

- ❖ Given current slow growth, the private sector will probably be unable to absorb the wage increases that have been proposed.
- ❖ The emphasis should be on protecting the living standards of workers by compensating for cost-of-living increases.
- ❖ The nation-wide minimum wage could be made indicative rather than mandatory and could be converted into a tool for monitoring the living conditions of the working poor.
- ❖ To be effective, such an indicative and monitoring approach needs timely public dissemination of pertinent data on wages and prices.
- ❖ One of the best ways to improve the capacity of the private sector to become a generous paymaster is to upgrade its human capital endowment by reforming the education and training system and by fostering in-firm training.
- ❖ Engendering labour market flexibility has become a core element of the policy agenda.
- ❖ There is a good deal of support among policymakers to reform existing labour laws that have remained largely unchanged over the last 40 years.
- ❖ The government has also ratified the core ILO conventions on fundamental principles and rights at work.
- ❖ The challenge is to ensure that efforts at reforming labour legislation are compatible with maintaining labour rights.
- ❖ An uncritical approach to labour market flexibility is probably misplaced as cross-country evidence suggests that the link between such flexibility and rapid employment growth is tenuous.

## Tables and graphs [seven tables and 12 graphs]

### The public sector-private sector divide and the Syrian labour market

Table 1: Distribution of the labour force [%] by sector, employment status and economic activity, Syria, 2003

<u>Sector</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	
Public sector	27.2	24.8		39
Organized private sector	34.9	38.7		16.3
Unorganized private sector	37.5	36.1		44.4
<u>Employment status</u>				
Employers	8	9.2		2.2
Own account workers	25.7	28.4		12.4
Paid workers	54.8	54.9		54.4
Unpaid workers	11.5	7.5		31
<u>Economic activity</u>				
Agriculture	26.2	22		46.2
Industry	13.6	15.1		6.6
Building and cons	11.2	13.3		1
Hotel, rest/trade	15.2	17.6		3.5
Storage, trans/comm	5.9	7		0.9
Finance, insurance/prop	2	2.1		1.5
Services	25.9	23		40.2

Source: Labour force survey, 2003 [adapted from CBS, Statistical Abstract 2004, tables 5/3, 6/3 and 8/3: pp.88-91]. Figures do not add up to 100.0 in some cases because minor sectors accounting for less than 1 per cent of employment have been omitted.



Table 2: Distribution of paid workers by educational attainment  
Public vs private sector, Syria, 2003

	<u>Univ</u>	<u>Inter</u>	<u>Sec</u>	<u>Prep</u>	<u>Elementary and below</u>
<u>Male</u>					
Public sector	62	73.2	49.3	31.6	14
Organized private sector	31	19.8	33.1	40.9	40.9
Unorganized private sector	6.3	6.6	16.8	27.1	44.7
<u>Female</u>					
Public sector	76.4	94.1	78.3	49.9	6.5
Organized private sector	19.6	4.4	18.1	24.9	18.2
Unorganized private sector	3.2	0.9	3.5	25.2	75.1
<u>Total</u>					
Public sector	65.6	82.1	55	33.6	12.9
Organized private sector	28.1	13.2	30.1	39.2	37.7
Unorganized private sector	5.5	4.2	14.1	26.9	49.1

Source: Labour force survey, 2003 [adapted from CBS, Statistical Abstract 2004, table 4/3: 87].  
Figures do not add up to 100.0 because minor sectors accounting for less than 1 per cent of employment have been omitted.

### Employment-poverty linkage

Table 3: Share of employment [%] vs share of poverty [%] by sector, employment status and economic activity  
Syria, 2003

<u>Sector</u>	<u>Share of emp [%]</u>	<u>Share of poverty [%]</u>
Public sector	27.2	14.6
Organized private sector	34.9	43.3
Unorganized private sector	37.5	42.1
<u>Employment status</u>		
Employers	8	3.3
Own account workers	25.7	23.1
Paid workers	54.8	35.8
Unpaid workers	11.5	26.2
<u>Economic activity</u>		
Agriculture	26.2	25.3
Industry	13.6	14.3
Building and cons	11.2	12.9
Hotel, rest/trade	15.2	13.5
Storage, trans/comm	5.9	8.1
Finance, insurance/prop	2	0.28
Services	25.9	22.4

Source: First column from Labour Force Survey, 2003 [CBS, Statistical Abstract 2004, tables 5/3, 6/3 and 8/3: pp.88-91] and second column from El-laithy [2004, appendix 1]

