euromesco
Policy Study

N. 26

ASSESSING THE JOB CREATION POTENTIAL OF THE SOCIAL ECONOMY IN THE MENA REGION

Philippe Adair
Coordinator

Vladimir Hlasny

Kareem Sharabi Rosshandler

Mariem Omrani

IEMed.
European Institute of the Mediterranean

Co-funded by the European Union

euromesco
Policy Study

N. 26

ASSESSING THE JOB CREATION POTENTIAL OF THE SOCIAL ECONOMY IN THE MENA REGION

Philippe Adair
Coordinator

Vladimir Hlasny

Kareem Sharabi Rosshandler

Mariem Omrani

IEMed.
European Institute of the Mediterranean

Co-funded by the European Union

EuroMeSCo has become a benchmark for policy-oriented research on issues related to Euro-Mediterranean cooperation, in particular economic development, security and migration. With 116 affiliated think tanks and institutions and about 500 experts from 30 different countries, the network has developed impactful tools for the benefit of its members and a larger community of stakeholders in the Euro-Mediterranean region.

Through a wide range of publications, surveys, events, training activities, audio-visual materials and a strong footprint on social media, the network reaches thousands of experts, think tankers, researchers, policy-makers and civil society and business stakeholders every year. While doing so, EuroMeSCo is strongly engaged in streamlining genuine joint research involving both European and Southern Mediterranean experts, encouraging exchanges between them and ultimately promoting Euro-Mediterranean integration. All the activities share an overall commitment to fostering youth participation and ensuring gender equality in the Euro-Mediterranean experts' community.

EuroMesCo: Connecting the Dots is a project co-funded by the European Union (EU) and the European Institute of the Mediterranean (IEMed) that is implemented in the framework of the EuroMeSCo network.

As part of this project, five Joint Study Groups are assembled each year to carry out evidence-based and policy-oriented research. The topics of the five study groups are defined through a thorough process of policy consultations designed to identify policy-relevant themes. Each Study Group involves a Coordinator and a team of authors who work towards the publication of a Policy Study which is printed, disseminated through different channels and events, and accompanied by audio-visual materials.

POLICY STUDY

Published by the European Institute of the Mediterranean

Policy Peer Review: Justyna Ochędzan
Academic Peer Reviewer: Anonymous

Editing
Justine Leïla Belaïd

Design layout Maurin.studio
Proofreading Neil Charlton
Layout Núria Esparza
Print ISSN 2462-4500
Digital ISSN 2462-4519
Arabic version ISSN 2696-7626
June 2022

The **European Institute of the Mediterranean** (IEMed), founded in 1989, is a think and do tank specialised in Euro-Mediterranean relations. It provides policy-oriented and evidence-based research underpinned by a genuine Euromed multidimensional and inclusive approach.

The aim of the IEMed, in accordance with the principles of the Euro-Mediterranean Partnership (EMP), the European Neighbourhood Policy (ENP) and the Union for the Mediterranean (UfM), is to stimulate reflection and action that contribute to mutual understanding, exchange and cooperation between the different Mediterranean countries, societies and cultures, and to promote the progressive construction of a space of peace and stability, shared prosperity and dialogue between cultures and civilisations in the Mediterranean.

The IEMed is a consortium comprising the Catalan Government, the Spanish Ministry of Foreign Affairs, European Union and Cooperation, the European Union and Barcelona City Council. It also incorporates civil society through its Board of Trustees and its Advisory Council.

Acknowledgements
The authors gratefully acknowledge the useful comments from experts, which enhanced this policy study, and thorough assessment from peer reviewers, which enabled to improve the study. The usual disclaimer applies.

euromesco
Policy Study

Content

Executive Summary

This study aims to investigate the role of the Social and Solidarity Economy (SSE) in the process of job creation and formalisation of the informal economy, an issue that has not been tackled to date and is worth considering for three main reasons: (1) the informal economy is lagging behind in terms of value-added, fiscal receipts and social protection of informal workers; hence, formalisation would design a virtuous circle; (2) there is untapped potential in the labour force as regards youths, who are deeply involved in the informal economy, large unemployment of young graduates and very weak female participation in the labour market; (3) risk sharing in the SSE is akin to the joint liability scheme of the microfinance industry and should be appealing to Islamic cultural patterns.

The study is focused upon widespread youth in the Middle East and North Africa (MENA) region facing high unemployment rates and mismatch between labour supply and demand to promote the creation of start-up businesses with incentives in order for these to formalise (i.e. register). The issue is building ecosystems friendly to the SSE, expanding the size of business and employment thanks to partnership and the establishment of cooperatives, with the help of the microfinance institutions (MFIs).

With respect to targeting formalisation, it may prove more difficult to formalise long-lasting informal production units than to encourage those that are in an early stage of development. Favouring females and youths would prove relevant inasmuch as they are vulnerable categories. Beyond agriculture, which is almost entirely informal and embraces most cooperatives, it is worth investigating non-farming industries.

The sample consists of six MENA countries, namely Egypt, Jordan, Lebanon, Morocco, Palestine (West Bank and Gaza) and Tunisia. These non-oil low-middle income economies share pervasive characteristics with respect to labour market issues. The study describes the contours and trends of informal employment and the SSE from desk research throughout databases and interviews with top management of a sample of selected enterprises, collecting information that addresses the drivers and drawbacks in the creation of social businesses.

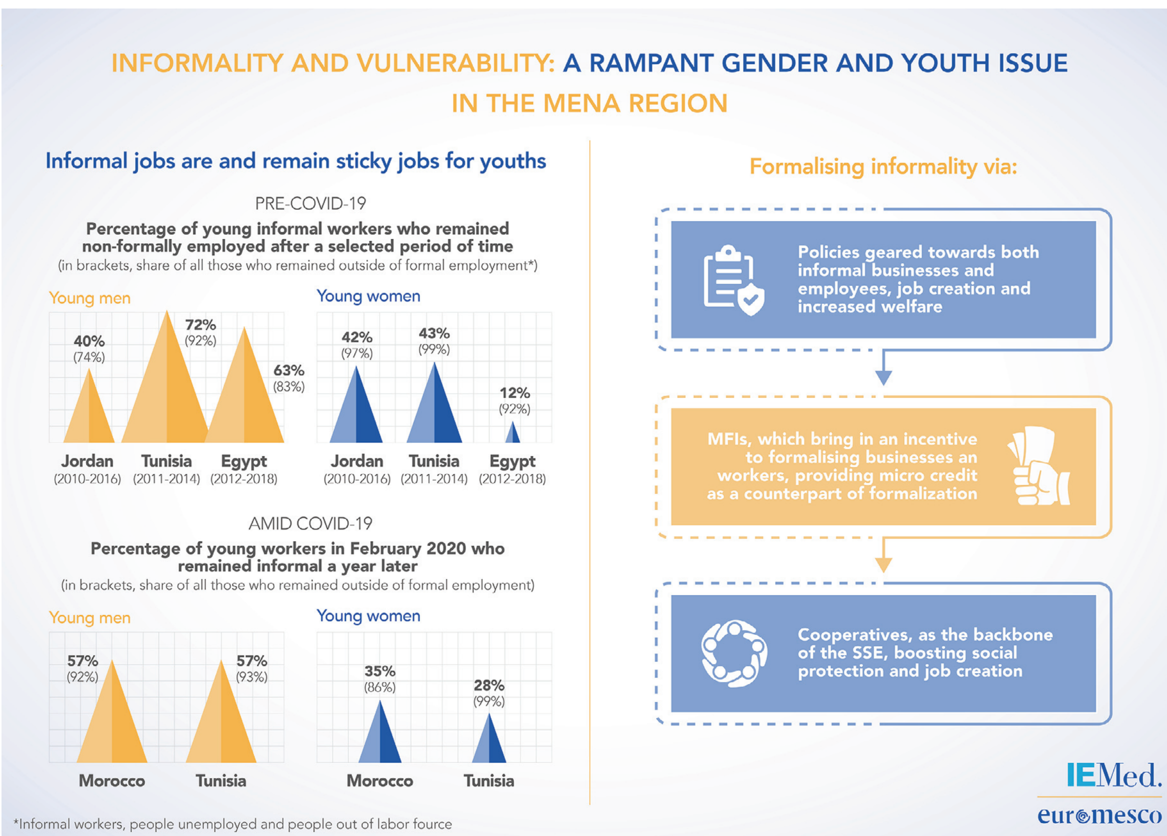
In the first part of this study, Vladimir Hlasny diagnoses that job creation in the MENA region has been biased toward manufacturing, building and construction with an outsized share of informal workforce, while skilled services relying on a formal workforce have stagnated. The public sector has also scaled down recruitment since a decade ago as part of macroeconomic and public sector reforms. This has further hollowed out job opportunities for vulnerable workers, i.e. informal workers including women. He compiles microdata from Labor Market Panel Surveys, and Economic Research Forum (ERF) COVID-19 MENA Monitors to assess employment statuses by age group (youth) and gender (females), emphasising pervasive vulnerability and informal employment in the six MENA countries. This considered, the recommendation is twofold: (1) investigating the informal sector taking stock of the surveys in Morocco as a benchmark for other MENA countries; (2) helping with the establishment of recruiting and training centres for workers and entrepreneurs, with the assistance of European academia.

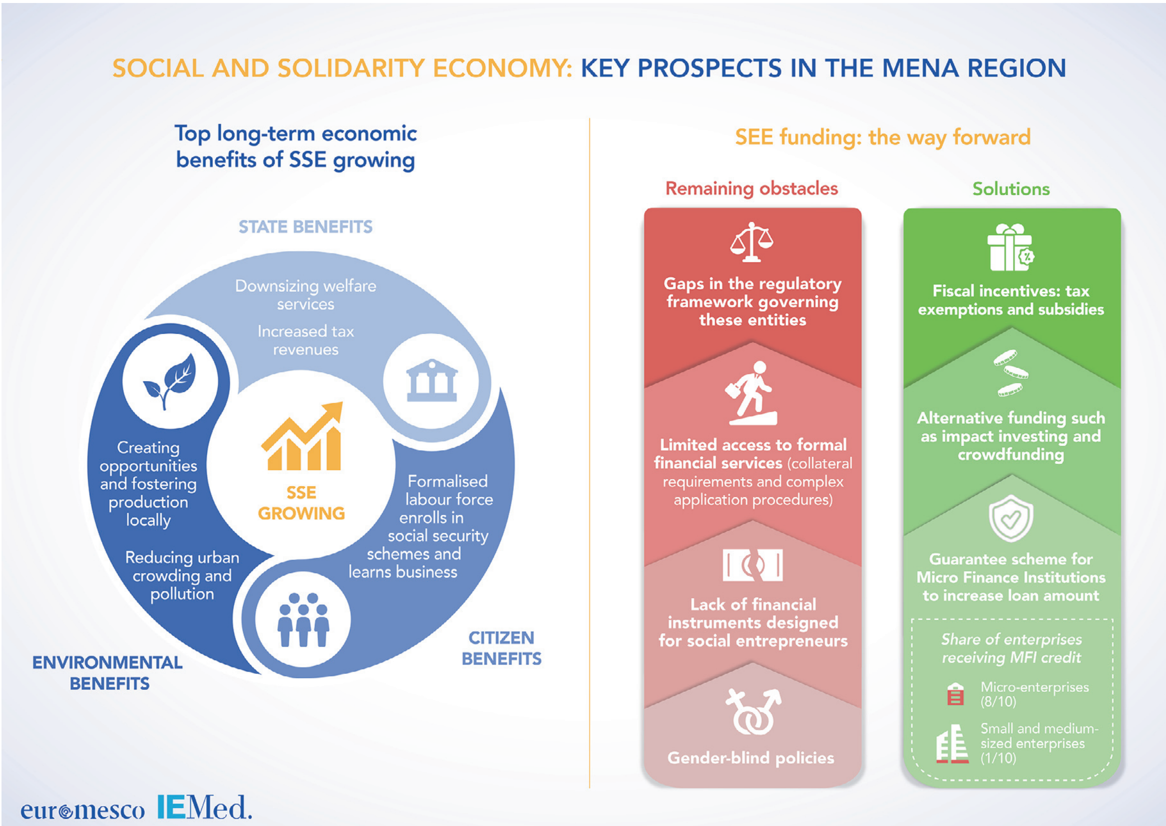
In the second part of the study, Kareem Sharabi Rosshandler points out the hybrid components of the SSE, including both for-profit and not-for-profit entities, namely cooperatives and mutuals as well as associations, and he surveys the legal framework of the SSE and its contribution to employment and gross domestic product (GDP). SSE entities – especially cooperatives – can help formalise vulnerable workers by providing them with contracts and grouping them into units that can leverage their collective capacities and resources. In 2017, SSE entities represented 2% of Morocco's GDP, and employed 5.5% of its active population. The creation of cooperatives more than tripled from 2006 (5,276) to 2017 (19,035), with two thirds operating in agriculture. With respect to recommendations, a major issue for all MENA countries is the design of a satellite account, collecting, harmonising and compiling statistics to inform stakeholders about the magnitude and trends of the SSE, with Eurostat expertise and assistance being crucial in this respect.

In the third part, Mariem Omrani uses extensive desk research, including data collection and in-depth interviews with key informants to come up with an overview of the major funding sources of SSEs in the six MENA countries and the obstacles they face, such as credit rationing from the banking system and a lack of tailored financial services. Besides personal savings and grants that mostly fund SSEs, crowdfunding and MFIs hold great potential that is still largely untapped. Her recommendation focuses on addressing the root causes that limit the advancement of social entrepreneurs, which is key to creating a conducive environment for SSEs to thrive. Policy-makers should design fiscal incentives, and build up the capacity of financial institutions in order to meet the needs of SSEs. Monetary policy incentives should encourage bank funding towards social enterprises. Besides, there is a need to downsize loan requirements and lower the interest rate for social enterprises and especially for female entrepreneurs.

In the last part, Philippe Adair tackles the formalisation policies addressing the informal economy (i.e., informality) in the six MENA countries. According to in-depth data compilation, standard definitions and stylised facts on informality pair with disparate and poor statistical coverage. Persistent informality that mostly affects youth and vulnerable categories does not preclude labour force mobility. Various Active Labour Markets Policies (ALMPs) encapsulate conflicting issues (enforcement vs. laissez-faire) and distinct strategies (macro vs. focused policies), targets (businesses vs. workers) and impact assessment. The SSE, including MFIs, fund and formalise both informal businesses and employees, and trigger job creation. Formalising informality benefits employment, bringing to light activities performed at home or without premises both a statistical effect and a figure improvement. Social protection enhances job creation in the healthcare industry, especially within the SSE. In the second place, cooperatives upscale formal job creation, and MFIs are the appropriate media promoting formalisation as a counterpart of funding amounts (ABA MFI in Egypt), which should upgrade in order to go beyond working capital and spur fixed assets investment in a more sustainable approach.

As for recommendations, the European Invest Bank (EIB) could (1) provide larger loans devoted to fixed capital investment of businesses extending formalisation (i.e., social protection) to employees and (2) extend the existing Mutual Guarantee Scheme Network supporting the MFIs that promote cooperatives.




SOCIAL AND SOLIDARITY ECONOMY: KEY PROSPECTS IN THE MENA REGION
Top long-term economic benefits of SSE growing
STATE BENEFITS
Downsizing welfare services
Increased tax revenues
SSE GROWING
Creating opportunities and fostering production locally
Reducing urban crowding and pollution
Formalised labour force enrolls in social security schemes and learns business
ENVIRONMENTAL BENEFITS
CITIZEN BENEFITS
SEE funding: the way forward
Remaining obstacles
Gaps in the regulatory framework governing these entities
Limited access to formal financial services (collateral requirements and complex application procedures)
Lack of financial instruments designed for social entrepreneurs
Gender-blind policies
Solutions
Fiscal incentives: tax exemptions and subsidies
Alternative funding such as impact investing and crowdfunding
Guarantee scheme for Micro Finance Institutions to increase loan amount
Share of enterprises receiving MFI credit
Micro-enterprises (8/10)
Small and medium-sized enterprises (1/10)
euromesco IEMed.

Introduction

Philippe Adair
Emeritus Professor, ERUDITE, University
Paris-Est Créteil

The role of the Social and Solidarity Economy (SSE) in the process of job creation and formalisation of the informal economy has not been tackled to date. The importance of considering this issue is threefold; (1) the informal economy is lagging behind in terms of value-added, fiscal receipts and social protection of informal workers; hence, formalisation would design a virtuous circle; (2) there is untapped potential in the labour force as regards youth, deeply involved in the informal economy, extensive unemployment of young graduates and very weak female participation in the labour market; (3) risk sharing in the SSE is akin to the joint liability scheme of the microfinance industry and should appeal to Islamic cultural patterns.

This study looks into the issue of widespread youth unemployment in the MENA region and the mismatch between labour supply and demand to promote the creation of start-up businesses with incentives in order for these to formalise. The issue is to build ecosystems friendly to the SSE, expanding the size of business and employment thanks to partnership and the establishment of cooperatives, with the help of the microfinance institutions (MFIs).

With respect to formalisation, it may prove more difficult to formalise long-lasting informal production units than to encourage those informal businesses that are at an early stage of development, such as start-ups.

Favouring females and youths would prove relevant inasmuch as they are vulnerable categories. Beyond agriculture, which is almost entirely informal and embraces most cooperatives, it is worth investigating non-farming industries.

In this study, the authors investigate the Middle East and North Arica (MENA) countries. Six Gulf Cooperation Council (GCC) members and Israel are not included as they are considered wealthy economies. Iraq, Libya and Syria do not disclose updated data, whereas both Algeria and Iran do not promote reforms friendly to the private sector. Hence, the geographic scope of the study consists of six MENA countries, three from North Africa, namely Egypt, Morocco and Tunisia, whereas three others are located in the Middle East, namely Jordan, Lebanon, and Palestine (West Bank and Gaza).

The authors address the issues and figures of both informal employment and the SSE from desk research, database compilation and interviews with experts as well as top managers of a small sample of selected enterprises, and information identifying some critical drivers and drawbacks in the creation of social businesses. The study comprises four main parts. In the first one, Vladimir Hlasny compiles microdata from four Labour Market Panel Surveys, and Economic Research Forum (ERF) COVID-19 MENA Monitor Surveys to assess employment statuses by age group and gender, emphasising pervasive vulnerability and informal employment in the six MENA countries. High figures regarding labour market inactivity, unemployment and job informality are pervasive in the six MENA countries, particularly among youths and women. Projections and policy recommendations are designed to inform policy debate over the destinies of various categories of workers and over the role of the European Union (EU) in this respect.

In the second part of the study, Kareem Sharabi Rosshandler identifies the hybrid components of the SSE, including both for-profit and not-for-profit entities, namely cooperatives and mutuals on the one hand, as well as associations, on the other. Extensive desk research, including data collection and interviews with key informants, provides a survey of the components of SSEs in the six MENA countries, especially cooperatives. The focus is on the legal frameworks under which SSEs operate, government incentives for their operation, as well as their economic impact in terms of employment and GDP contribution and recommendations that aim at maximising them.

In the third part, Mariem Omrani uses extensive desk research, including data collection and in-depth interviews with key informants to come up with an overview of the major funding sources of SSEs in the six MENA countries and the obstacles they face, such as credit rationing from the banking system and a lack of tailored financial services. Besides personal savings and grants that mostly fund SSEs, crowdfunding and microfinance institutions hold great potential that is still largely untapped and should be promoted thanks to fiscal incentives.

In the last part, Philippe Adair tackles the formalisation policies addressing the informal economy (i.e., informality) in the six MENA countries. According to in-depth data compilation, standard definitions and stylised facts on informality pair with disparate and poor statistical coverage. Persistent informality that mostly affects youth and vulnerable categories does not preclude labour force mobility. Various Active Labour Market Policies (ALMPs) encapsulate conflicting issues and distinct strategies, targets and impact assessment. The SSE including microfinance institutions plays a role in funding and formalising both informal businesses and employees, spurring job creation.

Unemployment and Informal Employment in MENA Countries

Vladimir Hlasny
Economic Affairs Officer, United Nations Economic and Social Commission for Western Asia

Rationale

Youth unemployment and job informality are pervasive features of the Middle East and North African (MENA) labour markets. Most fresh graduates, if they succeed at finding employment, are forced to accept jobs in the informal sector, or jobs without contracts, social protection or non-wage benefits. These jobs are insecure and often unsafe and leave youth workers with limited prospects for transition to decent work later in their careers. Moreover, the MENA region has witnessed a youth bulge. A surplus of fresh graduates has been flooding the labour market, increasing competition for decent positions and putting further downward pressure on the type of contracts, job amenities and compensation (Ozerim, 2018). Increasing access to higher education is positive but finding a job is getting more difficult.

The public sector, traditionally an employer of choice for many workers, has scaled down recruitment since a decade ago as part of macroeconomic and public sector reforms (Barsoum & Abdalla, 2020; Shahen et al., 2020). This has hollowed out job opportunities for relevant workers. It could be argued in some MENA countries that the formal economy has lost ground to the informal one, and the formal work conditions have slipped to resemble those in the informal sector. Job creation in the region has been biased toward manufacturing, building and construction with an outsized share of informal workforce, while skilled services relying on formal workforce have stagnated.

Evidence suggests that the informal sector, and micro and small-sized enterprises (MSEs), lag behind the formal and corporate sector in terms of factor productivity, value-added and fiscal receipts, in part due to a mismatch between skill supply and demand, in a state where workers have few opportunities for upskilling or retraining, and employers fail to invest in them (Charmes, 2019). Hence, formalisation could lead to a virtuous circle whereby investing in workers' human capital and job satisfaction would increase firms' factor productivity and performance, which would in turn encourage retention of high-quality workers and acquisition of complementary capital, leading to further performance gains and incentives to curtail labour turnover. The availability of many currently underutilised youths (deeply involved in the informal sector, or unemployed) and women (large-scale economically inactive) presents an opportunity to entrepreneurs, particularly those unburdened by existing workforce hierarchies or social conventions.

COVID-19 has further exacerbated employers' reluctance to invest in workers, increased uncertainty, and encouraged the shift from regular to gig employment. Government-imposed lockdowns and social distancing have affected aggregate economic activity and, by extension, labour markets. Firms facing reduced demand from lockdown restrictions, and those for which remote work is not feasible, passed on the consequences to their workers, with many workers being laid off, facing reduced hours, reduced pay or exiting the labour market altogether. Some workers also cut down on their hours or exited the labour market due to health concerns or childcare responsibilities that had multiplied during the lockdowns and closures of school and childcare centres.

