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The Labor Market in Egypt

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Policy Brief 033

Current overall labor market situation

With a persistent high percentage of unemployment and a declining rate of labor force participation especially among women and youth, the labor market in Egypt is in serious condition.

According to CAPMAS, Egypt's official statistical agency, the labor force participation rate reached 48% in 2014 for the working age population (15-64). However, that rate is dominated by men who have a high rate of 73%, while women only participate at a rate of 23%. Compared to the 2003 rates of 45% (72% for men and 18% for women), we can see that women have made some increases in their participation in the labor market, even if it is still a low percentage. The low level of women participation has been attributed to the inability to find suitable, safe jobs close to home and with flexible hours.

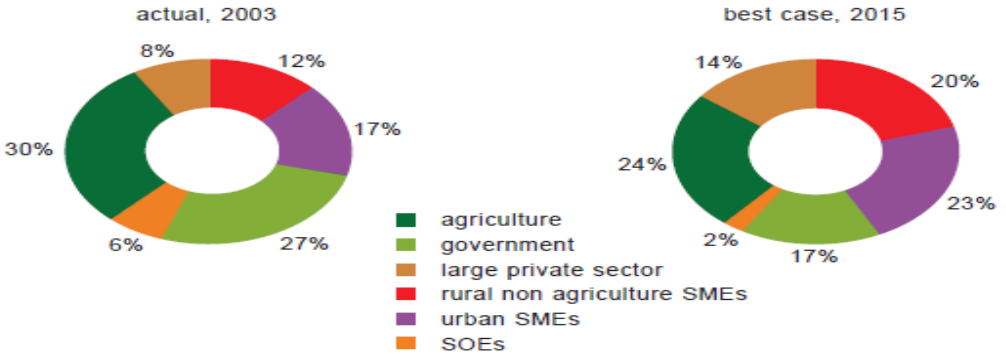
According to SYPE, youth (aged 15-29) labor force participation decreased from 37.9% in 2009 to 36.6% in 2014, reaching 17.8% for women compared to 79.4% for men. Young women in 2014 were also two times as likely to say that they could not find a job with a suitable workplace. Overall unemployment has reached 14% in 2014 with a rate of 9% for men and 24% for women. The situation for youth is significantly worse.

The difficulty of getting a job has, however, increased youth reliance on entrepreneurship as an alternative. The percent of employers or self-employed youth increased between 2009 and 2014 from 3.7% to 13.1% among employed men and from 3.2% to 5.7% among employed women.

The EHDR predictions

In an effort to help the government fix and develop the labor market's persistent problems, the 2005 Egypt Human Development Report (EHDR) had identified a Best Case scenario for the employment situation in 2015, as contrasted to a Business as Usual scenario for the same year. The team conducting the projections based its Best Case estimates on potential growth in manufactured exports, tourism and SMEs in all sectors. Total employment was divided among six large sectors such that aggregation of many sub sectors of activity is included with private sector (all services and production other than agriculture). The private sector was then divided into large private sector (for businesses with 100 employees or more), urban SMEs and rural non agriculture SMEs.

Figure 6.1: Distribution of employment by economic sector in BC scenario



* The large private sector refers to labor in enterprises employing 100 employees or more.

Note: The agriculture sector includes agro processing workers and is projected to grow by 2% annually. Number of government employees is projected to decline by 100,000 annually from 2006 to 2015 through attrition, and this reduction is expected to be entirely concentrated in the urban administrative services sector, which suffers from labor redundancy. Workers of state-owned enterprises (SOEs) are projected to remain constant, though half of them are expected to join the private sector by 2015 due to privatization. The foreign and investment sector is projected to grow at a rate of 4%, due to the expected increase in FDI.
Source: EHDR 2005

Based on calculated growth projections, the EHDR identified the MSMEs sectors to be one of the main drivers of the economy and the main employer by 2015. The large and formal private enterprise sector was also expected to witness a sizable increase in its share of employment. The EHDR predicted a huge increase in the share of private sector employment as a whole from 37% in 2003 to 56% in 2015. On the other hand, three sectors were expected to shrink in both relative and absolute term, namely agriculture, government and State-Owned Enterprises (SOEs).