## Unemployment, underemployment and poverty

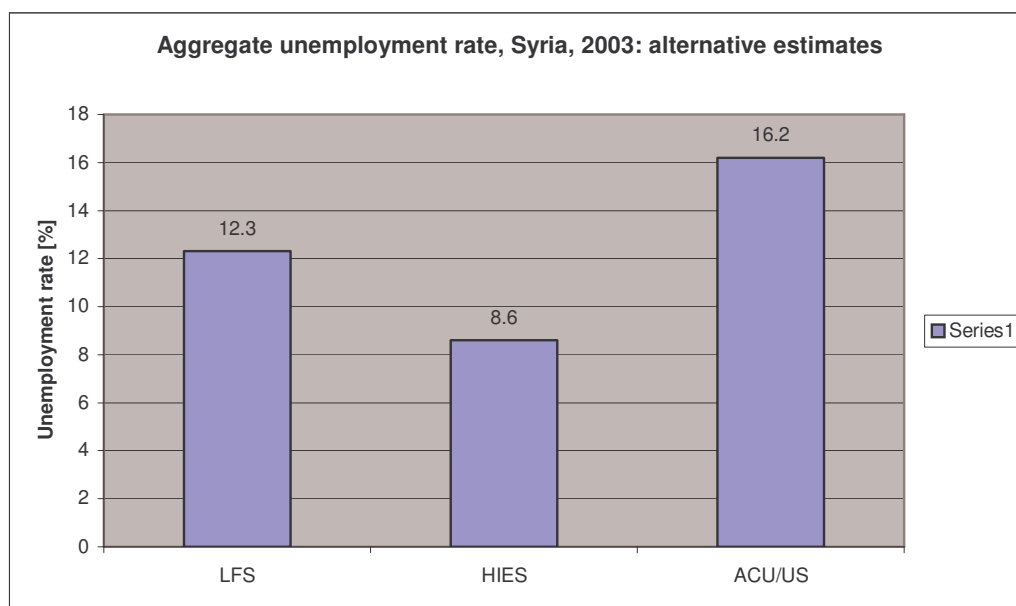


Figure 1

Sources and notes: LFS= labour force survey; HIES = household income and expenditure survey; ACU/US = Agency to combat unemployment and unemployment survey. LFS estimates derived from table 7/3:90 and 14/3:97, Statistical Abstract, 2004. HIES estimates from El-laithy [2004: statistical appendix] and ACU/US based on Fadil [2004] as well as interviews with pertinent government officials.

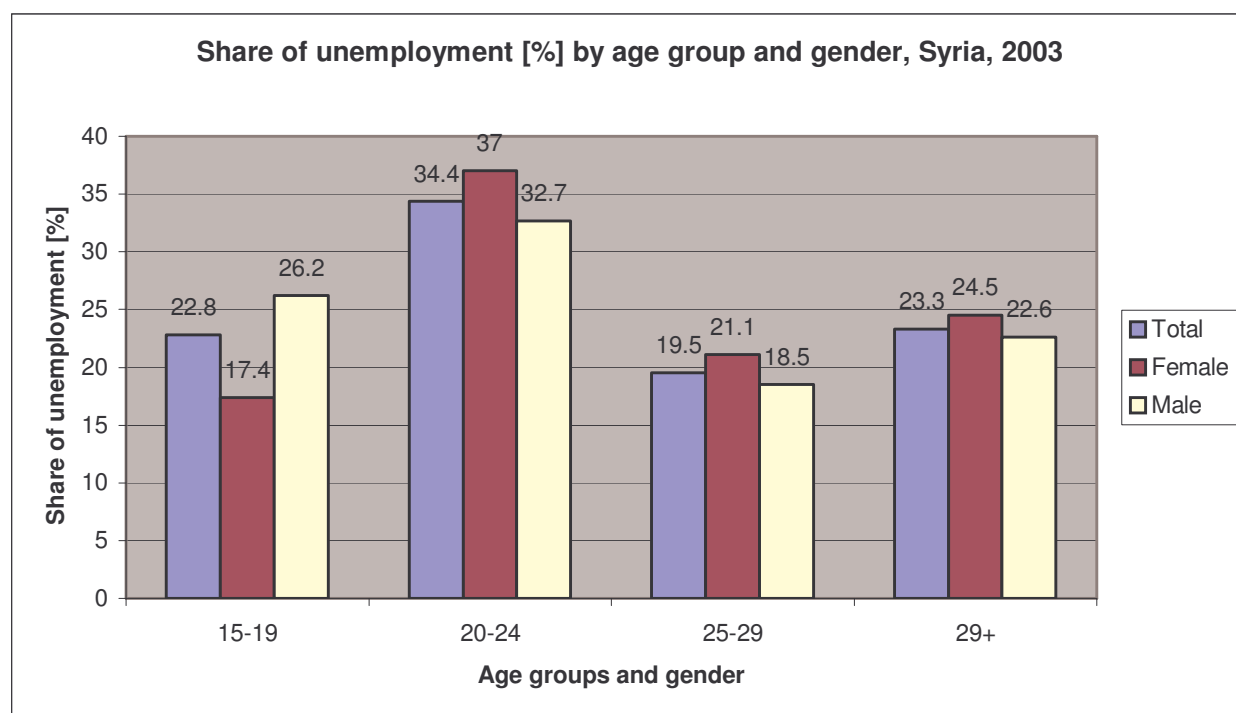


Figure 2

Sources and notes: Estimates derived from table 14/3: 97, CBS, Statistical Abstract, 2004.