This chapter aims to contribute to the existing body of evidence by reviewing the static and dynamic nature of unemployment and vulnerable employment across several MENA states (World Bank, 2020). It studies workers' transitions to decent work using Labour Market Panel Surveys (LMPS) and Economic Research Forum (ERF) COVID-19 Monitors. The chapter comments on the growing trends of vulnerable employment, particularly for youth cohorts and for women, and the persistent role of parental resources – material, human and social (manifested through *wasta,* parents' connectedness) – at explaining children's career outcomes.

The chapter first reviews the relevant literature on the working of the labour markets in the MENA countries, the scale of informality and some of its causes, and the outcomes of various groups of workers. It then introduces the data and the analytical approaches shedding light on workers' employment outcomes. In the last section, it takes stock of the key results and draws recommendations for the prospective entry points for international organizations.

Literature review

The common thread in the regional literature is the identification of structural faults in the labour markets, and a growing trend of vulnerable employment, particularly among youth cohorts. Structural faults manifest themselves primarily through a state of duality between formal public and private sectors, and the informal private sector (Assaad, 2014; Hlasny & AlAzzawi, 2020).

Youth unemployment and job informality are pervasive features of MENA labour markets, and among their most critical challenges (Fehling et al., 2016; Chen & Harvey, 2017; Assaad, 2019). Most graduates are forced into jobs in the informal sector, or jobs without contracts or social protection (Assaad & Krafft, 2014; Tansel & Ozdemir, 2019; AlAzzawi & Hlasny, 2022). These jobs are insecure, often unsafe, and leave workers discontented and with limited prospects for transition to decent work. They also have repercussions for workers' marriage prospects, human capital acquisition, political contentment and other lifetime outcomes. Meanwhile, the informal sector and MSEs lag behind the formal sector and corporations in factor productivity, value-added and revenues.

In some MENA countries, the formal work conditions have slipped to resemble the informal ones, forcing established firms to retrench, or taxing regulatory conditions have led small firms to remain under the regulatory radar and avoid formalising. Private sector jobs have become more precarious and less likely to carry long-term contracts (Krafft & Assaad, 2021). The constraints on the labour demand in recent years interact with demographic or labour supply trends, and jointly give rise to a skill supply-demand mismatch, as workers lack opportunities for upskilling, and employers refrain from retraining them. The region has witnessed a youth bulge, at the same time as women have increasingly tried to apply themselves in the formal labour market, particularly in the public sector that competes with formal private employers for talent. A high failure rate at securing decent jobs has led to discouragement, and women's labour market participation rate remains low.

A surplus of fresh graduates has thus flooded the labour market, increasing competition for jobs and putting pressure on working conditions. Firms can afford to be choosy about workers' circumstances such as family background and social class (Krafft & Assaad, 2016; Assaad et al., 2018). Parental resources – including parents' connectedness *wasta* (Barsoum & Abdalla, 2020), and education and wealth (Hlasny & AlAzzawi, 2019) – have come to cast a life-long shadow on youths' employment prospects.

Youth unemployment and job informality are pervasive features of MENA labour markets, and among their most critical challenges

Among youths, a gap has widened between those who are under-educated (and enter informal employment) and those (over-) educated (and remain unemployed or enter the formal sector). Those who are not in education, employment or training (NEETs) and are discouraged from job searching are of particular concern (Aleksynska & Kolev, 2021).

COVID-19 has exacerbated the long-standing reluctance of employers to invest in inexperienced workers, and encourages the shift from regular to irregular gig employment (Krafft et al., 2021). Those made unemployed during the pandemic had come predominantly from among those without formal employment pre-pandemic, including women and youths (Hlasny & AlAzzawi, 2022a; Hlasny & AlAzzawi, 2022b; IMF, 2021), even though selected sectors, such as health, education and online retail, have been resilient to layoffs. 25 million full-time equivalent (FTE) jobs are estimated to have been lost in Arab states during 2020 due to declining working hours. FTE job losses of 10 million were estimated for the second quarter of 2020 alone, when the most severe lockdowns took place (ILO, 2020b; see Table 1). Over 5 million FTE jobs could be lost over the course of 2021, depending on how severe the course of the pandemic and accompanying lockdowns are in countries (ILO, 2021). All the while, over 85% of youths are estimated to hold informal jobs (ILO, 2020a). The true degree of informalisation may even be masked by the recent observed flow of workers toward the agricultural sector where self-employment is more prevalent (ILO, 2021).

Job creation, access to formal jobs and the share of irregular wage work deteriorated over time

Lockdowns and the decline in aggregate demand under COVID-19 have affected workers severely. The effects were harshest for economically-marginalised groups, including women and youths. These groups were at a substantial risk of falling into vulnerable employment, encompassing unpaid family work, (non-employer) self-employment, irregular and informal work (AlAzzawi & Hlasny, 2022).

Among women, those with school-aged children were forced to limit their labour market engagement as schools and daycare centres shut down. In light of the pre-existing structural obstacles in accessing decent jobs, a break from service caused by COVID-19 will undoubtedly impair youths', women's and other marginal workers' ability to get back on their feet (Hlasny & AlAzzawi, 2020).

Empirical studies on MENA region labour markets have primarily focused on a few selected countries, and have typically distinguished country-level conditions and trends affecting workers, rather than region-wide developments.

Egypt

Assaad and Krafft (2015), using the Egyptian Labour Market Panel Surveys (ELMPS) 1998-2012, analysed labour market conditions for workers of all working ages, and found significant differences in job stability, working conditions and the risk of poverty across individuals with different employment statuses. Workers with irregular employment were found to be most vulnerable. Moreover, job creation, access to formal jobs and the share of irregular wage work deteriorated over time. Assaad and Krafft (2014; and references within) used ELMPS 2012 to study the transitions of Egyptian youths from school to labour market, with a special emphasis on women and marriage decisions. They concluded that workers' labour market prospects were constrained by a mismatch of skills acquired in school and characteristics demanded by employers, and non-meritocratic hiring processes.

While most literature has focused on Egypt (due, traditionally, to better availability of data), a growing list of studies consider other MENA countries, most notably Jordan and Tunisia.

Jordan

Young men face poor access to decent work (Assaad, 2012; Amer, 2014) and women's prospects are bleaker still. Assaad et al. (2014) found that female workers have been especially vulnerable on account of the falling public sector employment, unaccommodating nature of private sector employment, and slow adjustment of labour laws.

Tunisia

Baah-Boateng (2016) identified an exceptionally high youth unemployment rate, especially among higher education graduates, and at the same time a relatively low rate of employment informality and working poverty, in contrast to those in other MENA countries. Schäfer (2017) points to a mismatch between the proliferation of academic skills and career aspirations among workers, and the pervasiveness of irregular or seasonal jobs. Ben Cheikh and Moisseron (2020) used microdata from surveys evaluating new cash transfer and subsidised health insurance programmes to study the incentives of informal workers to remain informal or transition to formal jobs with social security protection. El-Mekkaoui and Chaker (2019) reached similar conclusions using the Tunisian and Jordanian LMPS data.

Analytical approaches and data

This chapter's contribution to the prevailing literature is to examine the incidence, makeup and evolution of vulnerable employment in a broader group of countries, and to extend the analysis to the more recent period of far-reaching changes including the span of the COVID-19 crisis, relying on up-to-date surveys. Primary data review of employment conditions is conducted, focusing on four countries with updated labour market data, namely Egypt, Jordan, Morocco and Tunisia. The aim is to track the impacts of macroeconomic conditions over the course of the recent years.

Two sources of worker-level data are consulted. LMPSs are presently available for Egypt (2012, 2018), Jordan (2010, 2016) and Tunisia (2014) (OAMDI, 2019). They are harmonised and made available by the ERF. They are highly suitable for examining the dynamics governing individual workers' employment statuses. These surveys track the same workers and their employment status over the span of six or more years between survey waves. The surveys also include recall modules screening workers' backgrounds and employment history, supplementing the information on workers' contemporaneous labour market statuses from across multiple survey waves. For the single wave of the Tunisian survey, the recall module allows us to study employment transitions between 2008 and 2014.

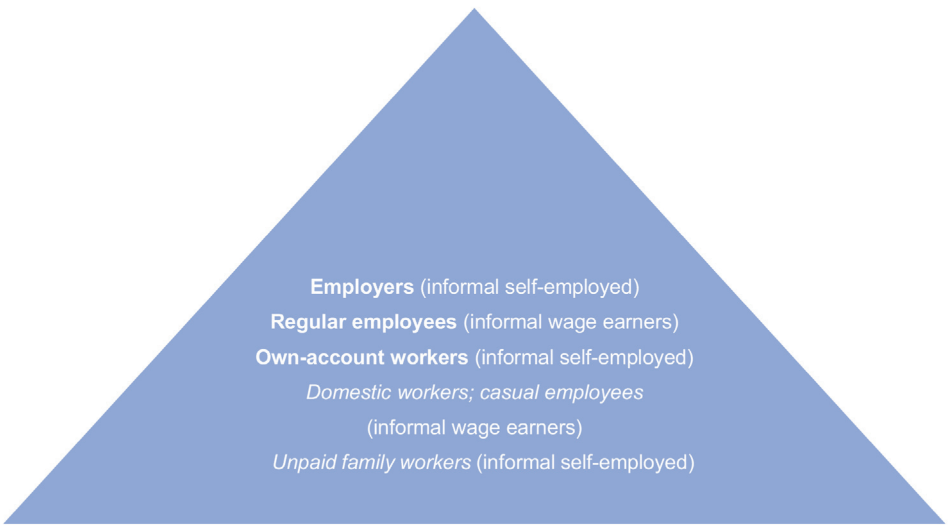
Given the far reaching economic implications of the COVID-19 epidemic, and the extensive social expenditure responses to it undertaken by regional governments, microdata from the years 2020-2021 is particularly beneficial to evaluate the gravity of the labour market shocks for employment, particularly in relation to vulnerable workers. The ERF COVID-19 MENA Monitors, presently available for Morocco and Tunisia for November-December 2020, January-February 2021 (OAMDI, 2021), are large sample telephone surveys facilitating representativeness within a certain sample frame of contactable respondents. Like the LMPSs, they are panel surveys with limited recall modules, allowing us to track the same workers over the span of 12+ months.

The analysis of the LMPS and ERF COVID-19 Monitor datasets covers both static manifestation of informality across different demographic groups, as well as dynamic trends of workers' mobility between employment types. Besides deriving static descriptive statistics of the outcomes of various classes of workers, this study estimates probabilistic models of workers' outcomes to shed light on the dynamic predictors of those outcomes, in order to draw policy recommendations.

Results

In what follows, employment vulnerability is taken to include the self-employed not employing others, unpaid family workers, irregular wage workers, and informal private sector workers (similar to definitions by Danquah et al., 2019, and World Bank, 2020). In a five-prong classification of informal workers based on Chen et al. (2006) – as employers, regular informal employees, own-account workers, casual/irregular employees, and unpaid family workers – workers' vulnerability and risk of poverty depend on work status and related income (Figure 1). Men are typically over-represented in the three top levels, whereas women concentrate in the two bottom levels.

Figure 1. Segmentation of the informal economy according to poverty risk (work-status and income)



Note: in bold letters: mostly males, in italics: mostly females.

Source: Philippe Adair's analysis adapted from Chen et al. (2006).

Who are the vulnerable informal workers targeted for formalisation?

The vulnerable categories of workers include, first, the self-employed. Then the informal wage employees. Self-employment largely overlaps with informal and most vulnerable forms of work, such as male own-account workers and female contributing family workers or casual/irregular workers. Table 1 records self-employment as a share of total employment displaying large gender discrepancies across countries, such as Morocco (highest) vs. Jordan (lowest).

Table 1. Distribution of workforce status and vulnerability (2019), by gender (% of total in country)

	Self-Employed*			Wage Employees			Vulnerable (self-employed excluding employers)		
Country	**Female**	**Male**	**Total**	**Female**	**Male**	**Total**	**Female**	**Male**	**Total**
Egypt	*31.37*	30.18	30.43	68.63	*69.82*	*69.57*	*27.73*	15.41	17.97
Jordan	2.30	16.24	13.92	*97.70*	*83.76*	*86.08*	1.58	12.37	10.58
Lebanon	15.01	*44.39*	*37.48*	*84.99*	55.61	62.53	13.84	*35.73*	*30.58*
Morocco	*57.11*	*45.89*	*48.56*	42.89	54.11	51.44	*56.29*	*42.91*	*46.10*
Tunisia	14.27	28.61	25.16	*85.73*	*71.39*	*74.84*	11.47	21.29	18.93
Palestine	22.72	29.66	28.57	*77.28*	*70.34*	*71.44*	20.00	22.42	22.04
Average**	23.80	32.49	30.69	76.20	67.50	69.32	21.82	25.02	24.37

Note: * includes employers, own-account workers and contributing family workers. ** Figures in italics are above average

Source: Philippe Adair's analysis, from ILOSTAT database (modelled estimate).

Inasmuch as one's job is formal, wage employment represents a status usually associated with more job security and better working conditions, whereas own-account work and family work constitute two categories of status regarded as vulnerable employment. However, some wage employees (irregular, casual or seasonal) do not enjoy basic elements of decent work (such as absence of a contract or social security coverage), whereas some own-account workers are not in a vulnerable position (Chen, 2020). Informal workers are twice as likely as formal workers to belong to poor households. The absence of adequate social protection arrangements makes informal workers and their families particularly vulnerable, work being their only means of day-to-day survival (OECD & ILO, 2019).

Static prevalence of employment informality and vulnerability

In Egypt between 2012 and 2018, employment vulnerability rose, dominated by the rise in the share of young men who are in vulnerable employment, as well as young women. Young women witnessed a rise in employment vulnerability. In Jordan, while young men's vulnerability fell from 40% to 34% between 2010 and 2016, it rose for young women and especially non-young men. For Tunisia, the share of young men in vulnerable employment was already high at 63% and stayed roughly the same over time, but that of other groups fell slightly.

COVID-19 has had strong negative consequences on the MENA labour markets that vary by country and over time in their intensity but also vary by type of worker. The effects on public sector workers were the lowest but, even for this group, some workers such as youths and women did not fare well. Informal and especially irregular workers and those working outside of estab-

The absence of adequate social protection arrangements makes informal workers and their families particularly vulnerable

> Women who start out in vulnerable employment are most likely to transition out of the labour market

lishments often ended up self-employed or unemployed. Over 23 million women were estimated to be at risk of losing employment (UN ESCWA & ILO, 2021). Youths fared relatively worse than non-youths at the start of the pandemic, and they also saw a slower recovery – less dramatic decline in undesirable work outcomes.

Dynamic effects of informality

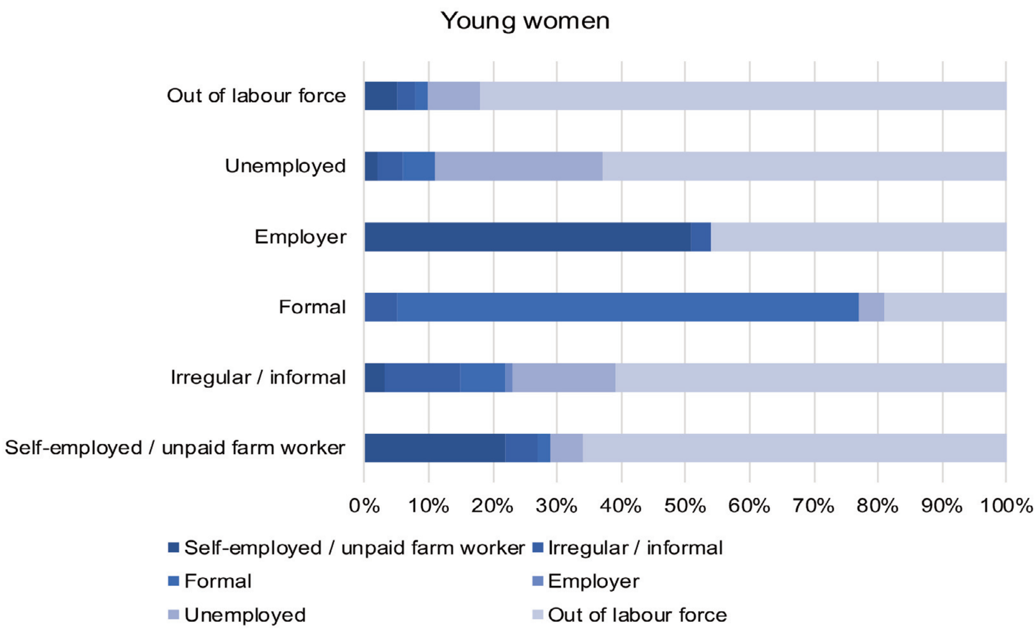
To understand better the fate of workers in vulnerable employment, we assess detailed labour market status transitions of various groups of workers over time. Dynamic analysis using LMPSs (for Egypt, Jordan and Tunisia) and ERF COVID-19 Monitors (for Morocco and Tunisia) confirms that youths who start out in the labour market in a vulnerable job are unlikely to move to a better-quality job over time. Youth workers are less likely to attain decent employment than non-youths, particularly in formal employment.

Figures 2 and 3 show that informal jobs leave youth workers with limited prospects for transition to decent work later in their careers. Figure 2 (a, b, c) shows this for years prior to the pandemic. The central finding in this figure is that labour market conditions deteriorated over the past decade in all three countries evaluated (Egypt, Jordan and Tunisia). In Egypt, transitions out of vulnerable employment for young men were very low during 2012-2018. Tunisian men both young and older faced similar persistence in terms of their vulnerable labour market status over the six years from 2008 to 2014. Over 80% of men who were in vulnerable employment in 2008 were in a similarly vulnerable status in 2014. Jordanian men's outcomes between 2010 and 2016 exhibited less persistence overall. There was some transition from informal/irregular work to formal work for young men. The clear difference between Jordan, and Egypt and Tunisia, however, is that far more Jordanian men who had previously been working transitioned to being out of the labour force (OLF) over these six years a phenomenon that was almost entirely faced by women in the other two countries.

The trajectory for women seems far more consistent across countries and age groups. Women who start out in vulnerable employment are most likely to transition out of the labour market altogether, while the small minority who retain their vulnerable employment status rarely transition to formal jobs. Moreover, once out of the labour force, they rarely transition back to it.

Similarly, only a small minority of unemployed women transition to employment, and if they do it is more likely to be formal jobs in either the public or private sector, but this share rarely exceeds 15% in Egypt. It is slightly higher in Jordan and Tunisia for young women only. The only women who seem to hold on to their work and employment status over time are those who were previously in formal jobs, with between 50 and 80% of women who were in a formal job remaining there by the next survey wave.

Figure 2a. Youth employment status transitions by gender in Egypt, 2012-2018



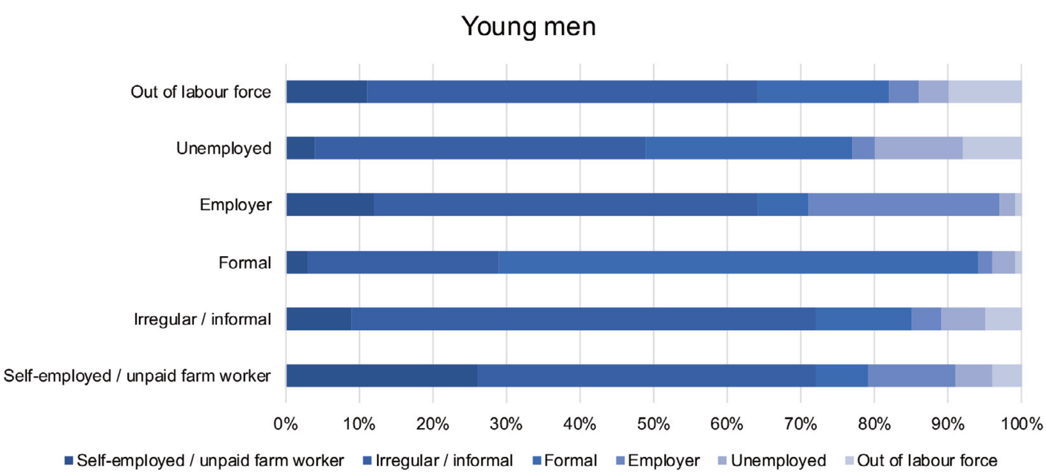
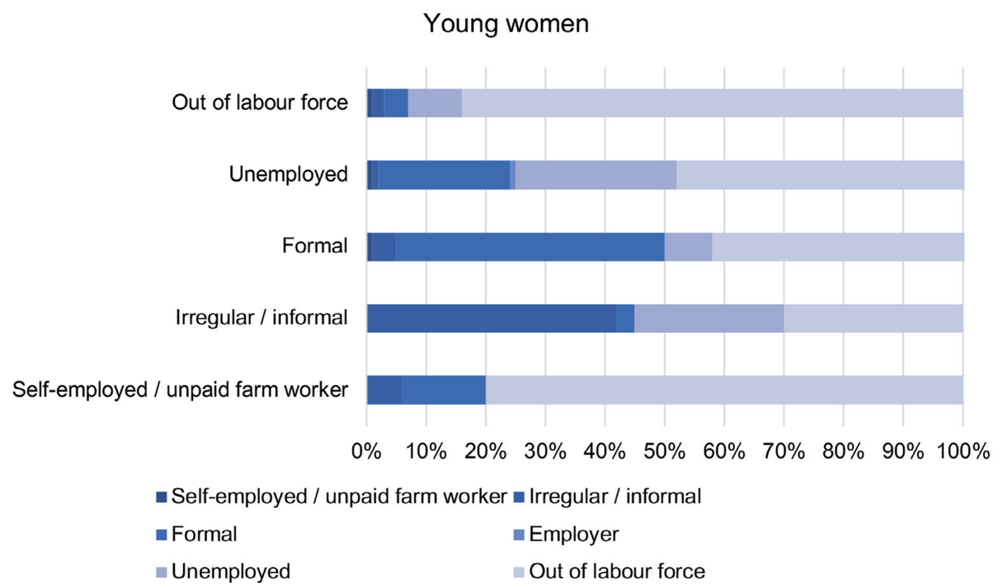