The manufacturing sector was also identified to be a major potential growth engine for the economy with rising shares of exportable products. Manufactured exports expected to almost double their share of total manufactured output to reach 22.3%, up from a low of 12% (annual growth rate 15%).

Where are we now?

According to latest CAPMAS data (2014), the government share of employment is 21.8% while agriculture's is 27.5% compared to 27% and 30% in 2003 respectively. This means that while the share of employment in both sectors has decreased, it has not yet reached the level of Best Case scenario (17% for government and 24% for agriculture). The SOEs share has also decreased from 6 % in 2003 to 3.8 % in 2014, which is also a slower rate of decline than projected (SOEs Best Case share of employment was 2%).

Concerning the private sector, in 2014, the formal private sector employs 72% of the labor force according to CAPMAS. For MSMEs, in 2011, the MSMEs employed 75% of the private sector force and 40% of the overall employed population[1]; however most of these are working in the

[1] El-Said, H. Al Said, M. and Zaki, C. (2014) "Small and Medium Enterprises in Egypt: New Facts from a New Dataset", Journal of Business and Economics, vol. 5, No. 2, pages 142-161.

informal sector. In fact, in the formal sector, SMEs employ only 7% of the total labor force and 23% of the private sector labor force[2].

When it comes to manufacturing exports, they comprised around 39% of all exports in Egypt in 2013[3].

A focus on microenterprises

Data available on MSMEs in Egypt is not entirely up to date[4]. However, some broad conclusions can be drawn. Although MSMEs are the largest contributors to employment (75%), they contributed 40% to Egypt's GDP in 2011 as a result of low productivity. This is in part because they are confronted with a wide range of structural, financial and other challenges, among which are limited access to finance, technologies and markets. There is also the question of entrepreneurial spirit and management skills among Egyptian MSMEs. These problems are compounded by the lack of information, inadequate capacity for compliance with standards and certification, and the absence of a more conducive business and policy environment. Another point to ponder is the need for policymakers to vigilantly choose interventions in order to ensure against negative or ill targeted results.

A problem with the MSMEs is the sector in which they operate; according to the 2012 GEM, the sector distribution of early-stage enterprises is somewhat similar to that of established businesses; more than half of businesses in both phases are more likely to be in the retail trade, hotels and restaurants. This is believed to be due to the large and youthful population, the emergence of a more affluent middle class and low barriers to entry. Manufacturing ranks second as a sector of activity among both early-stage enterprises and established businesses with 15% and 17%, respectively. The "agriculture, forestry, fishing" and "utilization, transport, storage" are the third preferred sectors for early stage enterprises, while the wholesale trade ranks third for the established businesses.

Micro, small and medium enterprises are largely concentrated in the Delta region and Greater Cairo as the following figure shows. The highest presence by governorate of MSMEs is in Sharkeya (16%), Cairo (15%), Gharbeya (9%), Alexandria and Dakahleya (6% each) and Giza and) Qaliubia (5% each). This leaves Upper Egypt with a very low percentage of MSMEs which is most likely due to the fact that its governorates face structural, financial technological and marketing MSMEs problems in a more accentuated way[5].

If we distinguish by gender, overall women are less likely to own MSMEs then men, except for those micro enterprises - needlework, sewing, milk processing, or poultry raising, for example - where women have 47.7% compared to 38.8% for men. But if we separate by region, we find

[2] Nasr, Sahar. Pearce, Douglas (2012). "Middle East and North Africa Region - SMEs for job creation in the Arab world*:* SME access to financial services", The World Bank.

[3] The Observatory of Economic Complexity, 2015. http://atlas.media.mit.edu/en/profile/country/egy/#Exports.

[4] When it comes to further details on the MSMEs sector, the latest data available was determined by the CAPMAS in 2006. While there is no newer data, we can use the data on entrepreneurship from the 2012 Global Entrepreneurship Monitor (GEM) Egypt report. This would give an approximate idea on the MSMEs sector in Egypt since almost all enterprises included in the survey have between 1 and 20 workers, which is an acceptable definition for MSME.