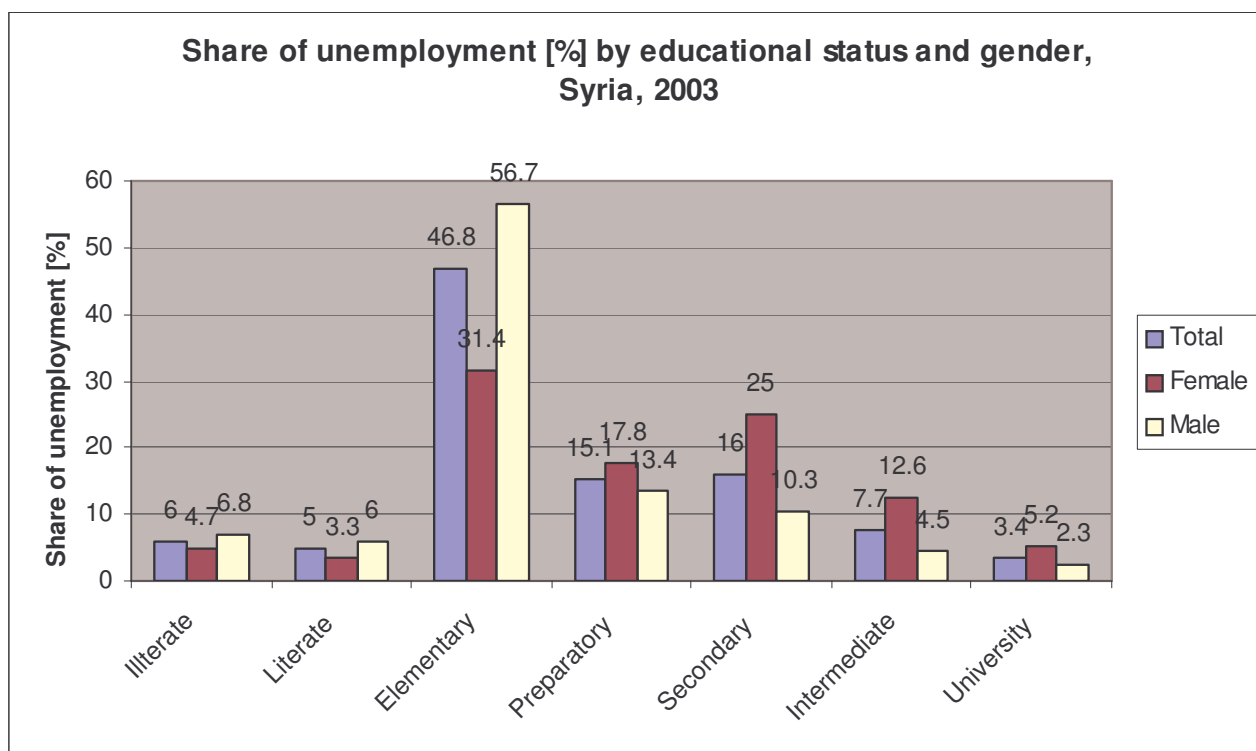


Figure 3

Sources and notes: Estimates derived from table 15/3: 98, CBS, Statistical Abstract, 2004