Figure 2b. Youth employment status transitions by gender in Jordan, 2010-2016



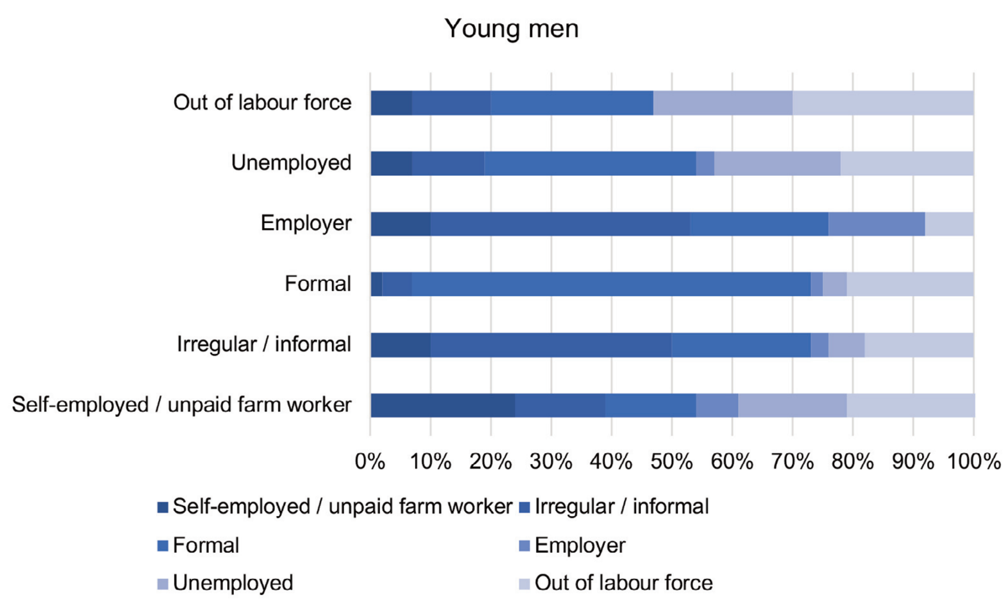


Figure 2b. Youth employment status transitions by gender in Jordan, 2010-2016

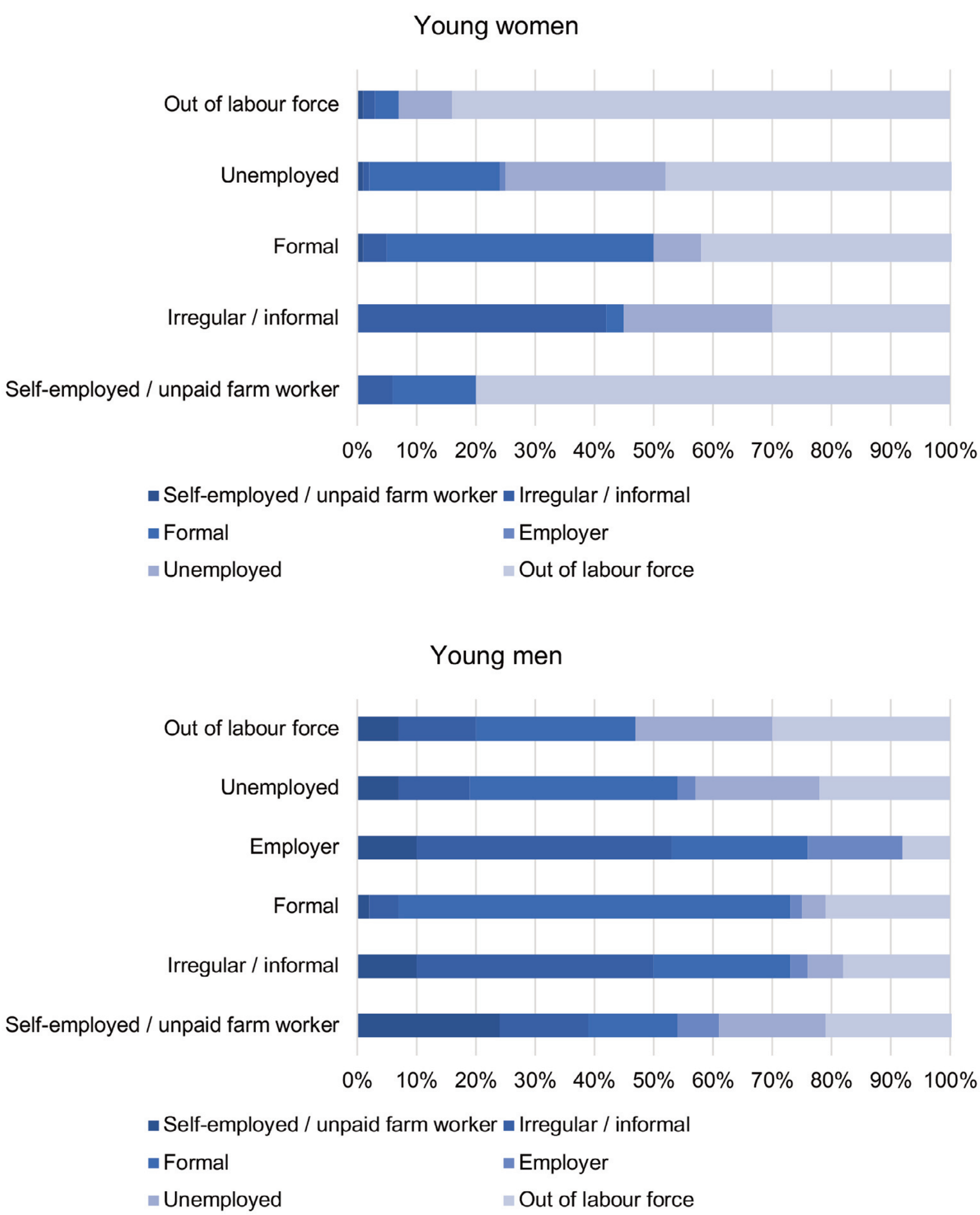
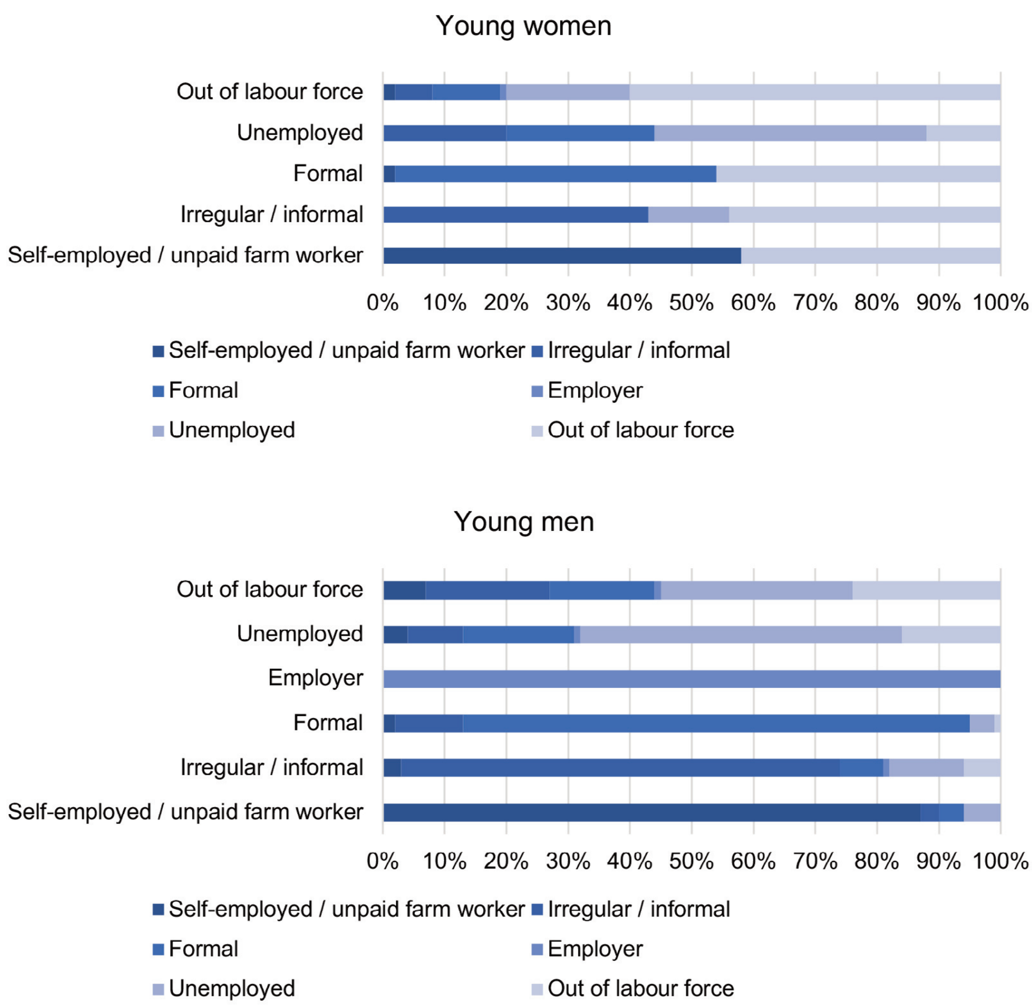


Figure 2c. Youth employment status transitions by gender in Tunisia, 2008-2014

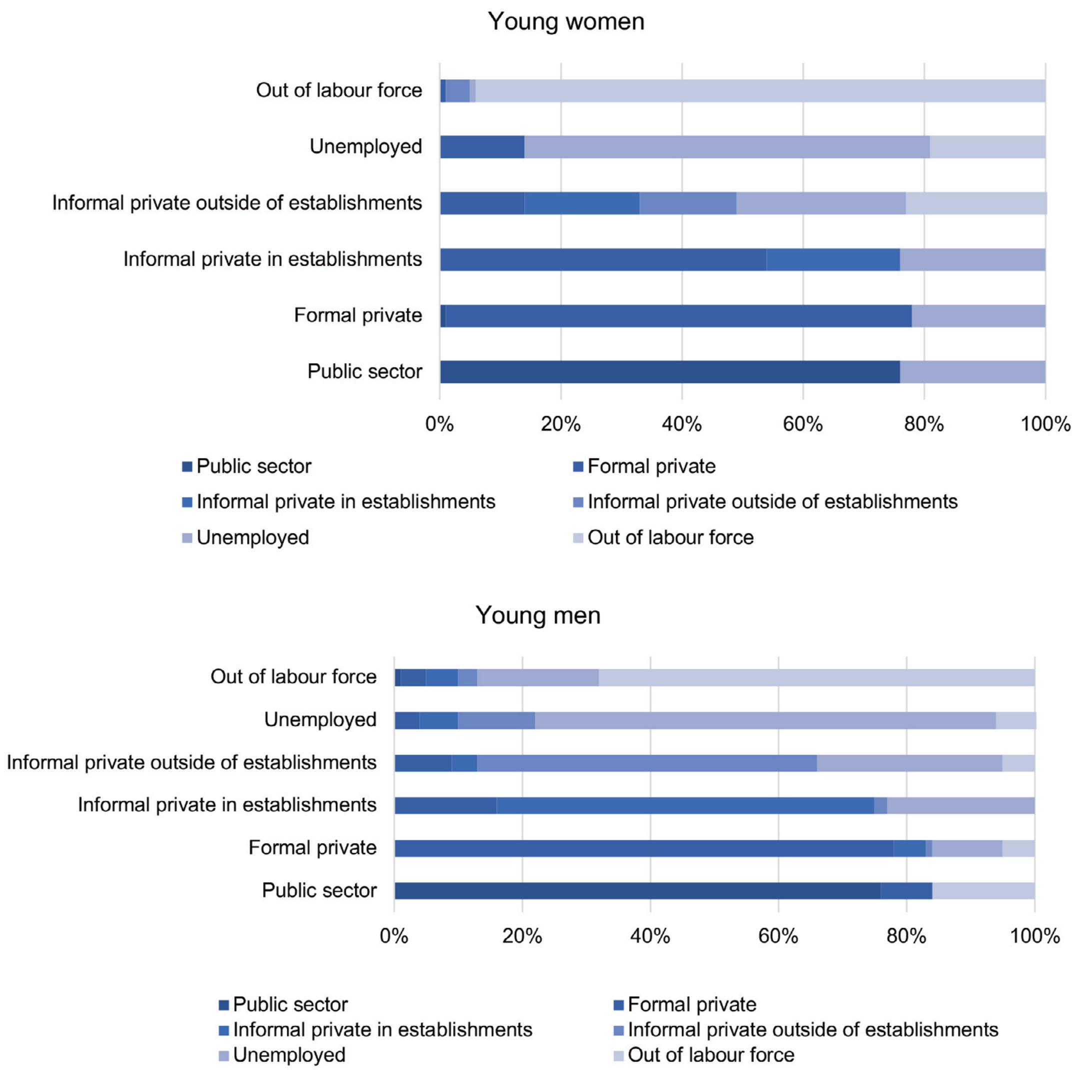


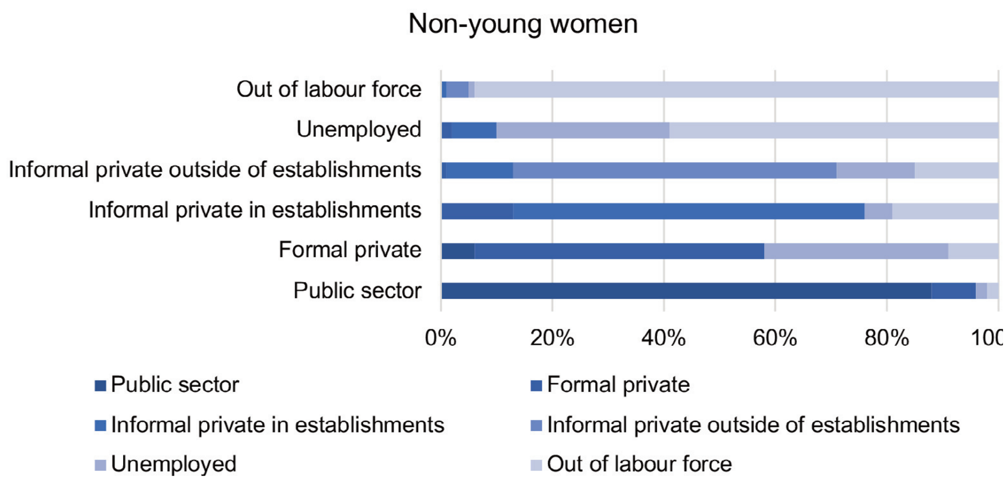
Source: Author's analysis based on ELMPS 2012–2018, JLMPS 2010–2016, TLMPS 2014 (recall module to 2008).

Note: Youth covers non-students 29 years and younger.

Amid COVID-19, Figure 3 shows similarly worrying trends. In Morocco, 57% of young men starting in informal occupations outside of establishments in February 2020 remained there, and 92% remained non-formally employed a year later. Among women, 35% of young women starting in informal occupations outside of establishments in February 2020 remained there, and 86% remained non-formally employed a year later. In Tunisia, 57% young men starting in informal occupations outside of establishments in February 2020 remained there, and 93% remained non-formally employed a year later. Among women, 28% of young women starting in informal occupations outside of establishments in February 2020 remained there, and 99% remained non-formally employed a year later.

Figure 3a. Employment status transitions between February 2020 and February 2021, in Morocco, by age and gender




Non-young women
Out of labour force
Unemployed
Informal private outside of establishments
Informal private in establishments
Formal private
Public sector
0%
20%
40%
60%
80%
10(
Public sector
Formal private
Informal private in establishments
Informal private outside of establishments
Unemployed
Out of labour force

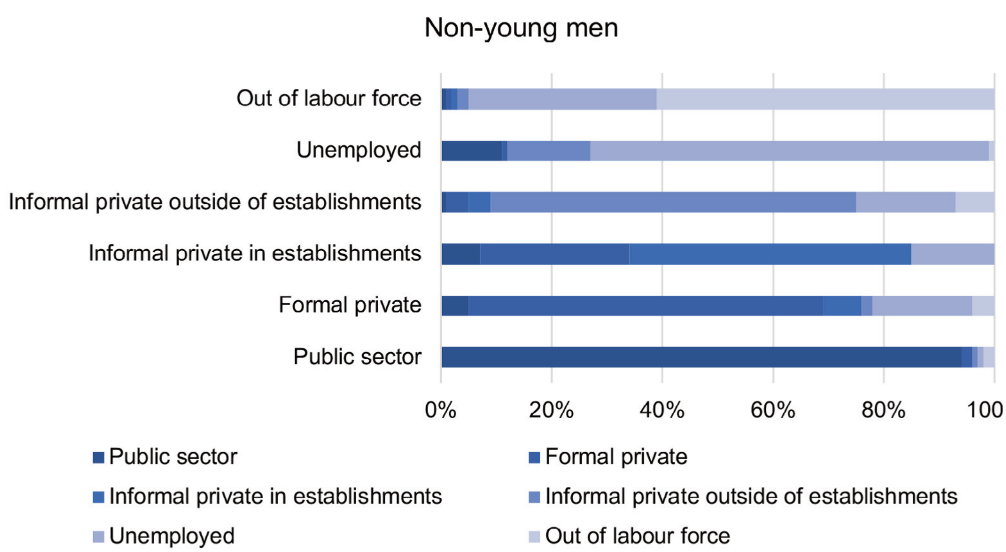
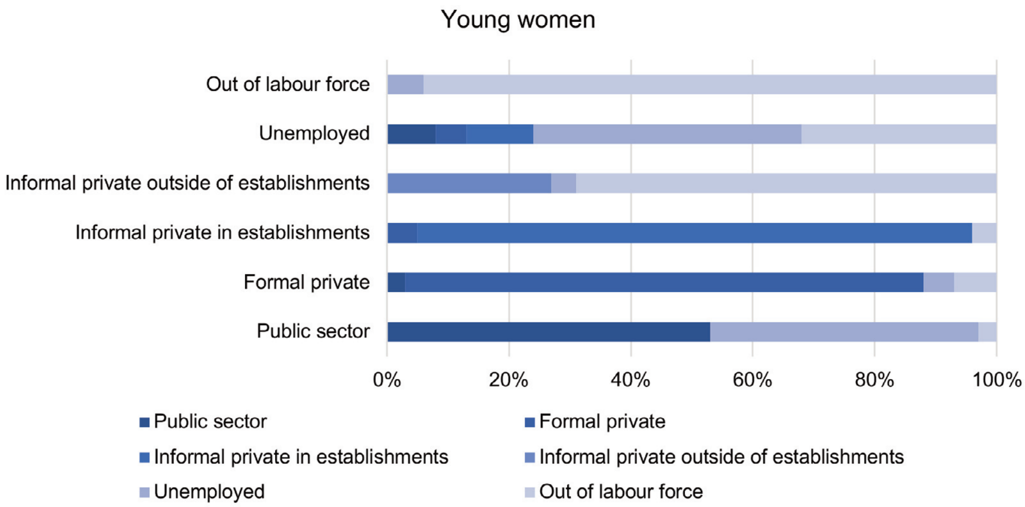
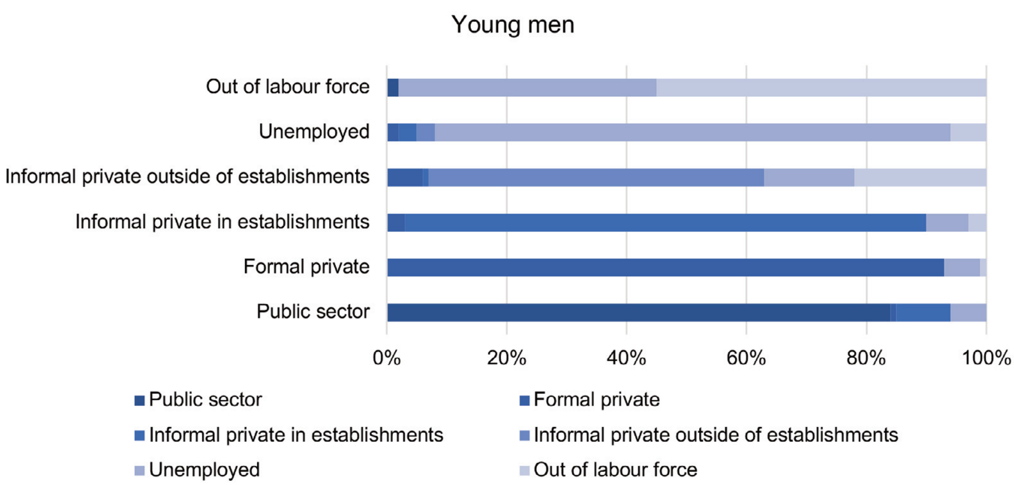
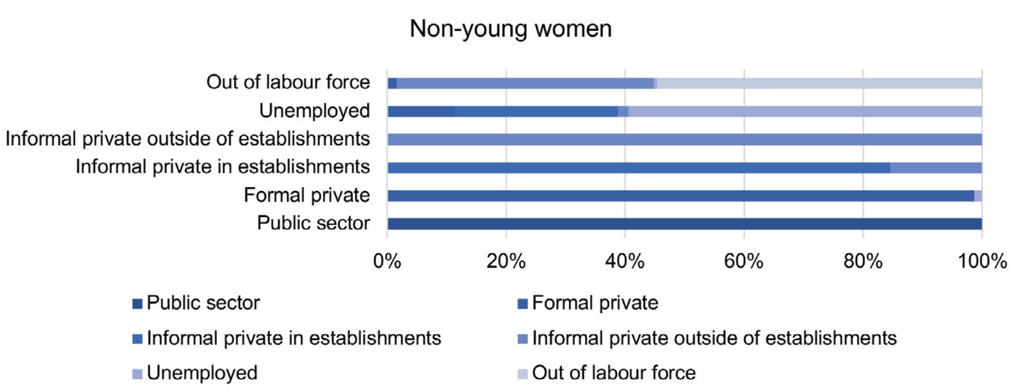
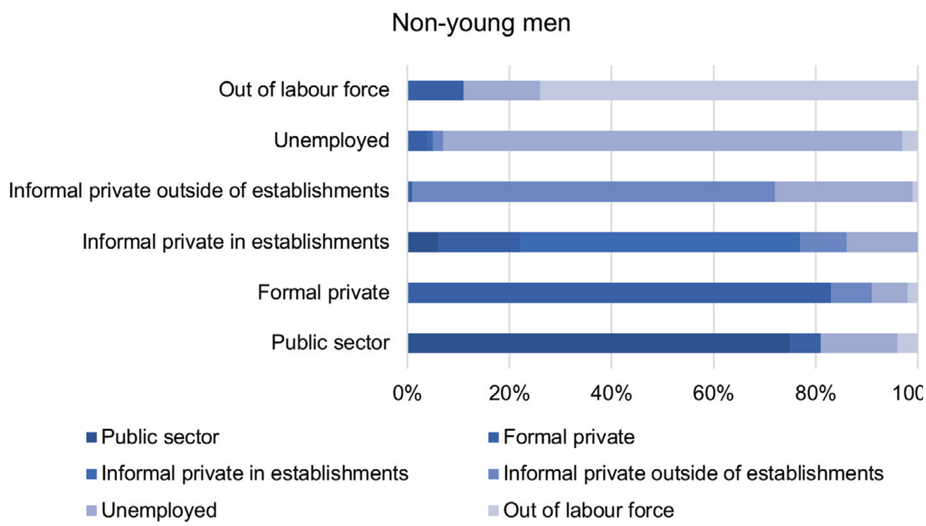

Non-young men
Out of labour force
Unemployed
Informal private outside of establishments
Informal private in establishments
Formal private
Public sector
0%
20%
40%
60%
80%
100
Public sector
Formal private
Informal private in establishments
Informal private outside of establishments
Unemployed
Out of labour force

Figure 3b. Employment status transitions between February 2020 and February 2021, in Tunisia, by age and gender









Source: Author's analysis of ERF COVID-19 Monitors, waves 0 and 3 (OAMDI, 2021).

Note: Youth covers non-students up to 29 years.

For completeness, probabilistic models of workers' outcomes were used to formally estimate the workers' propensity for attaining individual employment statuses as a function of workers' pre-existing status, gender, age and other demographics. These models confirm the lower propensity for formal status, and higher propensity for informal work and unemployment among male youths, and at the same time an elevated propensity for unemployment and an eventual drop out of the labour force among female youths. The models also suggest that family wealth, and father's education and employment are important determinants of workers' employment outcomes and these associations persist even after a long period of work experience (AlAzzawi & Hlasny, 2022; Hlasny & AlAzzawi, 2022a; Hlasny & AlAzzawi, 2022b).

Policy implications and recommendations

The chapter highlights that job informality and economic vulnerability run high among MENA workers both young and old, and across both genders. Moreover, transitioning out of informality is difficult and rare. MENA youths are disadvantaged even compared to non-youths in terms of employment outcomes, with most youths ending up in vulnerable jobs such as being self-employed, an unpaid family worker, an irregular wage worker or in the informal private sector.

Innovative policies are thus needed to facilitate job creation, worker-job matching, and the formalising of working conditions. The social economy holds a great promise to reinvent the social and labour contract, and build partnerships across solidarity support networks, and contribute to ushering in new business-ownership models.

Given the labour market trends identified through this chapter, and the data sparsity (especially with regard to historically less-studied countries such as Morocco) further assessment is needed to clarify the value of prospective interventions by national and international agencies. To monitor and evaluate the role of various employers in propping up employment stability and formalisation, greater, more transparent and more reliable data on labour-market outcomes should be amassed under various governance regimes. Indeed, the need for data is critical to any effort to introduce pilot treatments, implement policies, target social protection programmes, and conduct programme evaluation.

The European Union (EU) has a well-recognised role to play in a number of these endeavours, as demonstrated by the existing medium- and long-term international co-operation programmes under the auspices of the Neighbourhood, Development and International Cooperation Instrument (NDICI), and specifically the 2021 Agenda for the Mediterranean. This agenda has earmarked up to €7 billion for the period 2021-2027 to aid with mobilising up to €30 billion in private and public investment in the region (EC, 2021).

With regard to the challenges identified in this study, we advocate that resources be directed toward capacity-building in the public and civic spheres.

First, the EU and partner organisations should nudge and support MENA states' policy-makers in the area of consistent collection and dissemination of reliable socioeconomic data harmonised across countries and over time. Enterprise surveys in particular need an upgrade in this regard. The EU should partner with regional statistical authorities or relevant ministries to develop an optimised survey instrument devoid of measurement issues, and to administer it at a high, regular frequency to a large sample of relevant units. This is needed for the tracking of socioeconomic outcomes by policy-makers and by international observers, and for the prompt response and targeting interventions.

Then, the EU should build greater capacity among regional social-economy protagonists, non-governmental organizations (NGOs) and research centres with the aim of increasing their social impact and promote employment of economically marginalised groups. Capacity-building trainings on best international practices and events and platforms facilitating the exchange of ideas and the pooling of resources would go far to empower and connect the frontline actors in working toward their interconnected goals. Helping with the establishment of recruiting and training centres for workers and prospective entrepreneurs and assisting with financing or underwriting of social initiatives or products would provide direct support to the social economy and its participants, especially those less privileged.

The EU should build greater capacity among regional social-economy protagonists, non-governmental organizations (NGOs) and research centres with the aim of increasing their social impact

References

ALAZZAWI, S., & HLASNY, V. (2022). Youth labor market vulnerabilities: Evidence from Egypt, Jordan and Tunisia. *International Journal of Manpower,* forthcoming.

ALEKSYNSKA, M., & KOLEV, A. (2021). Education-occupation mismatch in the context of informality and development. *OECD Development Centre WP 346.*

AMER, M. (2014). The school-to-work transition of Jordanian youth. In R. Assaad (Ed.), *The Jordanian Labour Market in the New Millennium* (pp. 64–104). Oxford University Press.

ASSAAD R. (2012). The structure and evolution of employment in Jordan. *ERF Working Paper 674.* Economic Research Forum (ERF).

ASSAAD, R. (2014). Making sense of Arab labor markets: the enduring legacy of dualism. *IZA Journal of Labor & Development,* 3(1), 1-25.

ASSAAD, R. (2019). Moving beyond the unemployment rate: alternative measures of labour market outcomes to advance the decent work agenda in North Africa. *International Labour Organization and Economic Research Forum (ERF) paper.*

ASSAAD, R., & KRAFFT, C. (2014). Youth transitions in Egypt: school, work, and family formation in an era of changing opportunities. *Silatech Working Paper No. 14-1.* Silatech.

ASSAAD, R., & KRAFFT, C. (2015). The structure and evolution of employment in Egypt: 1998–2012. In R. Assaad & C. Krafft (Eds.), *The Egyptian labor market in an era of revolution* (pp. 27-51). Oxford University Press.

ASSAAD, R., HENDY, R., & YASSIN, S. (2014). Gender and the Jordanian labor market. *ERF working paper 701.* Economic Research Forum (ERF).

ASSAAD, R., KRAFFT, C., & SALEHI-ISFAHANI, D. (2018). Does the type of higher education affect labor market outcomes? Evidence from Egypt and Jordan. *Higher Education, 75(6)*, 945-995.

BAAH-BOATENG, W. (2016). The youth unemployment challenge in Africa: What are the drivers? *Economic and Labour Relations Review,* 27(4), 241-267.

BARSOUM, G., & ABDALLA, D. (2020). Still the employer of choice: evolution of public sector employment in Egypt. *ERF working paper 1386.* Economic Research Forum (ERF).

BEN CHEIKH, N., & MOISSERON, J.Y. (2020). The effects of social protection on informal employment: Evidence from Tunisia. In A.A. Tajmazinani (Ed.), *Social Policy in the Islamic World* (pp. 187-223). Palgrave Macmillan.

CHARMES, J. (2019). *Dimensions of resilience in developing countries: Informality, solidarities and carework.* Springer.

CHEN, M. (2020). WIEGO research on informal employment Key methods, variables and findings. In M. Chen and F. Carré (Eds), *The informal economy revisited examining the past, envisioning the future* (pp. 67-75). Routledge.

CHEN, M., & HARVEY, J. (2017). *The informal economy in Arab nations: A comparative perspective.* WIEGO.

CHEN, M., VANEK, J., & HEINTZ, J. (2006). Informality, gender and poverty: A global picture. *Economic and Political Weekly,* 41(21), 2131-2139.

DANQUAH, M., SCHOTTE, S., & SEN, K (2019). Informal work in sub-Saharan Africa: dead end or stepping stones? *UNU WIDER Working Paper 2019/107*.

EL-MEKKAOUI, N., & CHAKER, Z. (2019). Informal labor and the expansion of social security programs: Evidence from Jordan and Tunisia. *ERF Working Paper.* Economic Research Forum (ERF).

EUROPEAN COMMISSION (EC). (2021, February 9). *Southern Neighbourhood: EU proposes new Agenda for the Mediterranean.* [Press release] Retrieved from https://ec.europa.eu/ commission/presscorner/detail/en/ip_21_426

FEHLING, M., JARRAH, Z.M., TIERNAN, M.E., ALBEZREH, S., VANROOYEN, M.J., ALHOKAIR, A., & NELSON, B.D. (2016). Youth in crisis in the Middle East and North Africa: A systematic literature review and focused landscape analysis. *Eastern Mediterranean Health Journal, 21(*12), 916-930.

HLASNY, V., & ALAZZAWI, S. (2019). Asset inequality in MENA: the missing dimension?. *Quarterly Review of Economics & Finance, 73,* 44-55.

HLASNY, V., & ALAZZAWI, S. (2020). *Informality, market fragmentation and low productivity in Egypt.* Economic Research Forum (ERF).

HLASNY, V., & ALAZZAWI, S. (2022a). First out, Ist in amid COVID-19: Employment vulnerability of youth in Arab countries. *ERF Working Paper,* forthcoming. Economic Research Forum (ERF).

HLASNY, V., & ALAZZAWI, S. (2022b). Last In after COVID-19: Employment Prospects of Youths during a Pandemic Recovery, *Forum for Social Economics,* forthcoming. Economic Research Forum (ERF).

INTERNATIONAL MONETARY FUND (IMF). (2021). *Regional economic outlook: Middle East and North Africa, Trade-offs today for transformation tomorrow.*

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2020a). Global employment trends for youth 2020: Arab states. Retrieved from https://www.ilo.org/wcmsp5/groups/ public/—-dgreports/—-dcomm/documents/briefingnote/wcms_737672.pdf

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2020b). *ILO Monitor: COVID-19 and the world of work. Sixth edition, Updated estimates and analysis.* Retrieved from www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/briefingnote/wcms_755910.pdf

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2021). ILO Monitor: COVID-19 and the world of work. 7th edition. *ILO Briefing note.*

ILOSTAT (n.d.). *Labour statistics database.* International Labour Office.

KRAFFT, C., & ASSAAD, R. (2016). Inequality of opportunity in the labor market for higher education graduates in Egypt and Jordan. In I. Diwan and A. Galal (Eds), *The Middle East Economies in Times of Transition.* Palgrave Macmillan.

KRAFFT, C., & ASSAAD, R. (2021). *The Egyptian Labour Market: A focus on gender and economic vulnerability.* Oxford University Press.

KRAFFT, C., ASSAAD, R., & MAROUANI, M.A. (2021). The impact of COVID-19 on Middle Eastern and North African labor markets: Vulnerable workers, small entrepreneurs, and farmers bear the brunt of the pandemic in Morocco and Tunisia. *ERF Policy Brief 55.* Economic Research Forum (ERF).

OPEN ACCESS MICRO DATA INITIATIVE (OAMDI). (2019). Labor Market Panel Surveys (LMPS) [Dataset]. Retrieved from http://erf.org.eg/data-portal/

OPEN ACCESS MICRO DATA INITIATIVE (OAMDI). (2021). *COVID-19 MENA Monitor Household and Enterprise Surveys: Egypt, Jordan, Morocco, Tunisia* (CCMMHH, CCMMENT). Economic Research Forum (ERF) (ERF). Retrieved from www.erfdataportal.com/index.php/catalog

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) & INTERNATIONAL LABOUR ORGANIZATION (ILO). (2019). *Tackling vulnerability in the informal economy*. Development Centre Studies, Organisation of Economic Cooperation and Development.

OZERIM, M.G. (2018). Can the youth bulge pose a challenge for Turkey? A comparative analysis Based on MENA region-driven factors. *Young, 27*(4), 1-21.

SCHÄFER, I. (2017). Economic crisis and (youth) unemployment in Tunisia: a danger to the democratic transition process?. In W. Mühlberger (Ed.), *Transformation in Tunisia: The first five years* (pp. 42–75). EuroMesco Joint Policy Study 5. European Institute of the Mediterranean.

SHAHEN, M.E., KOTANI, K., KAKINAKA, M., & MANAGI, S. (2020). Wage and labor mobility between public, formal private and informal private sectors in a developing country. *Economic Analysis and Policy, 68,* 101-113.

TANSEL, A., & OZDEMIR Z. A. (2019). Transitions across labor market states including formal/informal division in Egypt. *Review of Development Economics, 23*(8),1–22.

UNITED NATIONS ECONOMIC AND SOCIAL COMMISSION FOR WEST ASIA (UN ESCWA) & INTERNATIONAL LABOUR ORGANIZATION (ILO). (2021). Towards a productive and inclusive path: Job creation in the Arab region. Retrieved from www.ilo.org/wcmsp5/groups/public/—-arabstates/—-ro-beirut/documents/publication/wcms_817042.pdf.

WORLD BANK (2020). *Metadata glossary: Vulnerable employment, World Bank Databank.* Retrieved from https://databank.worldbank.org/metadataglossary/world-development-indicators/series/SL.EMP.VULN.ZS

The Social and Solidarity Economy: A For-Profit and Not-For-Profit Hybrid Sector

Kareem Sharabi Rosshandler
Lead researcher, Economic Growth Pillar, West Asia-North Africa Institute

Definitions

Authors have given multiple definitions of social and solidarity entrepreneurship. Some describe a social and solidarity enterprise as a "phenomenon through which a collective group of citizens strive to solve their community's social and/or environmental problems innovatively and sustainably by using local resources to create products or services that generate revenue, with profit reinvested to scale up the social impact" (Halabi et al., 2017). Others downplay the societal intent of the Social and Solidarity Economy (SSE), while nonetheless conditioning it as an impact, i.e., that SSEs are "generally involved in not-for-profit community-value activities with social, societal and/or environmental impact" (Halabi et al., 2017). Some condition SSEs on participatory governance (Ben Ayed Mouelhi et al., 2021) and membership being free (El Mekkaoui et al., 2021). In any case, SSEs fall along a spectrum; from a purely commercial, profit-driven enterprise solely accountable to its shareholders to a not-for-profit enterprise concerned with addressing a particular social issue, accountable to donors (Halabi et al., 2017).

Social contexts and typology of SSEs

SSEs have characteristics that make them natural agents of economic growth and employment. They balance revenue generation with social impact, and increasingly emphasise environmental sustainability. While facing some institutional hurdles, SSEs are prospering in the Middle East and North Africa (MENA) region. This chapter focuses on their challenges and growth in Egypt, Jordan, Lebanon, Morocco, Palestine (West Bank and Gaza), and Tunisia. SSE growth over the last decade can be attributed in part to the post-Arab Spring spirit of volunteerism and community engagement, as well as youth unemployment rates and disinclination from government employment. However, compared to other developing regions, SSE activity is still less economically significant in the MENA region (Badaan, 2014).

It can be said that while SSEs are a new concept, they are an "old phenomenon" (El Mekkaoui et al., 2021). This is because they follow in a tradition of Islamic charitable endowments (*awqāf*) spanning nearly a millennium and a half. Being local, SSEs have solid understandings of cultural norms, social relations within society, and the challenges people face (Ramadan, 2021). As such, they may be able to respond quickly and effectively to local needs. Across the region, they tend to be led by relatively well-educated people aged 25-36, who moreover have personal experiences with the challenges their SSE seeks to address (Halabi et al., 2017). There are three broad types of SSEs. In order of their prevalence, these are cooperatives, associations and mutuals (Beyond Group, 2019). However, it is important to note that each type might feature services typically associated with another, which helps explain this order of prevalence. A cooperative, for example, might have been given a mandate – at least informally – from a parent association and offer the financial services typical of a mutual.

Commonly known as jamī'āt, cooperatives have been operating in the MENA region since the early 19th century, where they first emerged in Egypt (Al Jariri, 2008). Cooperatives are the core of SSE members (Allimadi et al., 2021). When not established as endowments, cooperatives tend to provide special services to members for nominal fees. These include day-care, language training, skills development, religious education, handicrafts, preventative healthcare, and venue services. Some cooperatives have more specialised mandates where membership is based on gender or vocational or professional association. They sometimes provide facilities – like kitchens or workshops – that members can use for revenue-generating activities. Owing to their wide membership (not necessarily employee) bases, cooperatives have far reaching economic impacts. In Palestine, for example, there were 857 cooperatives registered with Palestine's General Directorate for Cooperatives at the Ministry of Labour in 2016, including 785 in the West Bank and 172 in the Gaza Strip. In the West Bank alone, cooperatives had a total of 46,000 members (ILO, 2017).

Throughout the MENA region, cooperatives have quite remarkable success stimulating rural economic growth. In most countries, the first cooperatives were agriculture-based, and even with the accelerated expansion of urban populations beginning in the 1960s, cooperatives remained largely rural. In 2015, about 67% of Morocco's cooperatives were in the agricultural sector, and 15% in the artisanry sector (El Mekkaoui, 2021), which indicates cooperatives' strong rural presence. In Lebanon, agriculture cooperatives accounted for just over 50% of the 1,238 cooperatives operating in the country in 2017. With only 4% of cooperatives located in Beirut, other major cooperative activities included food processing (12%), dairy (7%), beekeeping (5%) and fishery (3%), suggesting a similarly strong rural presence for cooperatives in that country (ILO, 2018a). Housing cooperatives tend to be the main exceptions, where in Palestine and other countries they operate to provide affordable housing in urban areas (ILO, 2017).

Associations are similar to cooperatives that have specialised mandates, except that they are characterised by non-revenue generating activity. Associations include trade unions and political parties. They also tend to have a more urban membership base. They nonetheless might be classed as SSEs because of their societal impact. In the MENA region, they act as mediums between the government and popular interests. Of the three types, associations tend to be the most educated and youth-structured. Because they can be social interfaces for political causes or ideological currents, they are more vulnerable to state repression measures, including denying permit renewals and closures owing to emergency law.

Mutuals are the most financially-oriented type of SSE. They include micro-finance institutions (MFIs), which will be discussed in detail in the next chapter. Besides lending services, mutuals provide what can be likened to risk-pooled social insurance for informal workers or the otherwise uninsured. They most commonly provide them with basic health insurance. In rural areas, they might provide mortality insurance for livestock. Other services include mutual guarantee schemes, whereby they will help borrowers repay creditors if they default. Both types of mutuals – risk pools and guarantees – can be appealing to workers with relatively undiversified capital, including farmers, herders and fishers. Owing to the fact that workers commonly face risks by sector, mutuals are tailored to workers in certain sectors. In Morocco and Tunisia, for example, mutuals are mostly tailored towards the agriculture and fishing sectors. For workers in these sectors, the failure of their key commodity – often due to natural, immitigable circumstances – puts their very livelihoods at risk. However, mutuals have become increasingly tailored to sectors that are less vulnerable to natural circumstances. In Morocco, for example, they have also become common for workers in the handicrafts and transportation sectors (El Mekkaoui et al., 2021).

Besides lending services, mutuals provide what can be likened to risk-pooled social insurance for informal workers or the otherwise uninsured

Existing legal frameworks for SSEs

In the MENA region, there is growing state recognition of SSEs and their economic contribution. However, in almost all states, this has not translated to SSEs being given their own legal forms. Such formal recognition would be a means of recognising and regulating the unique economic roles of SSEs, and would likely entail financial and bureaucratic incentives to their growth. There are no specific legal forms for SSEs in Jordan, Lebanon (Beyond Group, 2019), Egypt (Ramadan, 2021), Palestine or Morocco (El Mekkaoui et al., 2021). However, most countries give legal forms to specific types of SSEs, especially cooperatives (ILO, 2018a).

For example, in Morocco, cooperatives are regulated by the Office for Cooperation Development, which was established in 1962 – within the Ministry of Economic and General Affairs – to oversee and consolidate the creation of new cooperatives and their unions (El Mekkaoui et al., 2021). In Palestine, there is a special body for cooperatives, the Cooperative Work Agency, which has regulated Palestinian cooperatives, a role it took over from the General Directorate of Cooperatives at the Ministry of Labour in 2017 (ILO, 2020).

Tunisia stands out for having given SSEs a specific legal form. With the June 2020 Bill on Social and Solidarity Economy, SSEs have been brought specifically under a government body called the Tunisian Social and Solidarity Economy Authority. The bill recognises the sector and gives it its own regulation separate from the private sector (Ben Ayed Mouelhi et al., 2021). The law was significant because it included the major types of SSEs operating in Tunisia. Along with cooperatives, these include agricultural insurance companies and development groupings. Quite significantly, it also included microfinance institutions and insurance cooperative companies (Tunis Afrique Presse, 2020). The Tunisian case warrants special attention for the model it could provide for other MENA countries.

In the absence of an SSE legal form, SSE entrepreneurs face dilemmas of having to choose between registering as either a) for-profit entities – which means they have to pay taxes and forgo benefiting from untaxed grants and donations – or b) not-for-profit entities – which limits their ability to generate profit (Beyond Group, 2019). Entrepreneurs will register their SSEs as various kinds of entities according to the most suitable options for their national contexts. In some states, SSEs can register both as commercial entities and not-for-profit. This is the case in Jordan, where SSEs can be registered as one of four types of corporations and – when as limited partnerships and private shareholdings – may also be registered as not-for-profit. This allows them to receive donations and grants, although not the kinds of tax exemptions, charitable status, or access to public funds that registering as a civil society organization (CSO) would afford.

There are also bureaucratic consequences to SSEs registering as not-for-profits, whereby they often have to register or work with additional government bodies (see Table 1). In Palestine, SSEs must register with the relevant ministry under which their SSE activity falls, e.g., Agriculture, Women's Affairs, Youth and Sports. If they declare themselves not-for-profit, they must also register with the non-governmental organization (NGO) Department at the Ministry of Interior, which is responsible for inspecting entities and ensuring that they use funds for declared purposes (Halabi et al., 2017). In Egypt, not-for-profits must – in addition to registering with the Ministry of Social Solidarity – also receive necessary approvals from the Ministry of Industry and Trade (Halabi et al., 2017).