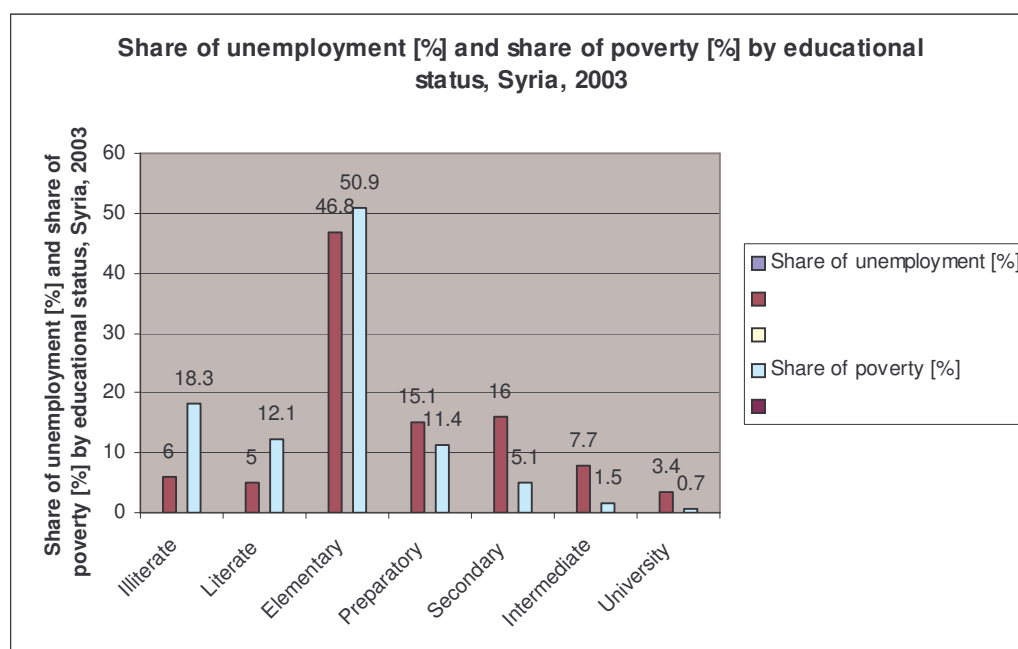


Figure 4

Sources and notes: Unemployment shares from LFS, 2003 as reported in CBS, Statistical Abstract, 2004, table 15/3:98. Poverty shares from El-laithy [2004, appendix].

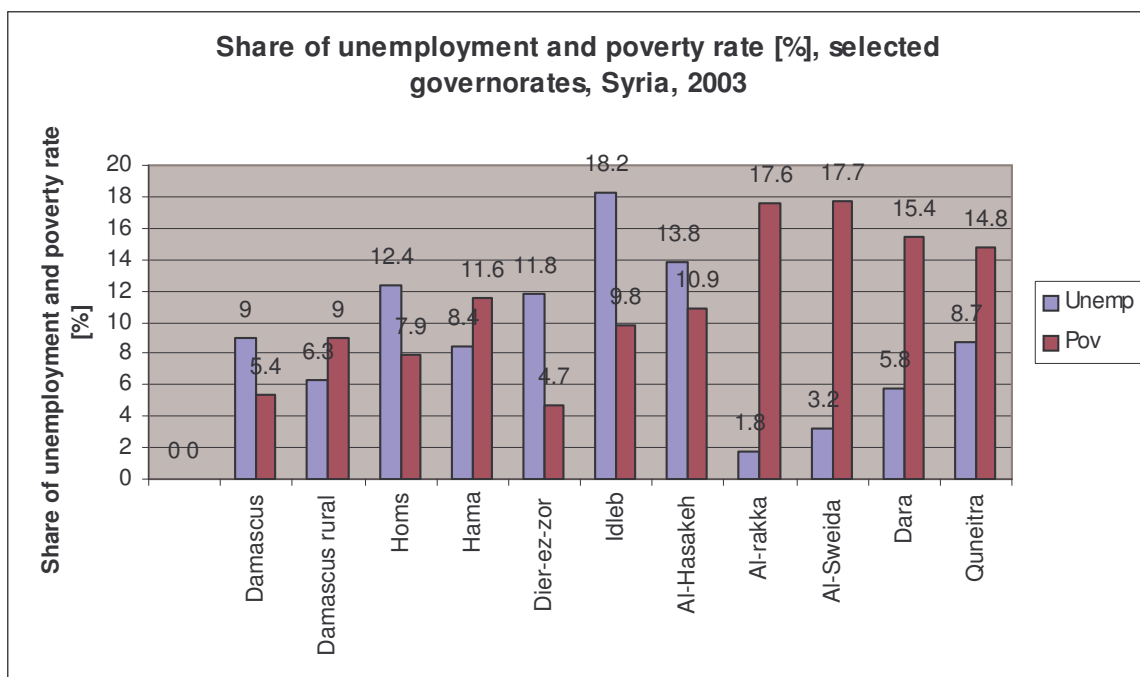


Figure 5

Sources and notes: Unemployment data derived from LFS, 2003 as reported in CBS, Statistical Abstract, 2004, table 13/3:96. Poverty rates from El-laithy [2004, appendix].