Some states require that SSEs register with multiple government bodies whose purposes are supportive rather than regulatory. In Lebanon, for example, in addition to the Directorate General of Cooperatives (which comes under the Ministry of Agriculture), cooperatives must also register with the Lebanese Federation of Cooperatives (LFC), which is mandated to assist SSEs by promoting them, coordinating relations with the government, training them, and building their capacities (ILO, 2018a). In other cases, registration is optional. In Morocco, for example, the Agency for Social Development was created in 1999 to consolidate human and social capital by – among other means – providing support to SSEs (El Mekkaoui et al,. 2021). Egypt also has specialised government bodies to assist SSEs, such as the Institution for the Development of Medium, Small, and Micro Enterprises (est. 2017) (Ramadan, 2021).

Table 1. Government bodies regulating SSEs by state

Country	Primary body	Secondary body	Tertiary body
Egypt	Ministry of Social Solidarity (not-for-profit organisations)	Ministry of Industry and Trade	Institution for the Development of Medium, Small, and Micro Enterprises
Jordan	Ministry of Social Development	Ministry of Trade and Industry (not-for-profit organisations)	Jordan Cooperative Corporation (cooperatives)
Lebanon	Directorate General of Cooperatives at the Ministry of Agriculture (cooperatives)	Lebanese Federation of Cooperatives	The National Union for Cooperative Credit (frozen)
Morocco	Office for Cooperation Development at the Ministry of Economic and General Affairs (cooperatives)	Agency of Social Development	
Palestine	Ministry of the Interior (not-for-profit organisations)	(Ministry relevant to SSE activity)	Cooperative Work Agency (cooperatives)
Tunisia	Tunisian Social and Solidarity Economy Authority		

Source: Compiled by the author.

Some states do not allow for commercial entities to be registered as not-for-profits. However, like Lebanon, they might allow them to receive donations and grants, albeit under taxable arrangements. Under similar circumstances, some SSEs in Egypt find limited liability company and sole proprietorship forms to be more flexible than not-for-profit forms. However, some bigger SSEs have added not-for-profit arms (becoming hybrid models), as this grants them access to funding opportunities available to not-for-profit entities (Ramadan, 2021).

SSE entrepreneurs will often look at which registration option is least bureaucratic or which requires the lowest amount of starting capital

The choice of whether to register as commercial entities or as not-for-profits varies according to the regulatory particularities of each state. Specifically, SSE entrepreneurs will often look at which registration option is least bureaucratic or which requires the lowest amount of starting capital. For example, in Lebanon it is generally easier for SSEs to register as commercial enterprises – at least as limited liability corporations – rather than NGOs (Halabi et al., 2017). On the other hand, in Palestine, the process for registering as an NGO can be simpler than a commercial enterprise, at least in the agricultural sector (Halabi et al., 2017).

Government incentivisation

There has been a long tradition of MENA states offering incentives to SSEs in their individual types, especially cooperatives. Lebanon's cooperatives, for example, have been exempt since 1983 from taxes such as profit tax, municipal rent tax, municipal construction tax, owned real estate tax, as well as the finance fee on contracts. These government incentives might have encouraged people – such as traders and fresh produce exporters – who might not have factored social purposes into their business models to register and operate as cooperatives (ILO, 2018a).

Conversely, other non-tax related regulations might be stifling competition, and thus the overall growth of SSEs. For example, according to Lebanon's 1964 Decree Law 17199, no more than one cooperative with the same purpose can be established in the same village, unless the town population is more than 20,000 inhabitants (ILO, 2018a). Notwithstanding Lebanon's much higher cooperative prevalence in rural areas, such a law might serve to restrict the number of entrepreneurs who would consider adapting their enterprises to fit SSE models, directing them instead towards conventional businesses or communities beyond. The low number of SSEs in Lebanon's rural areas might be exacerbated by the fact that many cooperatives were formed as single-purpose vehicles for receiving funds and equipment from the Ministry of Agriculture and international donors (ILO, 2018a). With scarcity giving SSEs their prized value, it prevents them from playing more dynamic roles".

Notwithstanding Tunisia's breakthrough in MENA SSE regulation, there is still no consensus on the need for MENA states to prescribe a legal form specifically for SSEs. This is especially so when states like Jordan and Palestine already grant some types of SSEs – especially cooperatives – their own legal forms. Rather, some observers have suggested that states keep SSEs in their various legal forms, but grant them a certificate recognising their SSE qualities (Oxfam, 2021). The certificate would be granted by states that have designed criteria for entities meeting SSE governance, sustainability, and social impact mandates. Successful applicants would then gain access to a range of public and market incentives (Beyond Group, 2019). The certificate approach would be significant for mainstreaming and incentivising SSE activities within existing legal forms. Whether by pursuing the certificate approach or the one towards SSE legal forms, there is consensus that SSEs need more official recognition for their unique economic roles.

In their different legal forms, SSEs across the MENA region have been able to benefit from a host of laws and strategies that indicate growing government awareness of the phenomenon. Palestine's Ministry of

Labour launched its five-year Cooperative Sector Strategy (2017-2022) with the goals of "[P]romotion of the institutional environment to enable the cooperative movement to grow and develop, the improvement of the financial and organisational performance of cooperatives and the expansion of cooperatives into new sectors such as the environment, recycling, renewable energy" (ILO, 2017). Morocco adopted the National Strategy for Social and Solidarity Economy 2010-2020 to support SSEs. In 2012, it passed Law 112-12 to encourage the expansion of SSEs. Although it has fallen below the mark, Tunisia's five-year plan leading up to 2020 sought to promote the growth of SSEs, with a 5% target of SSE employment contribution for 2020 (Ben Ayed Mouelhi et al., 2021).

Economic scope of SSEs

SSEs have had a number of positive impacts on MENA economies.

Employment

First, there is the way in which SSEs have contributed to workforce formalisation. This contribution has been intensely promoted since 2002, when the International Labour Organization (ILO) approved what would become its guiding framework for MENA consultations, the Promotion of Cooperatives Recommendation no. 193, a specific instrument stating that cooperatives have an important role to play in the transition from the informal to the formal economy. SSEs have thus been described as offering vulnerable groups a "dynamic of transition towards the formal economy" (Roelants, 2015). SSEs – especially cooperatives – can help formalise workers by providing them with contracts and grouping them into units that can leverage their collective capacities and resources (Ben Ayed Mouelhi et al., 2021). In Tunisia, for example, as many as 70% of SSE jobs might be permanent, structured, and covered by social security (Ben Ayed Mouelhi et al., 2021). SSE impact is especially strong in rural areas, where workers are often caught between informal labour and public sector jobs (Ahmed-Zaïd et al., 2013). SSE activities also point to long-term economic benefits, such as encouraging better organisation, better returns to scale, and more value chain integration (Ben Ayed Mouelhi et al., 2021).

SSE impact is especially strong in rural areas, where workers are often caught between informal labour and public sector jobs

Quite significantly, SSEs have diversified workforce representation. Aside from the fact that they straddle the rural-urban divide, they also incorporate women into the workforce. In Morocco, 14% of cooperatives have women-centred mandates. These cooperatives are dominated by the same activities as non-gendered ones, in this case artisanry (42%) and agricultural (34%) (El Mekkaoui et al., 2021). Beyond SSEs with women-centred mandates, women are also represented through non-gendered SSEs. In Morocco, as many as 42% of SSEs might be headed by female presidents (El Mekkaoui et al., 2021). This might be indicative of the flexibility of SSE models, which in many cases are able to provide work opportunities from home and in relatively secure environments.

In the absence of legal forms, it is difficult to assess the exact economic scope of MENA SSEs in terms of employment. It is clear that while SSEs may have many indirect beneficiaries – especially associations –, they often have few employees, especially full-time (see Table 2). In Lebanon, approximately 70% of cooperatives do not hire any full-time employees, while 76% do not hire part-time employees (ILO, 2018). In Lebanon, the average number of employees hired by cooperatives that do employ full- and part-time is 4.7 and 6.4, respectively (ILO, 2018). Five responses to a questionnaire (see appendix in Mariem

Omrani's chapter) revealed for Jordan similarly modest employment numbers, whereby SSEs' combined full- and part-time employees ranged from about three to 20 employees per SSE. These included for-profit commercial enterprises. Full-time employment rarely accounted for the upper end of that range; one Jordanian crafts and cosmetics cooperative had five full-time employees and 15 part-time employees. It is these part-time employees – often working from home – who largely account for informal SSE workers. The Euro-Mediterranean Social Economy Network (ESMED, 2019) estimates that 256,000 enterprises and entities provide more than 1.2 million jobs in Egypt, Jordan, Lebanon, Palestine, Morocco and Tunisia. However, it does not indicate if this is direct (i.e. employees) or indirect employment (i.e., self-employed producers) or if they are full time jobs.

Table 2. Piecemeal Data on SSEs (Cooperatives)

Country	Cooperatives	Employees	Ratio	Workers/ Members	Users/ Members	Producers/ Members	Year	Source
Egypt	40,962	N/A	N/A	705,000?	N/A	11,000,000	2013	ESMED (2015)
Egypt	14,000	18,900	1.35	N/A	N/A	N/A	2017	Ghonem (2019)
Jordan	1,450	4,000	2.76	N/A	N/A	130,000	2011	CEPES (2012)
Lebanon	1,000	2,890	2.89	N/A	N/A	N/A	2017	ILO (2018)
Morocco	17,229	34,630	2.01	1,075	408,735	2,561,498	2011	ODCO (2012)
Morocco	19,035	35,472	1.86	N/A	N/A	N/A	2017	ODCO (2017)
Tunisia	16,787	N/A	N/A	N/A	N/A	1,754,825	2013	ESMED (2015)
Tunisia	22,350*	21,000	N/A	N/A	N/A	N/A	2017	Ben Ayed Mouelhi et al (2021)
Palestine	857	N/A	N/A	?	N/A	?	2016	ILO (2017)

Note: * SSEs

Source: Compiled from various sources by the author.

Value-added

Some independent estimates can provide insights into gross domestic product (GDP) contribution. In Tunisia, there are some 22,350 SSEs employing some 21,000 workers – a figure ascertainable because of its legal form (El Mekkaoui et al., 2021). As of 2019, SSE activity accounted for under 1% of GDP activity in Tunisia. At a rate of 5-6% of GDP contribution, it could add as many as 60,000 additional jobs per year (Al Amri, 2019). In one 2017 estimate, SSEs represented 2% of Morocco's GDP, and employed 5.5% of its active population (El Mekkaoui et al., 2021). In that country, the creation of cooperatives more than tripled from 2006 to 2017, rising from 5,276 to 19,035, with two thirds operating in agriculture (Bazi, 2021). These figures indicate good progress towards realising potential when compared to data from France in the same year, in which SSEs represented about 10% of GDP and 10.3% of employment (Elhidri, 2017).

It is important to note that a good portion of registered SSEs are inactive. According to some expert estimations, as many as a third of Lebanon's registered cooperatives were inactive in 2017 (ILO, 2018a). This estimation can be supported by official data from Palestine's Ministry of Labour, which listed 240 or 25% of all of Palestine's cooperatives as inactive that year (ILO, 2017).

SSE growth could prove a great boon to MENA states. In the long term, the increasing role of SSEs as welfare providers might help governments in their goals of decentralising and downsizing services. As some scholars have noted, in places like Lebanon, where SSEs have been given more voice, they have also become a crutch, left "to deal with social problems that the government is otherwise choosing not to address" (Sidlo, 2019). Thus, at their core, SSEs appear to be filling critical economic growth gaps. The increasing role of SSEs could also translate into massive tax revenues for the state. This is because SSE employment is prone to formalising workforces where they would otherwise be informal. While government limitations in addressing socioeconomic needs might be a main driver of SSE development, the viability of SSEs will likely outlive this purpose, as it has in developed economies. Towards more fully realising the gains of SSEs, states would have to develop for SSEs – if not unique legal forms – more special recognition of their social impact through a certification process.

Recommendations

While solid research has been conducted into the number of cooperatives in several MENA countries, there is a need to count and attempt to economically assess associations and mutuals in order to gain a more comprehensive picture of the SSE industry, specifically measuring SSE employment and value-added to the GDP. A major issue is the design, accounting and compilation of both for-profit and not-for-profit SSE statistics to inform stakeholders. Stakeholders can design a satellite account that follows the Guidelines of the ILO (2018b) and the international centre for research and information on the public, social and cooperative economy (CIRIEC) Manual (Monzon & Chavez, 2017) to assess for-profit SSEs and the Handbook (UN, 2018) for not-for-profit SSEs. National Statistical Offices (NSOs), Chambers of Commerce, and stakeholders (including public bodies in charge) of SSEs play a key role in this respect, with expertise and assistance from Eurostat being crucial.

The EU can train SSE workers in skills necessary for upscaling businesses and fostering a more robust interface between SSEs and lenders. This includes business model design, standard accounting practices, and awareness of predatory lending. These skills will both help SSEs have stronger negotiating positions and instil lender confidence in the industry. European academia can provide grants in order to build and reinforce curricula in the management of the social economy, and related technical assistance. Among other ways, it can set up a competition among students studying for bachelors in management in the six MENA countries. Winners will be entitled to earn a European master's degree, their expenses being funded for a year that includes an internship.

Donors, alongside lenders, can direct producing SSEs towards export-oriented activities. There are often limited domestic markets for SSE products, especially when they are high-value. Experience has shown that when cooperatives – especially agricultural – succeed in directing their members' products abroad, overall productivity rises. This was the case in Gaza, where, in 2013, four cooperatives in particular were credited with helping Gaza's farmers specialising in high-value fruits and vegetables export. Export orientation not only expands productivity beyond local demand but also encourages ancillary activities, such as packaging, marketing and shipping, which create more employment opportunities (The Portland Trust, 2013).

In the long term, the increasing role of SSEs as welfare providers might help governments in their goals of decentralising and downsizing services

References

AHMED-ZAÏD, M., ABDELKHALEK, T., & OUELHAZI, Z. (2013). *L'économie sociale et solidaire au Maghreb Quelles réalités pour quel avenir ? Algérie, Maroc, Tunisie.* L'Institut de Prospective Économique du monde Méditerranéen.

AL AMRI, M. (2019, May 30). Social and solidarity economy: A step forward toward ending poverty in Tunisia. *World Bank Blogs.* Retrieved from https://blogs.worldbank.org/arabvoices/social-and-solidarity-economy-step-forward-toward-ending-poverty-tunisia

ALLIMADI, A., GE, H., & YANG, W. (2021, August 2). *The circular economy, cooperatives and the Social and Solidarity Economy.* United Nations Department of Economic and Social Affairs (UN DESA). Retrieved from https://www.un.org/development/desa/cooperatives/2021/08/02/the-circular-economy-cooperatives-and-the-social-and-solidarity-economy/

AL JARIRI, N. (2008). *Dharat ma' nushu' al-dawlah wa tatawarat ma'ha: al-jam'īāt: min an hifāth 'ala al turāth ila al-musāhama fi al-tanmiyyah.* Retrieved from http://www.al-sijill.com/sijill_items/sitem4752.htm

BADAAN, V. (2014). *Social and Solidarity Economy as a tool for social justice.* UN ESCWA. Retrieved from http://base.socioeco.org/docs/e_escwa_sdd_14_b-4_e.pdf

BAZI, M. (2021). *Financial mechanisms for innovative social and solidarity economy ecosystems: The case of Morocco.* International Labour Office.

BEN AYED MOUELHI, R., BEN BRAHAM, M., & GHAZALI, M. (2021). The Social and Solidarity Economy in Tunisia and its role in formalising the informal economy: A qualitative survey. *EMNES Working Paper No. 48.* Retrieved from https://www.euneighbours.eu/sites/ default/files/publications/2021-05/emnes_wp_048_sse_tunisia-1.pdf

BEYOND GROUP (2019, August 15). *A policy framework for social entrepreneurship in Lebanon.* Retrieved from https://beyondgroupconsulting.com/impact-blog/social-entrepreneurship-legal-framework.

ELHIDRI, D. (2017). *L'Economie Sociale et Solidaire : Un levier pour une revolution economique.* Center for Applied Policy Research. Retrieved from https://www.cap-lmu.de/download/2017/CAPerspectives-Tunisia-2017-03.pdf?m=1509650143&

EL MEKKAOUI, N., FOROUHESHFAR, Y., & LOUKILI, S. (2021). *The Social and Solidarity Economy (SSE) in Morocco.* Retrieved from https://www.euneighbours.eu/sites/default/files/publications/2021-05/emnes_wp_050_sse_morocco.pdf

EURO-MEDITERRANEAN NETWORK OF SOCIAL ECONOMY (ESMED). (2019). The Social Economy in the Mediterranean. *Mediterraneo Economico.*

HALABI, S., KHEIR, S., & COCHRANE, P. (2017). *Social enterprise development in the Middle East and North Africa: A qualitative analysis of Lebanon, Jordan, Egypt and Occupied Palestine. Cairo, Egypt and Beirut, Lebanon.* Retrieved from https://wamda-prod.s3.amazonaws.com/resource-url/e2981f10ea87448.pdf

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2017, February 15). *Palestinian Prime Minister Launches Cooperative Sector Strategy.* Retrieved from https://www.ilo.org/beirut/media-centre/news/WCMS_544317/lang–en/index.htm

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2018a). *The cooperative sector in Lebanon: What role? What future?* Retrieved from https://www.ilo.org/wcmsp5/ groups/public/—-arabstates/—-ro-beirut/documents/publication/wcms_644724.pdf

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2018b). *Guidelines concerning statistics of cooperatives.* Retrieved from https://www.ilo.org/wcmsp5/groups/public/—-dgreports/—-stat/documents/meetingdocument/wcms_648558.pdf

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2020, November 19). *ILO Coop 100 Interview with Mounir Kleibo, Representative of the International Labour Organization in Jerusalem.* Retrieved from https://www.ilo.org/global/topics/cooperatives/news/WCMS_761549/lang–en/index.htm

MONZON, J. L., & CHAVEZ, R. (2017). *The CIRIEC Approach for Drawing-up the Satellite Accounts of Companies in the Social Economy OECD/EC Working Seminar on Satellite Accounts for the Social Economy and the Third Sector.* Organisation for Economic Co-operation and Development (OECD).

OXFAM (n.d.). *MENA region social entrepreneurship ecosystems: Challenges and opportunities.* Retrieved from https://www.oxfamitalia.org/wp-content/uploads/2021/01/ MENA-Region-Social-Entrepreneurship-Ecosystem_Challenges-and-Opportunities.pdf

RAMADAN, R. (2021). Social enterprises and employment: Case studies from Egypt. *EMNES Working Paper No 53.* Retrieved from https://euneighbours.eu/sites/default/files/publications/2021-07/emnes_wp_053_social_enterprises_employment_egypt.pdf

ROELANTS, B. (2015). *Cooperatives are key to the transition from the informal to the formal economy.* International Organisation of Industrial, Artisanal and Service Producers' Cooperatives (CICOPA) . Retrieved from https://www.cicopa.coop/wp-content/uploads/2019/02/cicopa_-_cooperatives_are_key_to_the_transition_to_the_formal_economy.pdf

SIDŁO, K. (2019). Social entrepreneurs' responses to the refugee crisis in Jordan and Lebanon. *Femise Research Papers* (FEM44-12).

THE PORTLAND TRUST (2013, December) *Palestine Economic Bulletin.* Retrieved from https://portlandtrust.org/wp-content/uploads/2021/12/bulletin_87_a4_final.pdf

TUNIS AFRIQUE PRESSE (2020, June 18). Tunisia: HPR approves draft law on Social and Solidarity Economy. *allAfrica.com.* Retrieved from https://allafrica.com/stories/202006180439.html.

Innovative Financial Mechanisms for Social and Solidarity Economy Development

Mariem Omrani
Data Analyst, UNICEF MENA Regional Office*

*Disclaimer: All views expressed by Mariem Omrani in this study are her own and do not reflect the views of UNICEF.

Introduction

With the current momentum towards sustainability and impact-driven business models further accelerated by the pandemic and the future of work, social enterprises started to gain international traction. Social and solidarity entrepreneurship solves various social problems while generating social, environmental and economic value (Acs et al., 2013; Saebi et al., 2019). Scholars and policy-makers have highlighted its longstanding effect on inclusive growth and poverty alleviation (Seelos & Mair, 2005). It can be one of the pathways towards decent employment and women's economic empowerment, yet to date social entrepreneurs face various challenges. Access to finance is one of the major constraints that hinder entrepreneurs to engage in social entrepreneurial ventures and sustain their social business. Hence, most social and solidarity enterprises in the Middle East and North Africa (MENA) region do not manage to scale up their activities. Evidence from Tunisia suggests that only 7% of the social enterprises were able to scale up their operations between 2010 and 2015 (World Bank, 2017). The gender gap in access to finance remains a salient feature in the MENA region, further disadvantaging female-led social enterprises.

The number of SSEs is expanding and requires a multiplication and diversification of funding sources and models. These evolutions call for a renovated approach to strengthen youth and women's economic empowerment and catalytic policy frameworks that accelerate the journey towards the Sustainable Development Goals (SDGs). As the COVID-19 pandemic evolves, widening the pre-existing gaps and worsening the prospects of decent employment in the region, the need to lift the barriers impeding young social entrepreneurs and facilitate access to finance becomes even more urgent.

The focus of the present chapter is on Egypt, Lebanon, Jordan, Morocco, Palestine and Tunisia, wherein social and solidarity entrepreneurship holds great potential and where boosting youth and women's employment is particularly urgent. This chapter aims to (1) analyse the existing funding schemes of social enterprises in the Southern Mediterranean, (2) look into the obstacles that social entrepreneurs face to access finance, and (3) explore ways to address the latter.

Given the lack of data on social and solidarity entrepreneurship in the region we opt for a qualitative analysis and desk research to assess the current financing trends and the main challenges facing social entrepreneurs in the six countries. Building on the expertise of financial service providers and experts, five semi-structured interviews were conducted and six social entrepreneurs working in the selected countries were consulted through a survey (see Kareem Sharabi Rosshandler's chapter).

Mapping of social enterprises' financing mechanisms

To fund and scale up their activities, social entrepreneurs in Egypt, Lebanon, Jordan, Morocco, Palestine and Tunisia tap into various financing sources. Across the region, social and solidarity enterprises are well integrated into official savings and auditing systems but do not benefit from credit services (Charfi, 2020; Koa et al., 2018; Oxfam, 2020; Tauber, 2020). In Tunisia, for example, while almost all social and solidarity enterprises used banks for transactions, as few as 7% of them benefited from a bank loan (Elhidri, 2017). With bank loans being out of scope, social enterprises turn to other alternatives to fund their activities. In the selected countries of the region, personal savings, private philanthropy, and grants from competitions remain the main funding sources (Augier et al., 2019; UN ESCWA, 2018; Tauber, 2020).

In Lebanon, social entrepreneurs rely on their families or personal savings. Most social enterprises are still at an initial stage where they look for grants and participate in competitions to access finance (MFI representative, personal communication, December 2021). A surveyed sample of 147 cooperatives showed that one third of investment was made through the cooperatives' own funds, while half was made through international donor support (ILO, 2018). In 2016, roughly 36% of social businesses have secured funding through grants winning (DOT Lebanon, 2016). With a large global diaspora, crowdfunding platforms have gained momentum in the country and emerge as another funding alternative for Lebanese social and solidarity enterprises (Oxfam, 2018).

In Egypt and Jordan, social and solidarity organisations mainly depend on their own financial resources or members' direct contributions. Egyptian limited liability enterprises organise events to sustain themselves financially (Ramadan, 2021). More recently, some social enterprises in Egypt have created a non-profit organisation as an additional arm to their enterprises to secure additional funding opportunities. Social enterprises in Jordan show a preference for community cooperation and involvement through the sponsorship from the private sector and members' direct contributions (Tauber, 2020; Social entrepreneur, personal communication, December 2021).

Personal savings, grants and government subsidies are the most common sources of funding for Moroccan and Tunisian social enterprises (Barco et al., 2019; British Council, 2020; El Mekkaoui et al., 2021; Elamrani & Lemtaoui, 2013). Out of 130 Moroccan social enterprises interviewed in 2020, as many as 90% of them declared benefiting from government subsidies. These subsidies accounted for more than 60% of the total budgets of social enterprises, which might indicate the critical impact government funding mechanisms can have (El Mekkaoui et al, 2021). These funds were mostly received through the National Initiative for Human Development and other government-funded programmes such as "Plan Maroc Vert". Some cooperatives sometimes resort to Tontine (an old financing practice) to fund their activities (Barco et al., 2019). In Tunisia, some social and solidarity enterprises such as les sociétés mutuelles de services agricoles (SMSA), microfinance associations that work in close collaboration with the ministries, receive government subsidies (Elachhab, 2018). Some Social and Solidarity Economy (SSE) organisations, register as non-governmental organizations (NGOs) or foundations to escape legal formalities and to secure grants from donors (SSE expert, personal communication, December 2021).

In Palestine, social enterprises funding sources include competitions and awards, venture philanthropy and grants (Hmayed et al., 2015). Palestinian social entrepreneurs rely heavily on donations and their personal income to fund their activities (Koa et al., 2018).

Social enterprises in Jordan show a preference for community cooperation and involvement through the sponsorship from the private sector and members' direct contributions

Overview of social and solidary economy's funding ecosystem

Microfinance institutions (MFIs) have yet to fill the role of banks in lending to social enterprises. If MFIs – being social enterprises – can fill this role, the SSE ecosystem will be more internally coherent. MFIs have been expanding in the selected countries with roughly 55 MFIs in 2019, compared to only 29 in 2017 (World Bank, 2019). Most of these MFIs are registered as NGOs or non-bank financial institutions. In 2018, MFIs in Morocco, Tunisia and Egypt had the largest gross loan portfolios. In terms of enterprise finance, Egypt, Tunisia and Jordan outperform the selected countries. Egyptian MFIs target mostly small and medium -sized enterprises (SMEs), whereas the Tunisian MFI (ENDA) tends to focus more on micro-enterprises.

Table 1 reports the key figures of the microfinance industry in 2017, namely 20 MENA MFIs. In the first place, MFIs grant micro-credit to micro-enterprises, a share above eight out of ten, whereas SMEs is only one out of ten. Over two out of five businesses are granted loans according to the joint liability mechanism, suggesting they lack collateral. Average loan balance per borrower in MENA is weak, except for Palestine standing above average. In contrast, the average lending rate is high, within a range of 25-36%, despite borrower's payback. In this respect, micro-, small and medium-sized enterprises (MSMEs) can afford funding working capital rather than fixed assets.

Table 1. Characteristics of MENA MFIs in 2017

Country	NAB* (1,000)	Average loan balance /GNI per capita	(%) Rural borrowers	(%) Female borrowers	Solidarity groups (% of loans)	Number of loans outstanding			Lending rate	PAR> 30 **	Risk coverage
						MSMEs	Micro	SMEs			
Egypt	911,7	0.0469	515,5 (56.54%)	67%	399,571	907,276	813,843	93,433	34.6%	0.6%	408.1%
Jordan	246,6	0.1403	106,3 (43.10%)	88%	151,347 (61.37%)	201,300 (81.63%)	200,544	0,755	32.5%	1.6%	210.6%
Lebanon	72,8	0.1003	32,0 (43.95%)	57%	15,594 (21.42%)	72,802 (100%)	72,468	0,334	30.3%	6.7%	398.8%
Morocco	519,1	0.1817	227,0 (43.72%)	46%	98,831 (19.03%)	386,288 (74.41%)	386,288	0	26.2%	6.1%	61.9%
Palestine	73,3	0.9228	34,7 (47.33%)	33%	0	31,084 (42.40%)	29,756	1,328	14.3%	5.1%	78.0%
Tunisia	329,5	0.1414	128 (38.88%)	61%	0	266,646 (80.92%)	266,646	0	26.2%	0.8%	176.3%
Total	-	1,043.5 (57.22%)	1,063.294 (58.31%)	-	665.343	1,865.402 (80.55%)	1,769.545 (94.86%)	97,178	-	-	-

Note: * Number of active borrowers. ** Portfolio At Risk >30 days.

Source: Micro Exchange Market (World Bank, 2017), World Bank (WGI, 2017) in Adair and Berguiga (2021).

MFIs play a major role in facilitating access to finance for women, who represent more than half of microfinance clients across the selected countries with the exception of Palestine. Kafalat (an MFI in Lebanon) is an innovative initiative to facilitate access to finance for SMEs, start-ups and social enterprises through the provision of guarantees, which acts as a de-risking mechanism (Augier et al., 2019). Al Majmoua (an MFI in Lebanon) has a positive discrimination towards women in providing flexibility for the collateral requirements (MFI representative, personal communication, December 2021). However, we notice that in all countries, with the exception of Egypt, rural borrowers represent less than half of total borrowers. Reliable figures on the role of MFIs in the development of social entrepreneurship are unfortunately unavailable as most MFIs do not capture in the loan application process whether the enterprise was a social business or not (MFI representative, personal communication, December 2021).

Crowdfunding for social enterprises has the potential to catalyse positive change, yet its potential remains untapped in most countries (Noutary, 2017; Azouzi & Fakhfakh, 2020; Sidło, 2021). In Tunisia, some platforms have been initiated but they have not really been able to operate due to regulatory constraints that exclude not-for-profit organisations from crowdfunding (Mipise, 2020). In Palestine, crowdfunding platforms are mostly set up abroad and cannot operate locally (Augier et al., 2019). Based in Lebanon, Zoomaal is one of the leading crowdfunding platforms that operate in the MENA region. Across the region Kiva is also funding both MFIs and social entrepreneurs, but most lending partners are microfinance institutions and most borrowers are women.

Table 2. Kiva crowdfunding data in MENA

Country	Egypt	Jordan	Lebanon
Amount raised	$2,873,050	$13,039,750	$3,149,700
Number of lending partners	1	4	1
Number of borrowers	4,572	12,368	3,027
% of female borrowers	49.7%	70.2%	75.0%

Source: Kiva website (https://www.kiva.org)

Equity investment for social entrepreneurs remains shallow in the selected countries. In Lebanon, Alfanar Venture Philanthropy Fund provides financial support in the form of long-term, zero per cent interest loans (Oxfam, 2018). In Tunisia and Morocco venture capital market is relatively new (Azouzi & Fakhfakh, 2020; Stölting, 2015). In Egypt we observe the expansion of angel investment network investing in early-stage social enterprises. In Egypt, although several venture capitals exist, they show a major interest in technology start-ups, mainly Information and Communication Technology (ICT) (Radwan & Sakr, 2017). Angel investors are not very common in the other countries. In Morocco and Tunisia, angel investments are made mostly by serial entrepreneurs (Azouzi & Fakhfakh, 2020). Limited deal flow and blurry legal status are some of the reasons behind this development.

At the regional level, Orange international set up a Grand Prize for social entrepreneurs in Africa and the Middle East. In general, these competitions offer seed capital, mentoring, counselling, and access to networks. Some countries have also fostered incubators which provide small grants to social entrepreneurs in addition to training and mentorship programmes. More recently, NGOs have started to channel funds received on a project basis to social entrepreneurs. Oxfam, in partnership with local NGOs, is pioneering in this field, with Med UP project supporting the development of social and solidarity entrepreneurship in six Southern Mediterranean countries since 2018.

A gender-responsive approach to bridge gender gap in terms of access to finance for social enterprises remains somehow limited. Some initiatives such as She entrepreneurs, WeMena, and Womentum have

In Egypt, although several venture capitals exist, they show a major interest in technology start-ups, mainly Information and Communication Technology

been initiated yet remain limited and focus mainly on networking, training, and the provision of small grants. DAMYA is the first women business angel network that targets gender diversity in its investment strategy. TheNextWomen is a Dutch foundation that operates in Tunisia and provides female founders and investors with access to knowledge, capital and networking opportunities.

The social and solidarity economy funding ecosystem: challenges and gaps

The funding gap for SSEs in the selected countries constitutes a real brake to their development. Although different funding sources are available, access to finance remains a major constraint for social entrepreneurs in the selected countries, with women being more disadvantaged (Arezki & Senbet, 2020; Barco et al., 2019; Sidło, 2021; SSE expert, personal communication, December 2021).

COVID-19 has had a profound socioeconomic impact in many countries, reaching far beyond health and sanitary implications. The overreaching effects of the pandemic have disrupted the job market and limited access to finance (Ramadan, 2021). The economic uncertainty made investors more hesitant and risk averse (Sidło, 2021). Moreover, difficulties to access formal financial services arise from a range of structural issues facing the countries that go beyond the pandemic. In Lebanon, according to an MFI representative, it is not the pandemic as much as the economic and financial crisis that the country is facing that has impacted their ability to fund social enterprises (MFI representatives, personal communication, December 2021). The structural deficiencies in the banking system have resulted in limited access to formal financial services. Access to formal financial services remains low in the MENA region, where people are likely to turn to family or friends. On average, only 12% of adults in the selected countries have borrowed formally from a financial institution or using a credit card, whereas 21% have borrowed from family or friends in 2017 (World Bank, 2018).

In the six selected countries, social entrepreneurs declared facing great difficulty to secure loans from commercial banks (Koa et al., 2018; Oxfam, 2020; Stölting, 2015). Strong financial return and profitability remain the major indicators for banks (SSE expert, personal communication, December 2021, Arezki & Senbet, 2020). Besides, banks are especially weary at the start-up stage, where they might find SSE business plans “too iconoclastic” or lacking adequate financial indicators. This is for several reasons, among them banks’ weariness with financing collective initiatives that lack assets and credit guarantees (Ben Ayed Mouelhi et al., 2021). SSE experts suggest that prudential requirements limit banks’ ability to target social entrepreneurs. In Tunisia, severe restrictions on bank loans are put in place (Elachhab, 2018) and commercial banks do not finance working capital requirements (Oxfam, 2020). Bank loans target mostly a limited number of large companies and innovative start-ups leaving the bulk of MSMEs and social enterprises underserved (GIZ, 2019; Sidło, 2021; SSE expert, personal communication, December 2021). There is a misperception about social enterprises, which are considered too social and perhaps too risky for banks (SSE expert, personal communication, December 2021).

The lack of financial instruments designed specifically for social entrepreneurs and the lack of opportunities to access alternative funding sources pose a major challenge to their progress (Koa et al., 2018). Tailored financial instruments that could support SSEs are currently under-developed or non-existent in most Southern Mediterranean countries (SSE expert, personal communication, December 2021). Support for social entrepreneurs has been provided through general and one-size-fits-all instruments. Social enterprises do not enjoy additional advantage compared to similar organisations (Maroush et al., 2020; Oxfam, 2021). Microfinance institutions offer classical microfinance products, such as fixed asset or working capital loans for micro-entrepreneurs. The sector remains largely underdeveloped and untapped with a financial offer that does not meet the needs for social entrepreneurs in Tunisia and Morocco (BCT, 2016; El Amrani & Lemtaoui, 2013).

Social entrepreneurs are sometimes reluctant to apply for loans from financial institutions as they fear defaulting on bank loans or declaring bankruptcy (Halabi et al., 2017; MFI representatives, personal communication, December 2021). Guarantee requirements, rigorous selectivity, and complex application procedures are some of the reasons that discourage many social entrepreneurs from seeking financing from banks and MFIs (Abdou & El Ebrashi, 2015; British Council, 2020; Koa et al., 2018; Oxfam, 2020). In addition, high interest rates, short repayment term, and low amounts borrowed are other constraints that social entrepreneurs face when seeking microcredits from MFIs. For instance, the ceiling for micro-credits in Tunisia from private MFIs is TND 20,000 (BCT, 2016; Stölting, 2015). In the expansion stage (the "Valley of Death"), social enterprises become too risky for commercial banks and too big for microfinance.

Social enterprises cannot easily access finance due to the gaps in the regulatory framework governing these entities. As shown in Kareem Sharabi Rosshandler's chapter, there is no separate legal framework for social and solidarity enterprises in the selected countries, except for Tunisia. In Tunisia, the grey area around SSE's legal status poses additional challenge for these organisations. Although the country has ratified an SSE law, its implementation depends on the Finance Law (Belhaj Rhouma, 2020) and the implementation decree that sorts out the execution of these laws, which has not yet been issued (SSE expert, personal communication, December 2021). Egyptian social enterprises (mostly NGOs and entities registered under Egypt's Ministry of Social Solidarity) face additional restrictions to secure international funds and private domestic grants that are subject to government authorisations. Moreover, social entrepreneurs encounter constant delays in receiving official approvals to access grants (Abdou & El Ebrashi, 2015; ElZoheiry et al., 2019).

The reliance on funders and projectised nature of social enterprises is another challenge for financial sustainability. In some cases, social enterprises depend heavily on their donors and function on project-based grants (SSE expert, personal communication, December 2021; Oxfam, 2020), resulting in less self-sustained organisations with a greater focus on short-term project financing (Seda & Ismal, 2020). With international non-governmental organizations (INGOs) typically awarding grants to fund new SSE projects rather than ongoing programming, some social enterprises consider this donor aid as negatively affecting their "sustainability, continuity, and operational integrity" (Tauber, 2019). Social enterprises can also be subject to government "instrumentalisation" since they rely on government subsidies and are thus required to maintain a 'good relationship' to secure additional funds (Elachhab, 2018). Besides, public subsidies can be subject to budget cuts if the country faces a public finance crisis putting at risk social entrepreneurs. Reliance

Tailored financial instruments that could support SSEs are currently under-developed or non-existent in most Southern Mediterranean countries

Reliance on foreign aid is also problematic as these funds are volatile and uncertain

on foreign aid is also problematic as these funds are volatile and uncertain and, after the withdrawal of donors, social enterprises could be forced to slow down or interrupt their activities (SSE expert, personal communication, December 2021). Moreover, the increasing competition between social entrepreneurs to secure these funds could lead to inefficiencies (Akella & Eid, 2018).

In addition to the previous challenges, female social entrepreneurs face other gendered obstacles, such as the gender-blind and discriminatory laws and policies, male-dominated networks, limited number of positive female role models, and gender discriminatory attitudes. (Koa et al., 2018). The gender gap in access to finance also remains prevalent with women having limited control over resources and assets ownership. Lack of collateral guarantees and business track records as well as complicated application processes are also among the challenges that women face to access finance. Thébaud and Sharkey (2016) suggest that service providers internalised "implicit gender norms", which explains the gender gap in access to finance under high levels of uncertainty and risk. Female social entrepreneurs often struggle to join the established social networks that are critical for each stage of the entrepreneurial process. Networks play a crucial role in facilitating the development and sustainability of SSE enterprises. Social networks can enable women to obtain information on market trends, funding opportunities, and other contacts necessary to build entrepreneurial social capital (ILO, 2018). Yet, women in the selected countries are more likely to face restrictive cultural factors due to time and mobility constraints (i.e., unsafe public transport, especially for women living in rural areas), and possibly due to the "gender homophily effects in social networks" (Wahidi & Lebègue, 2017; McPherson et al., 2001).

Rebuilding the potential of the SSE ecosystem: ways forward

Despite the promise that SSEs hold for decent employment and women's economic empowerment, social entrepreneurs still face enormous hurdles in reaching their full potential. Addressing the root causes that limit the advancement of social entrepreneurs is key to creating a conducive enabling environment for social and solidarity enterprises to thrive.

Policymakers should design appropriate policies and financial instruments to facilitate access to finance for social entrepreneurs and build the capacity of financial institutions to better respond to social and solidarity enterprise's needs. An MFI representative reported that their institutions need to develop a special financial product for the social enterprises that would have a blended approach of providing a loan with an interest subsidy or a loan with a grant top-up. Banks should be incentivised to finance social enterprises through credit lines for social entrepreneurs. Besides, there is a need to downsize loan requirements and lower the interest rate for social enterprises and especially for female entrepreneurs. Guarantee schemes or mutual funds are de-risking mechanisms that can reduce the investors perceived risk and help social entrepreneurs overcome the lack of collateral.

Improving access to capital for social enterprises requires launching well-tailored finance mechanisms and new models of impact investing and crowdfunding. Crowdfunding, especially donation-based, seems to have a great potential. SSE experts pointed to the need to set up funds that provide seed capital, venture capital and equity capital to social entrepreneurs throughout their lifecycle, from ideation, incubation and start-up to growth stage. Building a network of angel investors to provide financial support to social entrepreneurs is also needed. A dedicated investment programme geared to support gender equality in venture capital and among business angels is required to bridge the access to finance gap.

Supporting the development of the local social entrepreneurship ecosystems requires efficient synergies and international cooperation. Partnerships and cooperation between the two shores of the Mediterranean in the framework of European Neighbourhood Policy (ENP), such as that promoted by South-South cooperation or by the Union for the Mediterranean (UfM), present a tremendous opportunity to stimulate inclusive economic growth.

References

ABDOU, E., & EL EBRASHI, R. (2015). The social enterprise sector in Egypt: current status and way forward. In D. Jamali and A. Lanteri (Eds.), *Social entrepreneurship in the Middle East* (pp. 37-62). Palgrave Macmillan. Retrieved from https://www.researchgate.net/publication/302588993_The_Social_Enterprise_Sector_in_Egypt_Current_Status_and_the_Way_Forward

ACS, Z. J., AUDRETSCH, D. B., & LEHMANN, E. E. (2013). The knowledge spillover theory of entrepreneurship. *Small Business Economics, 41*(4), 757-774.

AKELLA, D., & EID, N. (2018). Social enterprises in Palestine: A critical analysis. *Journal of Enterprising Communities: People and Places in the Global Economy.*

AREZKI, R., & SENBET, L. W. (2020). Transforming finance in the Middle East and North Africa. *Policy Research Working Paper; No. 9301.* Retrieved from https://openknowledge.worldbank.org/handle/10986/33996

ASSI, H. (2020). *Social enterprise, women's empowerment and access to finance MedUP! project, Ramallah, West Bank, OPT Palestine case study.* OXFAM. Retrieved from https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620972/cs-womens-empowerment-finance-palestine-260320-en.pdf;jsessionid=9F4A66310E3D0E572C084EAC2B23D2D2?sequence=1

AUGIER, P., TSAKAS, C., MOULEY, S., MOUKADDEM, K., & VENTURA, K. (2019). *The private sector in the Mediterranean countries: Main dysfunctions and opportunities of social entrepreneurship.* FEMISE. Retrieved from https://www.femise.org/en/non-classe-en/femise-euromed-report-2019-the-private-sector-in-the-mediterranean-countries-main-dysfunctions-and-opportunities-of-social-entrepreneurship/

AZOUZI, A., & FAKHFAKH, Z. (2020). *Roadmap Maghreb business angel network.* Konrad Adenauer Stiftung. Retrieved from https://www.kas.de/documents/282499/282548/KAS+BUSINESS+ANGEL+WEB.pdf/774ccb82-5711-366b-199b-48b3bedc9fe4?version=1.0&t=1579526639714

BANQUE CENTRALE DE TUNISIE (BCT). (2016). *Vision concertée pour le développement de la microfinance en Tunisie.* Retrieved from https://testbct.bct.gov.tn/pdf/posts/1628758345.pdf

BARCO, S., BODINI, R., ROY, M., & SALAVOTORI, G. (2019). *Financial mechanisms for innovative Social and Solidarity Economy ecosystems.* International Labour Organization (ILO).

BELHAJ RHOUMA, A. (2020). *La promotion de l'économie sociale et solidaire en Tunisie.* Fondation Heinrich Boell

BEN AYED MOUELHI, R., BEN BRAHAM, M., & GHAZALI, M. (2021). The Social and Solidarity Economy in Tunisia and its role in formalising the informal economy: A qualitative survey. *EMNES Working Paper No. 48*. Retrieved from https://www.euneighbours.eu/sites/ default/files/publications/2021-05/emnes_wp_048_sse_tunisia-1.pdf

BRITISH COUNCIL (2020). *Social Enterprise Landscape in Morocco.* Retrieved from https://www.britishcouncil.org/sites/default/files/social_enterprise_landscape_in_morocco.pdf

CHARFI, L. (2020). *Alternative business models for start-ups and SMEs in Tunisia with high potential to create jobs for youth and women.* OXFAM. Retrieved from https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620969/cs-alternative-business-models-jobs-youth-women-tunisia-260320-en.pdf;jsessionid=5234FEE23A0EFDA54D3EAF6DF40D79D6?sequence=1

DIGITAL OPPORTUNITY TRUST (DOT) Lebanon (2016). *Social entrepreneurship ecosystem mapping in Lebanon.*

ELACHHAB, F. (2018). L'économie sociale et solidaire en Tunisie, un potentiel troisième secteur?. *RECMA,* (3), 71-86. Retrieved from https://www.cairn.info/revue-recma-2018-3-page-71.htm

ELAMRANI, J., & LEMTAOUI, M. (2013). Social entrepreneurship funding in Morocco: Practices, constraints and prospects. *Revue de Gestion et d'Économie,* 1(2), 58-67.