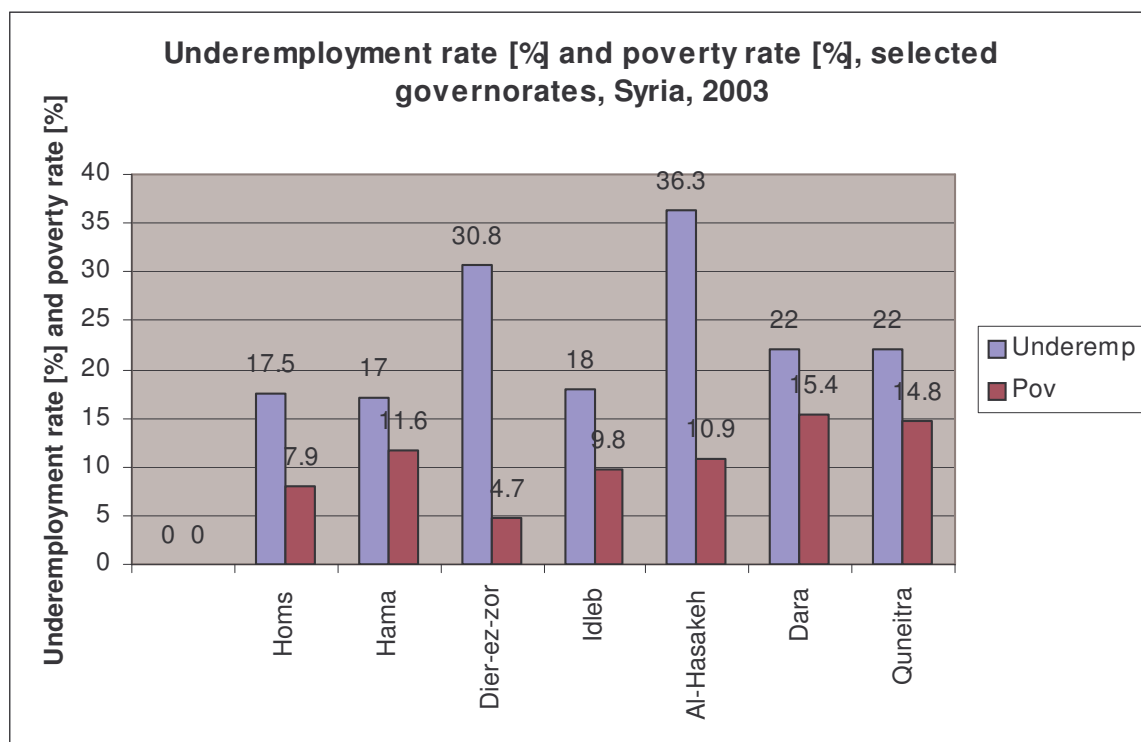


Figure 6

Sources and notes: underemployment is defined as those who work either seasonally or intermittently. The estimates are derived from the Unemployment Survey of 2003 as reported in Fadil [2004]. Poverty rates from El-laithy [2004, appendix].



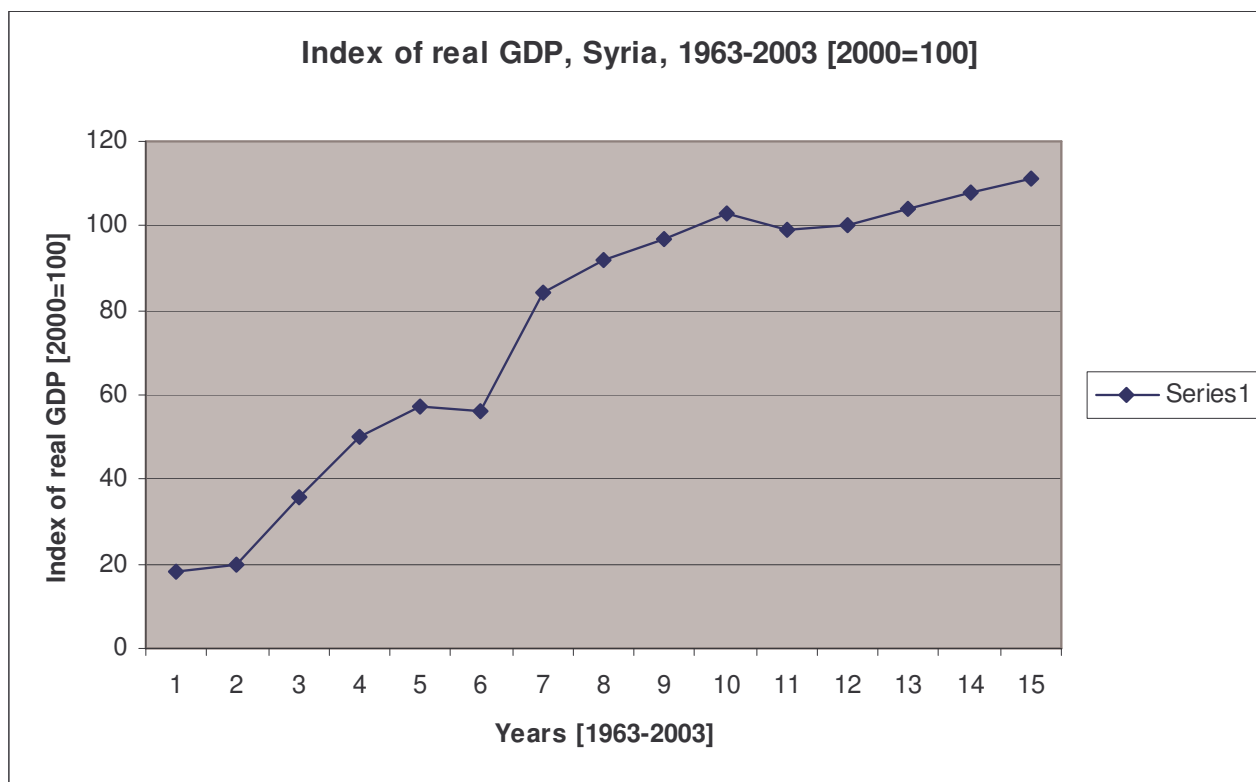


Figure 8

Sources and notes: Calculated from data reported in table 11/16: 537, CBS, Statistical Abstract, 2004

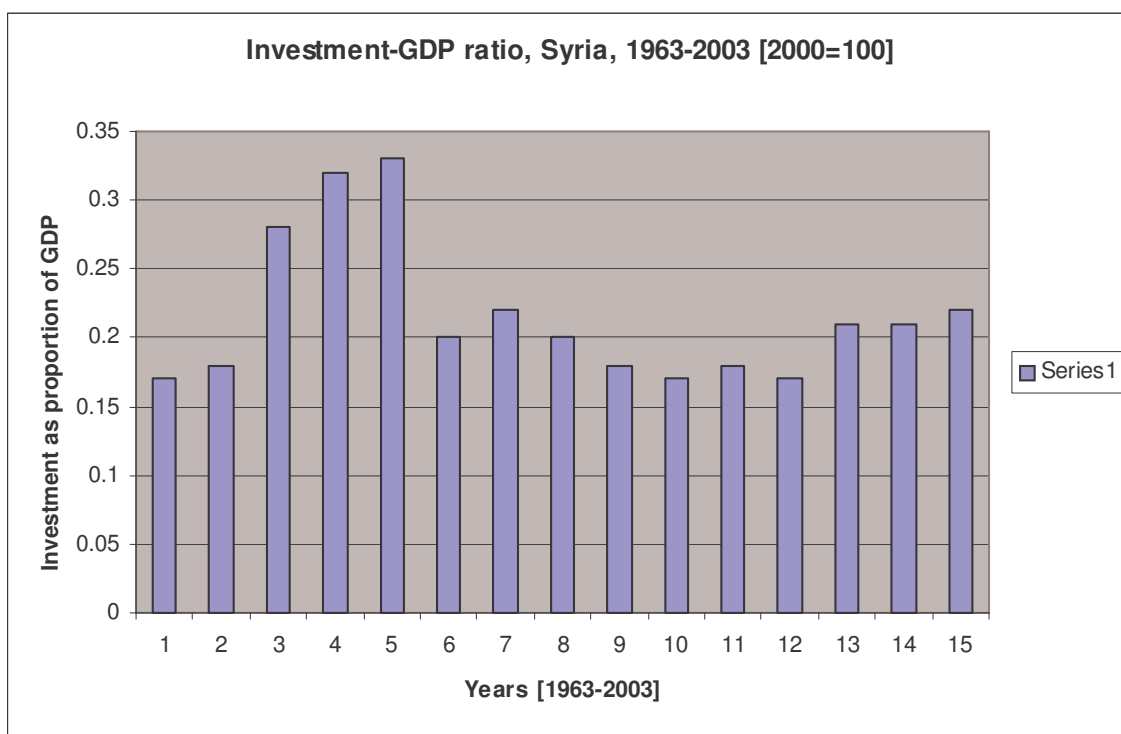


Figure 9

Sources and notes: Calculated from data reported in table 11/16: 537, CBS, Statistical Abstract, 2004