EL HADIDI, H. H. (2018). Impact of microfinance on entrepreneurial development: The case of Egypt. *International Journal of Business and Social Science, 9*(9), 68-76.

ELHIDRI, D. (2017). *L'Economie Sociale et Solidaire : Un levier pour une revolution economique.* Center for Applied Policy Research. Retrieved from https://www.cap-lmu.de/download/2017/CAPerspectives-Tunisia-2017-03.pdf?m=1509650143&

EL MEKKAOUI N., FOROUHESHFAR Y., & LOUKILI S. (2021). The Social and Solidarity Economy (SSE) in Morocco. *EMNES Working Paper No 50.*

ELZOHEIRY, O., RADWAN, A., & WAGEIH, A. (2019). *Social entrepreneurship country report: Arab Republic of Egypt.* OXFAM. Retrieved from https://www.oxfamitalia.org/wp-content/uploads/2020/06/Egypt-Country-Study.pdf

GERMAN INTERNATIONAL COOPERATION AGENCY (GIZ). (2019). *La dynamisation de l'entrepreneuriat social en Tunisie.* Retrieved from https://actif.auf.org/wp-content/uploads/2019/10/1309-giz-la-dynamisation-de-les-tunisie-final1.pdf

HALABI, S., KHEIR, S. & COCHRANE, P. (2017). *Social enterprise development in the Middle East and North Africa: A qualitative analysis of Lebanon, Jordan, Egypt and Occupied Palestine. Cairo, Egypt and Beirut, Lebanon.* Retrieved from https://wamda-prod.s3.amazonaws.com/resource-url/e2981f10ea87448.pdf

HMAYED, A., MENHALL, N., & LANTERI, A. (2015). *Social incubation and the value proposition of social business incubators: The case of nabad.* Palgrave Macmillan.

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2018). *Constraints and good practice in women's entrepreneurship in MENA. Case study: New evidence on gender attitudes towards women in business.*

KOA M., TARIFI, N., SHOGAIEH J., & ALLAWI S. (2018). *Mapping and needs assessment of social enterprises and social enterprises support organisations in Palestine.* Oxfam.

MAROUSH Z., WANNIS, H., GHINWA, H., & AYOUB, T. (2020). *Lessons from the Lebanese social entrepreneurship ecosystem.* OXFAM. Retrieved from https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620971/cs-social-entrepreneurship-ecosystem-lebanon-260320-en.pdf?sequence=1

MCPHERSON, M., SMITH-LOVIN, L., & COOK, J. M. (2001). Birds of a feather: Homophily in social networks. *Annual review of sociology, 27*(1), 415-444.

MIPISE (2020). *Financement participatif : Le Maroc et la Tunisie se dotent d'un cadre juridique encadrant son activité.* Retrieved from https://www.mipise.com/fr/platform_blog_posts/loi-financement-participatif

NOUTARY, E. (2017). Recommendations for lifting barriers to private investment in young firms. *ANIMA Investment Network Policy paper.* ANIMA Invstment Network. Retrieved from https://anima.coop/wpcontent/uploads/2020/05/sahwa_policy_paper_ anima_rev_final.pdf

OXFAM (2018). *The Lebanese social entrepreneurship ecosystem.* Retrieved from https://www.oxfamitalia.org/wp-content/uploads/2020/06/Lebanon-Country-Study-and-Needs-Assessment.pdf

OXFAM (2020). *Morocco – Social entrepreneurship country Study and SEs and SESOs needs assessment.* Retrieved from https://www.oxfamitalia.org/wp-content/uploads/2020/06/Morocco-Country-Study-and-Needs-Assessment.pdf

OXFAM (2021). *MENA region social entrepreneurship ecosystems: Challenges and opportunities.*

RADWAN, A., & SAKR, M. (2017). Review of the Egypt science and technology system; SWOT analysis. *Entrepreneurship and Sustainability Issues, 5*(2), 204-211.

RAMADAN R. (2021). Social enterprises and employment: Case studies from Egypt. *EMNES Working Paper No 53.* Retrieved from https://euneighbours.eu/sites/default/files/publications/2021-07/emnes_wp_053_social_enterprises_ employment_ egypt.pdf

SAEBI, T., FOSS, N. J., & LINDER, S. (2019). Social entrepreneurship research: Past achievements and future promises. *Journal of Management, 45*(1), 70-95.

SEDA, A., & ISMAIL M. (2020). Challenges facing social entrepreneurship. The implications for government policy in Egypt. *Review of Economics and Political Science, 5*

(2), 162-182. Retrieved from https://www.emerald.com/insight/content/doi/10.1108/REPS-03-2019-0036/full/pdf?title=challenges-facing-social-entrepreneurship-the-implications-for-government-policy-in-egypt

SEELOS, C., AND MAIR, J. (2005). Social entrepreneurship: Creating new business models to serve the poor. *Business horizons, 48*(3), 241-246

SKONIECZNA, A., & CASTELLANO, L. (2020). Gender smart financing investing in and with women: Opportunities for Europe. *Discussion Paper No. 129.* Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.

SIDŁO, K., AL-JAFARI M., & AL-BALOUS R. (2020). Social entrepreneurs' responses to the refugee crisis in Jordan and Lebanon. *Report FEM44-12.* FEMISE.

SIDŁO, K. (2021). *Innovation ecosystems and start-ups in the Mediterranean as a means of recovering from the COVID-19 crisis.* Centre for Social and Economic Research (CASE). Retrieved from https://cor.europa.eu/en/engage/studies/Documents/Innovation%20ecosystems%20and%20start-ups%20in%20the%20Mediterranean%20as%20a%20means%20of%20recovering %20from%20the%20COVID-19%20crisis/Innovation%20ecosystems_Med.pdf

STÖLTING, S. (2015). Neighbourhood SME financing: Tunisia. European Investment Bank (EIB). Retrieved from https://www.eib.org/attachments/efs/economic_report_neighbourhood_sme_financing_tunisia_en.pdf

TAUBER, L. (2019). Social entrepreneurship, civil society, and foreign aid in Jordan. Addressing issues of self-sustainability and continuity. In L.Tauber, C. Pierobon, and I. Natil (Eds.), *The power of civil society in the Middle East and North Africa* (pp. 58-75). Routledge.

TAUBER, L. (2020). Realms of influence: The dynamics of social entrepreneurship in the Kingdom of Jordan [University thesis]. Durham University. Retrieved from http://etheses.dur.ac.uk/13592/

THÉBAUD, S., & SHARKEY, A. J. (2016). Unequal hard times: The influence of the great recession on gender bias in entrepreneurial financing. *Sociological Science, 3,* 1-31.

UNITED NATIONS ECONOMIC AND SOCIAL COMMISSION FOR WEST ASIA (UN ESCWA). (2018). *The future of entrepreneurial ecosystem in the Arab region. How complementarity among Arab countries can achieve the UN SDGs.*

WAHIDI, I. & LEBÈGUE, T. (2017). Social entrepreneurs in Lebanon: An exploratory study of women entrepreneurs engaged in the professional integration of low-skilled women. *EUREKA: Social and Humanities, Number 1.* Retrieved from https://doi.org/10.21303/2504-5571.2017.00257

WORLD BANK (2017). *Social entrepreneurship in Tunisia: Achievements and ways forward.* Retrieved from https://openknowledge.worldbank.org/bitstream/handle/

10986/26396/114408-WP-PUBLIC-P152270-Social-entrepreneurship-in-Tunisia-achievements-and-ways-forward.pdf?sequence=1&isAllowed=y

WORLD BANK (2018). *The Global Findex Database 2017.* Retrieved from https://globalfindex.worldbank.org/index.php/#GF-ReportChapters

WORLD BANK (2019). *Microfinance Information Exchange (MIX) Market.* Retrieved from https://databank.worldbank.org/source/mix-market#

Appendix. Interview guide

Contact information of the respondent[1]
Name of respondent / Organisation / Function / Email address / Country

1. Do you think social enterprises are financially sustainable? Please explain why or why not.
2. What are the main sources that social enterprises rely on to fund their activities? Sales, subsidies, grants (local, regional, international?), private sector (sponsorship), family and friends or other sources of financing)?
3. Could you give an approximate estimate of funding to social enterprises in your financial institution? Approximately, what is the share of active female and male social entrepreneur borrowers in the most recent years? (According to data availability. e.g., 2019 or 2020.)
4. How often do social entrepreneurs apply for loans from your institution? (Once a year; more/less) Why?
5. What is the purpose of loan application: fixed assets, working capital, or both?
6. What is the average loan amount (in $)? Is the loan amount for social entrepreneurs above/equal/below
7. average compared to other entrepreneurs?
8. Do you grant the whole amount that social entrepreneurs have applied for? Please explain why or why not.
9. Do you think that the loans disbursed to social entrepreneurs could enable them to make substantial changes? Why not? (Low amount? short-term oriented towards a working capital?).
10. Are there any specific procedures or actions taken to improve the funding of social entrepreneurs and women social entrepreneurs in particular? (By actions we mean downsizing the credit requirement
11. / lower interest rates / easier application process…). Who is supporting these programmes? Is there positive discrimination favouring female social entrepreneurs?
Does your organisation hesitate to fund social enterprises? If yes, why? (No government incentives to do so, limited profitability, high risk, they tend to operate in the short-term.)
12. Do you think the pandemic has impacted your ability to fund social enterprises? How?
Can you state three alternative funding sources that social entrepreneurs could likely rely on?
13. According to you, what are the strengths and weaknesses of the current funding models of social en-
14. terprises?
15. What are your suggestions to improve access to finance for social enterprises? And bridging the gender gap in social entrepreneurship?
Is there something else that you want to mention?

[1] Due to the anonymity requested, we do not include the list of respondents.

Annex

Active venture capital, angel investors, and crowdfunding platforms

Country	Crowdfunding	Angel Investors	Venture capital
Egypt	MADAD MMKN SHEKRA TENNRA LIWWA	Cairo Angels Entlaka Capital Nile Angels	A15 Al Ahly Development and Investment Ashoka Arabia Beltone Asset Management Delta Holding Ideavelopers Innoventures Sawari Ventures Llc Tawfeer Vodafone Ventures (Xone)
Jordan	Afkar MENA Arab Crowd Funding	Beyond Angel Investment Network	Oasias 500 Amwal Investment PLC Al – Arabi Investment Alfanar Leap Ventures IM Capital
Lebanon	Zoomaal	Angels Lebanon Lebanese women angel fund	The Lebanese Venture Capital & Private Equity Association MIT Enterprise Forum Pan Arab Start-up Competition Injaz- Young Entrepreneurs Competition (YEC) Seedstars Beirut
Morocco	Wuluj Afineety	MNF Angels Angels4Africa	Innov Invest Fund Maroc Numeric Fund (MNF)
Tunisia	-	Carthage Business Angels (CBA) Bridging Angels MDBAN Angel Investment Network DAMYA	Société d'investissement en capital à risque (SICAR)

Source: Compiled by the author.

Diagnosing Informality, Assessing Formalisation and the Role of Social Enterprises in MENA countries

Philippe Adair
Emeritus Professor, ERUDITE, University Paris-Est
Créteil

Introduction

According to Chen and Carré (2020), little attention has been devoted to the impact of policies and regulations upon the informal economy in developing countries.

We address the issue of formalisation of the informal economy (henceforth informality) in six MENA countries, Egypt, Morocco and Tunisia in North Africa, and Jordan, Lebanon and Palestine in the Middle East. These oil-importing countries are lower middle-income economies with several common characteristics: significantly low female participation rate to the labour market, dramatically high youth unemployment rate, small-scale informal businesses operating in low productivity industries provide most jobs and half the labour force is in informal employment (Purfield et al., 2018; Charmes, 2019).

Informality has been a controversial issue with respect to methodology, should the emphasis be on businesses or employment, since the discovery of the informal sector half a century ago in the early 1970s (Charmes, 2019). A first definition of the informal sector was coined in the early 1990s (ILO, 1993) and the concept of informal employment (ILO, 2003) designed an extensive picture in the 2000s. In the 2010s, the ILO (2013) provided a comprehensive definition of the informal economy and recommended transition towards the formal economy, whereas the World Bank designed and assessed policies formalising the informal sector (Benjamin et al., 2014).

Informality exhibits a contradictory prism of advantages and disadvantages: unfair competition from informal micro-enterprises vis-à-vis formal firms, tax shortfalls and subsistence jobs for most informal workers. Is formalisation able to combine tax consent, the elimination of entry barriers for small-scale businesses and compliance with labour regulations? Is it compatible to fulfil the promotion of entrepreneurship advocated by the World Bank, with the extension of social protection to informal workers advocated by the International Labour Office?

The first section of this chapter addresses the definitions and stylised facts upon informality, pointing out disparate available data sources and poor coverage in the six MENA countries. The next section emphasizes the persistence of informality, which does not prevent labour force mobility, and sketches an overview of the various ALMPs addressing this structural persistence. The third section displays the conflicting issues encapsulated within the distinct strategies and targets of formalisation policies, as well as their impact assessment. Finally, the last section focuses on the role of the social economy in formalising both informal self-employed (businesses) and employees, extends social protection to informal workers and promoting job creation within both for-profit cooperatives and not-for-profit institutions.

The informal economy: definitions and patterns, sources and coverage

According to standard definitions, informality includes three components, i.e. the informal sector and informal activities within the formal sector and households. However, data sources prove disparate and coverage remains poor in the six MENA countries.

Informality in MENA countries: Interlocking definitions and stylised facts

The informal sector (ILO, 1993) encapsulates both own-account workers and employers belonging to the unincorporated enterprises, a subset of the institutional household sector, which provide some legal market output, are not registered (or their employees) or their size stands below five permanent paid employees.

Informal employment (ILO, 2003), an extensive definition, includes all jobs performed in both informal as well as in formal economic units by workers who are not subject to labour regulation, income tax or social protection. This is due to the absence of declaration of the jobs or the employees, whether casual or short duration contracts, jobs with hours or wages below a given threshold and workplace located outside the premises of the employer's business. The issue is non-payment of social contribution rather than the absence of social protection, because individuals may access to social protection through the contribution of another family member (Charmes, 2019). The informal sector is included within informal employment.

Informal employment or employment in the informal economy gathers three sets: (1) employment in the informal sector (the largest set), (2) informal employment in the formal sector and (3) informal employment in households (domestic workers and household members producing goods and services for their own final use).

Taking stock of macroeconomic estimates of the informal economy, noteworthy are three stylised facts.

First, average (non-agricultural) employment in the informal economy throughout North Africa provides jobs to half the labour force. A long lasting or structural phenomenon, informal employment has been growing slightly over 50% in the 2000s and declining slightly below 50% since the early 2010s (Charmes, 2019).

Second, informal employment is countercyclical: it rises with economic growth decline until the late 2000s; it contracts in the early 2010s with upgraded economic growth. However, this reversal in trend requires a thorough investigation regarding the behaviour of the various components of informal employment. Trends as well as levels may differ across countries, depending on the impact of economic shocks (structural adjustment and crises) and the employment policies designed to mitigate these.

Informal employment is countercyclical: it rises with economic growth decline until the late 2000s; it contracts in the early 2010s with upgraded economic growth

Last, employment in the informal economy is negatively correlated to GDP per capita. With the highest share of employment in the informal economy, Morocco experiences the lowest GDP per capita among North African countries. It is consistent with the weak labour productivity in the informal sector subset, whether or not agriculture is included (Charmes, 2019).

Discrepancies in data sources and deficient statistical coverage

Several deficiencies occur across countries regarding data sources, coverage and thresholds as for the components of the informal economy.

So far, Morocco is the only country that did achieve three representative surveys (1999, 2007 and 2013) devoted to informal production units (i.e. the informal sector), based on a representative household survey; three out of four units are micro enterprises with a single worker (HCP, 2016).

With respect to Egypt, no national household survey was so far devoted to informal employment. Business data on Micro- and Small and Medium size Enterprises (MSMEs) prove scarce and no specific survey did address the informal sector. However, Central Agency for Public Mobilisation and Statistics (CAPMAS) and the Economic Research Forum (ERF) surveyed a representative sample of household firms in 2012 and 2018. 62.5% of the sample include self-employed (one-person firms), 31% are micro firms (2-4 workers), and 6.5% are small firms (at least five workers).

As for Tunisia, there were neither national household survey devoted to informal employment, nor specific surveys on the informal sector since the late 1980s (Charmes & Ben Cheikh, 2016). A five-year survey of microenterprises took place since 1997, but the threshold for microenterprises (below six employees) is unfortunately inconsistent with the threshold (below five employees) used by the ILO and the World Bank Enterprise Surveys (WBES).

The absence of national household survey devoted to informal employment or enterprise survey devoted to the informal sector also applies to Jordan, Lebanon and Palestine.

If relevant questions are included, Labour Force Surveys (LFS) may gauge informal employment, although countries use different criteria for social protection coverage.

According to LFS as of 2019 recorded in Table 1, the share of informal employment (including agriculture) was 63.27% in Egypt, 45.5% in Jordan, 55.33% in Lebanon and 59.58% in Palestine (ILOSTAT, n.d.). Noteworthy is that neither Morocco (77.22%) nor Tunisia (44.8%) provide data from their LFS.

Table 1. Overall informal employment (including agriculture) in 2019

Country (employed pop.)	**Sex**	**Total** (% informal)	**Employees** (% total)	**Self-employed** (% total)
Egypt (26,661,000)	Total	16,870 (63.27)	10183,1 (60.33)	6676,0 (39.57)
	Male	14806,0	9414,2	5389,5
	Female	2064,0	768,9	1286,4
Jordan (2,647,639)	Total	1,204,800 (45.5)	1054,0 (87.48)	150,8 (12.51)
	Male	1106,9	964,3	142,6
	Female	97,8	89,6	8,2
Lebanon (1,590)	Total	879,9 (55.33)	553,4 (62.89)	326,5 (37.1)
	Male	610,8	338,6	272,2
	Female	269,1	214,8	54,3
Palestine (906)	Total	539,8 (59.58)	355,1 (65.78)	184,8 (34.23)
	Male	470,8	314,6	156,1
	Female	69,1	40,4	28,7

Source: Elaborated by the author based on data from Labour Force Surveys 2019 (ILOSTAT, n.d.)

In addition, a survey exclusively devoted in 2015 to youth (16-29 age group) addresses a balanced sample of 3,027 active people from four countries from North Africa (Algeria, Egypt, Morocco, and Tunisia) and Lebanon. According to Merouani et al. (2018), young workers do not benefit (and look for) social protection. The high prevalence of informal employment among youth cannot extrapolate to all age groups (Gherbi & Adair; 2020), though it proves consistent with the U-shaped prevalence of informality throughout the life cycle, decline occurs from youth to maturity, whereas the older age group experiences an increase.

The World Bank database on the informal economy (Elgin et al., 2021) displays no comparable disaggregation of the work-status categories as in ILOSTAT. Furthermore, its focus is in upon enterprises, not employment. It makes extensive use of WBES, which unfortunately pay very little attention to micro-enterprises that are the bulk of businesses, whereas very weak figures for informal firms (defined as unregistered) prove unrealistic. Hence, all WBES conducted in Egypt, Morocco and Tunisia as of 2013 (Berguiga & Adair, 2019), as well as in the six MENA countries regarding 2019 (Adair & Berguiga, 2021) lack representativeness and cannot be used to gauge the informal sector.

Persistent informality and occupational mobility, causes and labour market policies

Theories tackling informality: a threefold spectrum

Theories provide the underpinnings of (formalisation) policies and the full spectrum of theories tackling informality is threefold, namely dualism, structuralism and institutionalism. In addition, we point out main causes of informality, which stem from jobless growth and institutional deficiencies. According to the optimistic interpretation of the dualistic model (Lewis, 1954), informality will vanish when the economy is fully developed, whereas a less optimistic interpretation holds that persistent informality is due to labour market segmentation, namely barriers to entry in the formal economy.

Labour market segmentation is not congruent with the structuralist thesis (Castells & Portes, 1989) considering that the informal economy is not separated but dominated by the formal economy through subcontracting, in order to shrink production costs (including labour costs), and the textile industry or call centres in Tunisia and Morocco are relevant examples.

The legalistic/institutionalist approach (de Soto, 1986) assumes that informality stems from bad regulation and excessive bureaucracy driving small firms to voluntarily step outside or being excluded from the formal economy, especially illustrated by Tunisia (de Soto, 2012). Hence, it advocates removing constraints upon informal entrepreneurs, and diminishing the costs borne by start-ups to operate a business legally. World Bank Enterprise Surveys that identify barriers to entry and business activity are in line with this approach.

Theories provide the underpinnings of (formalisation) policies and the full spectrum of theories tackling informality is threefold, namely dualism, structuralism and institutionalism

Noteworthy for policy issues is that theories of informality do not address the same side of the market. In Table 2, dualism (segmentation theory) stands on the supply-side (i.e. workers), whereas institutionalism alongside structuralism stands on the demand-side (i.e. businesses) of the labour market.

Table 2. Theories of informality and markets

	Dualism	**Institutionalism**	**Structuralism**
Labour market(s)	Supply-side	Demand-side	Demand-side
Credit market(s)	Supply-side	Demand-side	Demand-side
Markets for goods & services	Demand-side	Supply-side	Supply-side

Source: Author's own elaboration

Macroeconomic and institutional factors play a major part among several drivers of informality

Labour market segmentation and occupational mobility: earnings differentials

Hereafter, the concept of segmentation encapsulates differences in labour income, which the individual attributes of labour supply (e.g. human capital) do not explain, and which would rather associate with characteristics of labour demand, and employment itself. Segmentation occurs when two workers with similar attributes benefit a different remuneration, in as much as one is a formal worker and the other an informal worker.

Gherbi and Adair (2020) assess substantial income gaps among youths aged 16-29 as for Algeria, Egypt, Morocco and Tunisia in 2015. Formal employment always proves attractive: formal /informal employee income ratio is roughly the same for females (1.778) and for males (1.774), as well as formal /informal self-employed ratio (2.258 for females and 2.198 for males); whereas gender pay gap is lower for formal workers (21.82%) than for informal workers (24.05%). Running against Mincer earnings function for formal workers, human capital plays a small part in youth informal employment. According to quantile regressions, distributional patterns concentrate females and informal jobs in the lower quantiles vs. males and formal jobs in the upper quantiles. A decomposition model identifies a large unexplained share that is demand-driven by discrimination towards females and informal workers.

Formal/informal employment segmentation does not necessarily impede some occupational mobility, though a controversial issue (see Vladimir Hlasny's chapter in this study). Gatti et al. (2014) contend that informal employment in the MENA region, most prevalent among youths aged 15-24 before the transition to the public sector takes place, drops for mature workers. As for Egypt over 1996–2006, occupational mobility patterns display rising self–employment, then transition from self-employment and unemployment into formal wage employment, mainly in the public sector (Woldemichael et al., 2019). However, most individuals except unemployed males remain in their initial labour market segments as regards Egypt over 2006-2012 (Tansel & Ozdemir, 2019). Significant factors in labour market rigidity are gender and education on the supply side, and institutional and other factors on the demand side.

Causes of persistent informality and labour market policies.

Macroeconomic and institutional factors play a major part among several drivers of informality.

The inability of the formal economy (including the public sector) to absorb increasing labour force is the first main cause of persistent or rising informality (Chen & Harvey, 2017). Hence, the IMF (2021) holds that 85% of all informal workers are in precarious employment, not through choice but due to a lack of opportunities in formal employment. A plausible, although undocumented figure. Noteworthy is rising access to tertiary education among females increases potential candidates for public sector jobs, which women prefer over private sector formal employment, the former providing better working conditions and social coverage (Assaad & Barsoum, 2019). Extending public employment does neither prove enough to absorb large waves of young graduates queuing up for a public job, nor enhance labour productivity and economic growth.

The other main cause is lies in inadequate regulatory framework and weak enforcement of labour contracts and social security inspectorate, including corruption, which push the informal sector and microenterprises to operate outside the purview of regulations.

Formalising the informal economy: rationale, targets and policies

Formalising informality raises several issues: Why formalise, and are they conflicting issues? Which targets and related policies prove relevant?

Why formalise?

(1) As for employees and own account workers, issues consist in improved access to rights and decent working conditions, social security, representation and national policy dialogue.

(2) With respect to businesses, issues relate to enlarged access to credit and other productive factors, including through public programmes; extended access to markets with participation in public procurements; shrinking the influence of corruption and enforcing commercial contracts. (3) Regarding society and the State, issues consist in widening the scope of public action, shrinking tax rates and enlarging the tax base and improving the efficiency and sustainability of measures to address risks. Increasing fairness with regard to the contribution to public budget and to gains from redistributive policies, which promotes greater social cohesion.

Informality is a set of advantages and disadvantages as regards competition, subsistence jobs and tax shortfalls. Is formalisation able to combine the removal of entry barriers, compliance with labour regulations and tax consent? Can the promotion of entrepreneurship, advocated by the World Bank and the IMF, reconcile with the claim for social protection of workers that the ILO supports?

Whether the target is entrepreneurs or businesses, formalisation requires an upgraded access to market for goods and the credit market, as well as training in accounting but also hiring on the labour market (interns and/or apprentices). Thus, employment is an issue and Recommendation 204 adopted at the 2015 International Labour Conference (ILO, 2015) includes some key provisions for informal workers, both self-employed and employees. International institutions and governments in charge of implementing appropriate policies should share and promote such key provisions.

A broad range of formalisation policies and mixed evidence from impact assessment

In the first place, we address the range of formalisation policies. Then, we focus on the targets -businesses vs. employment, and the tools –incentives and penalties- of these policies. Last, we assess formalisation policies in MENA countries.

There is a wide range of policies affecting the transition towards formalisation, because informality is heterogeneous due to the existence of several drivers.

A relevant distinction is between policies that influence though without aiming at formalisation, such as Active Labour Market Policies (ALMPs), vs. policies explicitly tackling informality. In the latter case, various targets address categories of economic units (e.g. schemes devoted to micro and small businesses), or workers (e.g. bringing domestic work under the umbrella of labour law), and the component of informality (e.g. undeclared work in formal enterprises).

ALMPs address (1) skills training (including entrepreneurship training), (2) support for enterprise development (including microfi-

Formalisation policies address businesses rather than employment, although formalisation targeting informal workers proves more effective than targeting informal businesses

nance services), (3) employment services, and (4) subsidised employment (public employment and wage subsidies). They aim at providing or facilitating access to decent employment for the most vulnerable groups in the MENA labour market, especially youth including women (Barsoum et al., 2017; Dimova et al., 2016; Kluve et al., 2019).

Existing impact studies concentrate on Egypt and Jordan, to lesser extent on Morocco and Tunisia, and notably focus on the first two policies: skills and entrepreneurship training in Tunisia (Almeida et al., 2012), vocational training programmes on entrepreneurship in Morocco (Kluve et al., 2014) and microfinance. Employment services seemed to have no impact on employment outcomes in Jordan (Groh et al., 2012) and subsidised employment in Jordan and Tunisia (Barcucci & Mryyan, 2014) does not create jobs on the long run (ILO, 2017b). Microcredit has some small but significant positive impacts in the short-term (sales and profits), mainly upon already established businesses in Egypt. Such is also the case in Morocco (Crépon et al., 2015), for existing self-employment households activities, whereas there is no impact on the probability of establishing new businesses, nor on women's empowerment. Positive effects vanish in the long run, which may be due to too small a loan amount to spur investment, thus calling for a more sustainable approach (ILO, 2017b).

Assessing the impact of formalisation policies provided mixed evidence Jessen and Kluve (2019) point out that formalisation policies address businesses rather than employment, although formalisation targeting informal workers proves more effective than targeting informal businesses, yielding generally positive and small-scale effects. Enacting the law does not ensure alone the transition of workers from informal to formal jobs; beyond design and implementation, monitoring and assessment are crucial steps in the policy cycle (ILO, 2017a). This applies to the law on self-employed entrepreneur and the law on domestic employment Morocco respectively adopted in 2015 and 2016 (Cherkaoui & Benkaraach, 2021).

Once registered to the National Register, the self-employed enjoys social coverage and tax exemption or rebate. The law proved attractive to 86,169 self-employed entrepreneurs in 2019 and especially for youth, more than half being aged 15-34, and men account for two-thirds. Monitoring is necessary in order to avoid falling back into informality, as well as training in management alongside access to funding and perhaps to public procurement.

Hereafter, we address the tools of policies: incentives and penalties.

Formalising businesses using incentives (carrot) is threefold. (1) Information campaigns on the procedures and benefits of business registration, alone, remain ineffective. (2) One-stop shops bring together several procedures and relevant agencies simplifying business registration, and incentives to reduce charges (taxes and social security contributions) prove effective. (3) Decreasing registration costs for start-up businesses and giving a bonus to those willing to register exert a positive impact, which depends on the amount. Balima (2021) contends that reducing half the entry cost to formality would decrease the informal sector by five per cent, he also advocates shrinking the payroll tax by half would trigger a decline in informal employment by 13%, plausible although undocumented figures.

Formalising businesses using penalty (stick) includes (4) law enforcement by the labour inspectorate, which has a minor but persistent impact on the formal employment of workers for several years. Gaarder and van Doorn (2021) recommend this enterprise formalisation approach.

Whether stick is more efficient than carrots and conversely remains controversial. Effectiveness lies in the combination of carrot and stick. Hereafter, we report on formalisation policies in Egypt, including case studies of "natural" experiment testing.

Egypt passed Law 141 (2004) including tax exemption for new businesses, open tax forgiveness for existing firms that quit the informal economy and corporate tax rebates in 2005, whereas penalties for tax evasion increased. Registration procedures were streamlined and simplified (one-stop shops, no minimum capital requirements and flat fees). Hence, the number of businesses formally registering grew 35% over 2005-2012. This carrot and stick policy had a narrow focus on informal enterprises rather than on informal employment, failing to target micro and small enterprises and to remove the obstacles in accessing credit (Subrahmanyam, 2016).

Elsayed and Wahba (2017) examine the extent to which informality changed during the turmoil of 2011 in Egypt. It appears that informal employment has increased for both high- and low-educated workers: high educated were more likely to remain informal, whereas low-educated formal workers were more likely to be laid off.

Ali and Marouani (2020) tackle the impact of the 2014 economic reforms, finding a short-run positive effect of formality on labour productivity of firms, stronger for microenterprises owned by less educated and female entrepreneurs lacking social insurance. Effect was persistent for firms that became formal by 2018, whereas there was no effect on employment within firms.

Formalisation, job creation and the role of the social and solidarity economy: recommendations

Indeed, the social economy plays a role in formalising both informal self-employed (businesses) and employees, extending social protection to informal workers and promoting job creation within both for-profit cooperatives and not-for-profit organisations, including MFI (see Mariem Omrani's chapter).

In Egypt, the non-profit Alexandria Business Association (ABA) MFI introduced a gradual lending scheme whereby formalisation requirements increase with requested loan size. Conditional lending provides an incentive to formalise. Less than 6 per cent of active clients formalised their activities in 2004 and by 2016 the share reached around 18% small businesses had fully formalised (ILO, 2017c). This best practice deserves benchmarking.

Access to credit is paramount for entrepreneurs. In as much as informal (micro-), enterprises experience financial exclusion from the banking system due to high costs upon small loan amounts, absence of collateral and expected default risk, the microfinance industry is able to provide financial products to those excluded businesses (see Mariem Omrani's chapter).

This chapter is addressing two issues.

In the first place, going back to the issue addressed in Vladimir Hlasny's chapter, how formalising informality proves beneficial to job creation? Bringing to light invisible activities performed at home (workshops) or without premises (street vendors) is both a statistical effect and a figure im-

The social economy is no panacea but it can foster formalisation in two ways: supporting the tip of the iceberg, young entrepreneurs (including females) and extending the care economy

provement. There is also the economic impact of a virtuous circle in as much as labour demand is triggered by demand for goods & services: for instance, insurance coverage enhances job creation in health care industry, especially within the social economy, as in the Jordanian experiment (ILO, 2018). The disabled, who are structurally vulnerable people, should also participate in SSEs. Short-term policies implemented in the wake of the COVID-19 recession paved the way to address vulnerability, calling for medium and long-term schemes. In Morocco, cash grants were delivered through mobile phone transfers for those who did not have a bank account. In Jordan, the Emergency Fund provides income to workers not covered by Social Security and they are expected to register and contribute to unemployment insurance (ILO, 2020).

In the second place, with regard to Kareem Sharabi Rosshandler and Mariem Omrani's chapters, we emphasise that cooperatives upscale formal employment job creation, and microfinance institutions are the appropriate media promoting formalisation as a counterpart of enlarged funding amounts in order to go beyond working capital, upscaling investment to fixed assets. This promising path followed so far by ABA in Egypt should become a benchmark.

The social economy is no panacea but it can foster formalisation in two ways: supporting the tip of the iceberg, young entrepreneurs (including females) and extending the care economy that fulfils the demand for formal jobs and services.

Time is crucial. Formalisation processes may require quite a long time before displaying (moderate) success, provided that monitoring and assessing policies prove effective.

In addition, specific tax and public procurement policies targeted at informal economy workers who are establishing or joining cooperatives should be fostered.

Funding from European Invest Bank could (1) provide larger loans devoted to fixed capital investment, as a counterparty for extending formalisation (i.e. social protection) to employees; (2) set up a Mutual Guarantee Scheme supporting the MFIs that promote cooperatives.

National statistical offices, with assistance from Eurostat, should design six pilot projects in the MENA countries, based on enterprise surveys collecting data upon the informal sector (micro and small businesses below 20 employees), in line with the Moroccan survey (HCP, 2016), and investigating their funding, inspiring from the questionnaire of the World Bank Enterprise Surveys.

References

ADAIR, P., & BERGUIGA, I. (2021). A survey on funding MSMEs and female entrepreneurs in MENA countries and the microfinance issue. *Erudite Working Paper 2021-12.* RePEc. Retrieved from https://ideas.repec.org/s/eru/erudwp.html

ALI, N., & MAROUANI, M. A. (2020). Household enterprises: The impact of formality on productivity and profitability. *Economic Research Forum (ERF) Working Paper 1452.* Economic Research Forum (ERF). Retrieved from https://ideas.repec.org/s/erg/wpaper.html

ALMEIDA, R. K., BAROUNI, M., BRODMANN, S., GRUN, R., & PREMAND, P. (2012). *Entrepreneurship training and self-employment among university graduates: Evidence from a randomized trial in Tunisia.* The World Bank.

ASSAAD, R., & BARSOUM, G. (2019). Public employment in the Middle East and North Africa. IZA. https://wol.iza.org/articles/public-employment-in-the-middle-east-and-north-africa/long

BARCUCCI, V., & MRYYAN N. (2014). Labour market transitions of young women and men in Jordan. *Work4Youth Publication Series No. 14.* International Labour Office.

BALIMA H. (2021, October 13). *Informality and development in North Africa.* [Speech] IMF 2021 Annual Meeting, International Monetary Fund, Washington, United States of America.

BARSOUM, G., WAHBY, S. & SARKAR, A. (2017). *Youth and employment in North Africa: A regional overview.* International Labour Office.

BENJAMIN, N., BEEGLE, K., RECANATINI, F., & SANTINI, M. (2014). Informal Economy and the World Bank. *Policy Research Working Paper 6888*. The World Bank.

BERGUIGA I., & ADAIR, P. (2019). Funding MSMEs in North Africa and microfinance: the issue of demand and supply mismatch. *Economic Research Forum (ERF) Working Paper No. 1350.* Economic Research Forum (ERF).

CASTELLS, M., & PORTES, A. (1989). World underneath: the origins, dynamics, and effects of the informal economy. In A.Portes, M. Castells and L.A. Benton. (Eds.), *The informal economy: Studies in advanced and less developed countries.* Johns Hopkins University Press.

CHARMES, J. (2019). *Dimensions of Resilience in Developing Countries: Informality, Solidarities and Carework,* Springer.

CHARMES, J., & BEN CHEIKH, N. (2016). *Protection sociale et économie informelle en Tunisie Défis de la transition vers l'économie formelle.* CRES.

CHEN, M., & CARRÉ, F. (Eds) (2020). *The informal economy revisited examining the past, envisioning the future.* Routledge.

CHEN, M., & HARVEY, J. (2017). *The informal economy in Arab nations: A comparative perspective.* WIEGO.

CHERKAOUI, M., & BENKARAACH, T. (2021). Striving for formalisation Gender and youth aspects of informal employment in Morocco. In J. Ghosh (Ed.), *Informal women workers in the Global South. Policies and practices for the formalisation of women's employment in developing economies* (pp. 137-173). Routledge.

CRÉPON, B., DEVOTO, F., DUFLO, E., & PARRIENTE, W. (2015). Estimating the impact of microcredit on those who take it up: Evidence from a randomized experiment in Morocco. *American Economic Journal: Applied Economics,* 7(1), 123–150.

DE SOTO, H. (1986). *The other path: The invisible revolution in the third world*. Harper and Row.

DE SOTO, H. (2012). *L'économie informelle: comment y remédier? Une opportunité pour la Tunisie.* UTICA and Instituto Libertad y Democracia, Ceres Edition.

DIMOVA, R., ELDER, S., & STEPHAN, K. (2016). Labour market transitions of young women and men in the Middle East and North Africa. *Work4Youth Publication Series No. 44*. International Labour Office.

ELGIN, C., KOSE, A., OHNSORGE, F., & YU, S. (2021) Understanding informality. *CEPR Discussion Paper 16497.* Centre for Economic Policy Research.

ELSAYED, A., & WAHBA, J. (2017). Political change and informality: Evidence from the Arab Spring, *IZA Discussion Paper No. 11245.* IZA.

GAARDER, E., & VAN DOORN, J. (2021). *Enterprise formalization: Simplifying and facilitating business start-up and compliance.* International Labour Office.

GATTI, R., ANGEL-URDINOLA, D. F., SILVA, J., & BODOR, A. (2014). *Striving for better jobs - The challenge of informality in the Middle East and North Africa.* The World Bank.

GHERBI, H., & ADAIR, P. (2020). The youth gender gap in North Africa: Income differentials and informal employment. *ERUDITE WP series 06-2020.* RePEc

GROH, M. KRISHNAN N., MCKENZIE D., & VISHWANATH T. (2012). Soft skills or hard cash? The impact of training and wage subsidy programs on female youth employment in Jordan. *Policy Research Working Paper Series: 6141.* The World Bank.

HIGH COMMISSION FOR PLANNING OF MOROCCO (HCP). (2016). *Enquête nationale sur le secteur informel 2013/ 2014.* Haut Commissariat au Plan.

INTERNATIONAL LABOUR ORGANIZATION (ILO). (1993). *15th International Conference of Labour Statisticians Report.*

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2003). *17th international conference of labour statisticians. General report.*

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2013). *Measuring Informality: A Statistical Manual on the informal sector and informal.*

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2015). *Transition from the informal to the formal economy recommendation No. 204.*

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2017a) Towards evidence-based Active Labour Market Programmes in Egypt. Challenges and way forward. *Impact Report Series, Issue 4.* International Labour Office.

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2017b) Promoting women's empowerment in the Middle East and North Africa Impact A rapid evidence assessment of labour market interventions. *Brief Series, Issue 9*. International Labour Office.

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2017c) Tomouh: A new loan product for Micro and Small-Sized Enterprises. *Youth employment programme – Taqeem Initiative Impact Brief Series, Issue 11.* International Labour Office.

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2018) Jordan: Establishing day care centres in the private sector. Impact Brief Series, Issue 15. International Labour Office.

INTERNATIONAL LABOUR ORGANIZATION (ILO). (2020). Extending social protection to informal workers in the COVID-19 crisis: Country responses and policy considerations. *Social Protection Spotlight.* International Labour Office.

ILOSTAT (n.d.). *Labour Statistics database,* International Labour Office, Geneva.

JESSEN, J., & KLUVE, J. (2019). The effectiveness of interventions to reduce informality in low- and middle income countries. *IZA Discussion Paper 12487.*

KLUVE, J., PUERTO, S., ROBALINO, D., ROMERO, J.M., ROTHER, F., STÖTERAU, J., WEIDENKAFF, F., & WITTE, M. (2019). Do youth employment programs improve labor market outcomes? A quantitative review: *World Development, 114,* 237 - 253

KLUVE J., DYER P., GARDINER D., & MIZROKH E. *(2014). Boosting youth employability in Morocco - II Randomized controlled trial baseline report December.* International Labour Office.

LEWIS, A. (1954). Economic development with unlimited supplies of labour. *Manchester School of Economic and Social Studies, 22*(2), 139-191.

MEROUANI, W., EL MOUDDEN, C., & HAMMOUDA, N-E. (2018). Social security entitlement in Maghreb countries: Who is excluded? Who is not interested? *ERF Working Paper No. 1264*, Economic Research Forum (ERF). Retrieved from https://ideas.repec.org/p/erg/wpaper/1264.html

PURFIELD, C., FINGER, H., ONGLEY, K., BADUEL, B., CASTELLANOS, C., PIERRE, G., STEPANYAN, V., & ROOS, E. (2018). *Opportunity for all: promoting growth and inclusiveness in the Middle East and North Africa. I*nternational Monetary Fund.

ROELANTS, B. (2015). *Cooperatives are key to the transition from the informal to the formal economy.* International Organisation of Industrial, Artisanal and Service Producers' Cooperatives (CICOPA) . Retrieved from https://www.cicopa.coop/wp-content/uploads/2019/02/cicopa_-_cooperatives_are_key_to_the_transition_to_the_formal_economy.pdf

SHAHEN, M.E., KOTANI, K., KAKINAKA, M., & MANAGI, S. (2020). Wage and labor mobility between public, formal private and informal private sectors in a developing country. *Economic Analysis and Policy, 68,* 101-113.

SUBRAHMANYAM, G. (2016). Addressing informality in Egypt. *Working Paper North Africa Policy Series.* African Development Bank.

TANSEL, A., & OZDEMIR, Z. A. (2019). Transitions across labor market states including formal/informal division in Egypt. *Review of Development Economics, 23*(8),1–22.

WOLDEMICHAEL, A., JOLDOWSKI, M., & SHIMELES, A. (2019). Labor market flexibility and jobs in selected African countries. *Working Paper Series N° 330.* African Development Bank.

WORLD BANK (n.d.). World Bank Enterprise Surveys -WBES. Data Catalog, selected countries. [Dataset] Retrieved from http://www.worldbank.org

List of acronyms and abbreviations

ABA	Alexandria Business Association
ALMP	Active Labour Market Policy
CAPMAS	Central Agency for Public Mobilisation and Statistics
CIRIEC	Centre for research and information on the public, social and cooperative economy
EC	European Commission
EIB	European Investment Bank
ELMPS	Egyptian Labour Market Panel Surveys
ERF	Economic Research Forum (ERF)
ESMED	Euro-Mediterranean Social Economy Network
EU	European Union
FTE	Full-time equivalent
GDP	Gross Domestic Product
ICT	Information and Communication Technology
ILO	International Labour Organization
LFC	Lebanese Federation of Cooperatives
LFS	Labour Force Surveys
LMPS	Labour Market Panel Survey
MENA	Middle East and North Africa
MFI	Microfinance institutions
MSE	Micro and Small-sized Enterprise
NDICI	Neighbourhood, Development and International Cooperation Instrument
NEET	Not in Education, Employment or Training
NGO	Non-Governmental Organization
NSO	National Statistical Office
OLF	Out of the labour force
SDGs	Sustainable Development Goals
SSE	Social and Solidarity Economy
WBES	World Bank Enterprise Survey

euromesco
Policy Study

IEMed.
European Institute of the Mediterranean

Co-funded by
the European Union