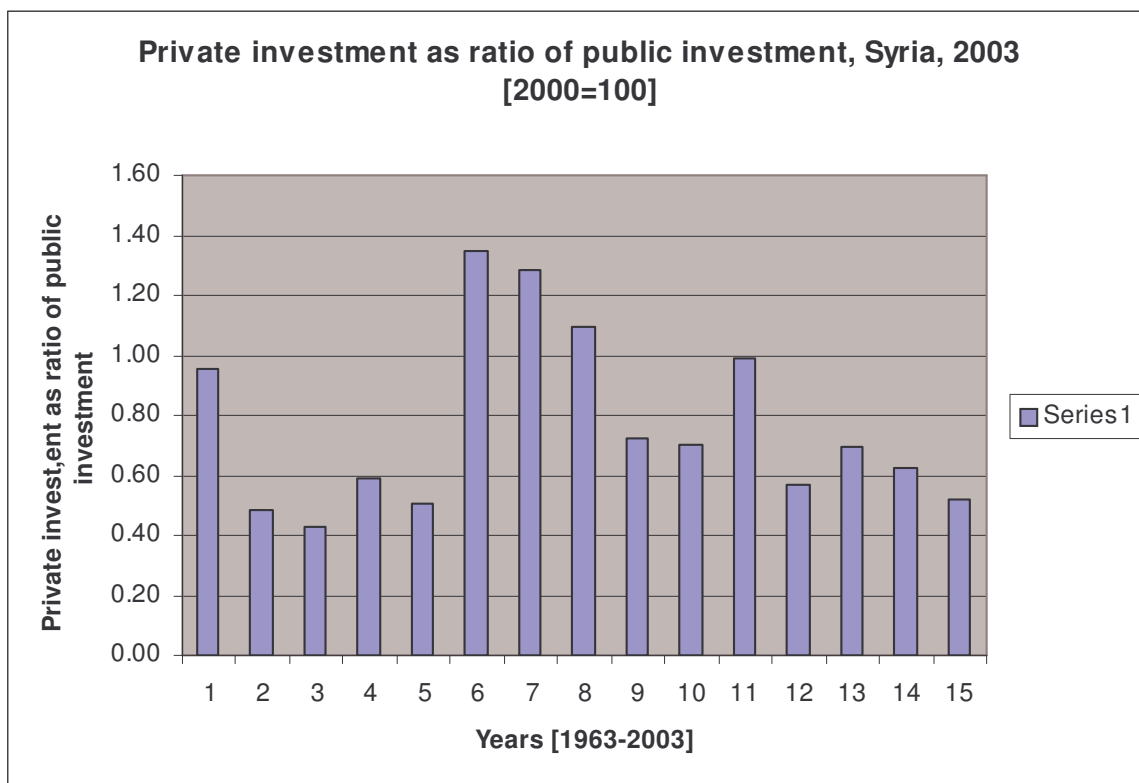


Figure 10

Sources and notes: Calculated from data reported in table 11/16: 537, CBS, Statistical Abstract, 2004

Table 4

Employment elasticity	Required growth rate to maintain 'flow' equilibrium in the Syrian labour market
0.3	8
0.4	6.2
0.5	5



## Wage disparities and the Syrian labour market

Table 5: Proportion of workers in highest income class  
[9,000 Syrian Pounds per month and above]

	Male	Female	Total	
Public sector		15.2	4	12.5
Organized private sector		9.8	6.3	9.5
Unorganized private sector		9.8	0.8	8.5

Proportion of workers in lowest income class  
[5,000 Syrian Pounds per month and below]

	Male	Female	Total	
Public sector		26.1	27.4	26.4
Organized private sector		48.9	74.3	54.1
Unorganized private sector		47.1	95.2	52.4

Sources and notes: Labour Force Survey, 2003 [adapted from CBS, Statistical Abstract 2004, table 11/3: 94]

Table 6: Wage gaps by sector and gender, Syria,  
2003 [monthly income in Syrian pounds]

### Public sector wages as proportion of private sector

Male Organised	1.43
Male Non-organised	1.4
Male Total Private	1.41

Female Organised	2.18
Female Non-organised	5.07
Female Total Private	3.04

Total private sector	
Total Organised	1.45
Total Non-organised	1.54
Total Private	1.49

Sources and notes: Calculated from data reported in table 11/3:94, CBS, Statistical Abstract, 2004

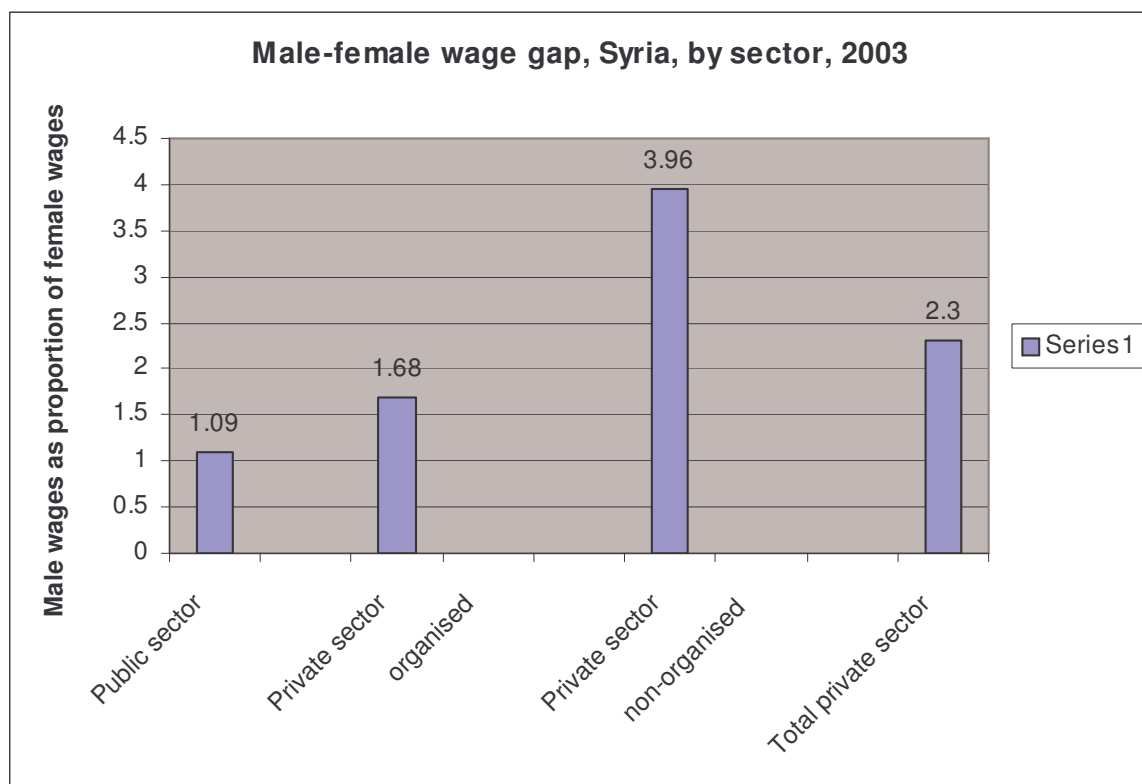


Figure 11

Sources and notes: Calculated from data reported in table 11/3:94, CBS, Statistical Abstract, 2004

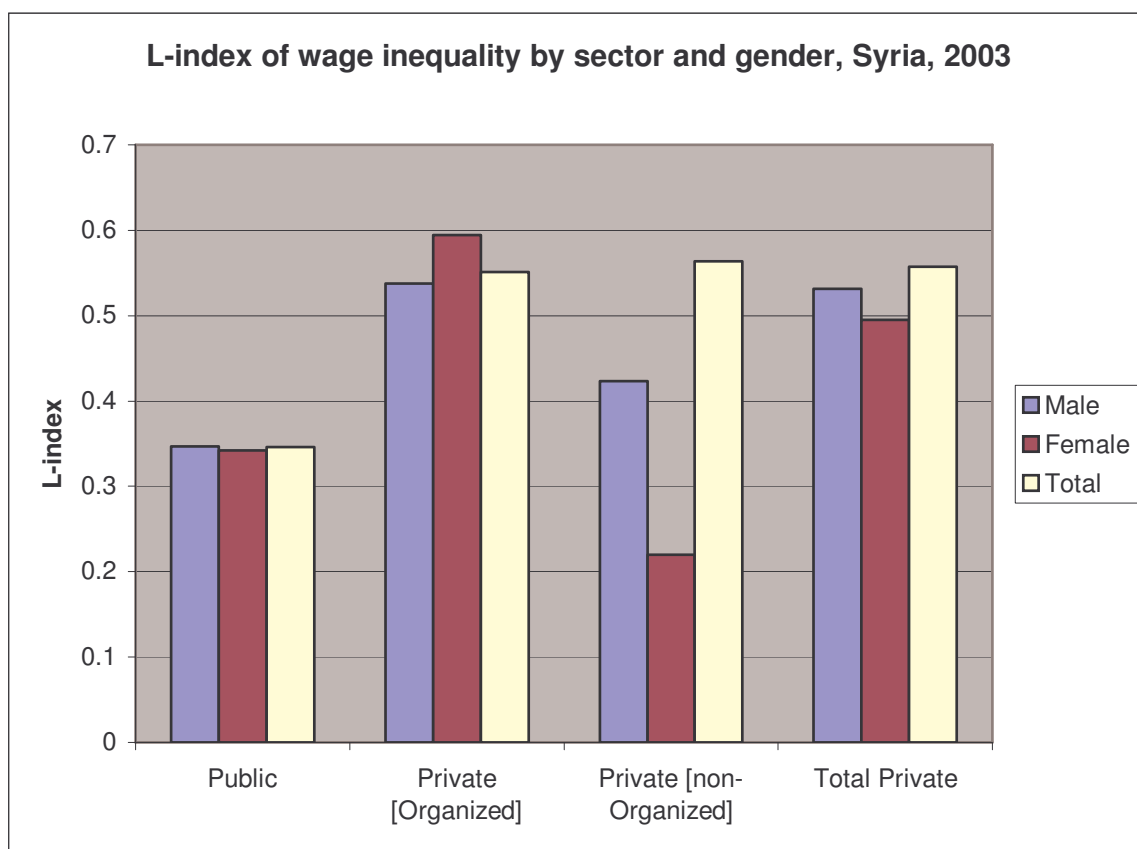


Figure 12

Sources and notes: Calculated from data reported in table 11/3:94, CBS, Statistical Abstract, 2004

Table 7: Measures of labour market flexibility, Syria in a comparative perspective [0=most flexible; 100= least flexible]

<u>Region/Economy</u>	<u>Difficulty of Hiring Index</u>	<u>Rigidity of Hours Index</u>	<u>Difficulty of Firing Index</u>	<u>Rigidity of Employment Index</u>	<u>Firing Costs (weeks)</u>
East Asia & Pacific	20	30	22	24	52
Europe & Central Asia	31	51	42	41	38
Latin America & Caribbean	44	53	34	44	70
Middle East & North Africa	22	52	40	38	74
OECD: High income	26	50	26	34	40
South Asia	37	36	53	42	84
Sub-Saharan Africa	53	64	50	56	59
<u>Syrian Arab Republic</u>	0	60	50	37	79

Sources and notes: World Bank 2004 [available at [www.worldbank.org](http://www.worldbank.org)] This methodology is originally developed in 'The regulation of Labour' by Juan Botero, Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, Quarterly Journal of Economics, forthcoming, November 2004, and adopted with changes here.