[5] El-Said, H. Al Said, M. and Zaki, C. (2014) "Small and Medium Enterprises in Egypt: New Facts from a New Dataset", Journal of Business and Economics, vol. 5, No. 2, pages 142-161.

that in 2012, 56% of entrepreneurs in Greater Cairo were women, compared to 32% for men. In Upper Egypt, the incidence of entrepreneurs is the lowest with only 11% being women[6].

For activities, whereas trade activities are dominant for all entrepreneurs, the case is more apparent for female entrepreneurs. Furthermore, it is also clear that they do not engage in industrial activities as much as male entrepreneurs. The relatively minimal engagement in manufacturing could be due to the fact that these activities need prior experience and training. Also, women tend to incline to more gender-specific occupations such as needlework, sewing, etc. which are likely to be included under the MSMEs classified as trade activity[7].

The policy outlook

Based on this policy brief and the data analyzed it is clear that the best case scenario laid out by the EHDR 2005 has not yet been achieved and Egypt is still closer to the Business as Usual situation despite some positive changes. The MSME sector, although the largest employer, still suffers from the same problems as it did ten years ago and some innovative solutions must be introduced, such as:

1. *More research and data* should be collected on MSMEs in Egypt. The latest official data on MSMEs is from the CAPMAS 2006 survey. Furthermore, up to date research and analysis is limited. The following questions need to be answered:

- How to encourage larger sized MSMEs to become more formalized such that they can participate in raising manufacturing exports to reach their full potential. In 2014, manufacturing export comprise 27%[8] of their manufactured output. This rate is not enough for a country of Egypt's trade size and level of development.
- How to promote smaller MSMEs as viable employment alternatives to the public sector
- How to shrink the divide between urban and rural MSMEs in entrepreneurial skills, and in the provision of decent employment opportunities.
- How to effectively encourage more women to start their own MSMEs.

2. The One Village, One Product (OVOP) model

Creating efficient programs that encourage skills training is essential at this point to give youth and women opportunities in the labor market to build successful MSMEs. One of the best practices in this field is the One Village One Product (OVOP) model. OVOP is a movement based on the Japanese regional development program that started in 1979. The economic logic behind this model is based on the idea of product differentiation. The ENID/El Nidaa OVOP Project (under UNDP auspices) for the promotion of the handicrafts sector has been providing positive results in the South of Egypt. The reason why the OVOP model has been successful in the South of Egypt is that it is located inside the village. This provides the women with a safe workplace which is of close proximity such that it helps them save transportation time and money and allows them to both work and see to their household chores.

[6] El-Mahdi, A. (2014) "Women Entrepreneurs in Egypt: Realities and Hopes", Policy Brief 019, Egypt Network for Integrated Development.
[7] Ibid.
[8] Based on author's calculations using UNIDO and World Bank data.

3. Promoting the TVET system nationwide:

Technical and Vocational Education and Training (TVET) secondary schools are merit-based and unfortunately attract the weakest candidates who are not accepted in the General Secondary School System. They suffer from poor teaching methods, focus on theoretical curricula, and generally offer no or little practical hands on experience. However, TVET is becoming more of a priority to the government with a new TVET strategy developed for the period 2012-2017. Only 31 industrial TVET schools in Egypt are part of the Mubarak Kohl Initiative which applies the dual system whereby students enjoy not only academic learning but access to practical skills on the shop floor in factories. This model has proved very successful and it is unfortunate that it is not more widespread.

- A thorough review of all TVET reform programs to date must be conducted and the lessons learnt compiled.
- A needs assessment of skills needed for the job market should be conducted, with a 10 year forecast. The results should then be used to adapt the TVET accordingly, to ensure that it covers the necessary knowledge, in theory, and in practice through industrial sector partnerships.
- Promoting and facilitating private sector engagement in vocational training is a must, as a partner for greater positive skill development results.[9]

Upgrading Vocational Education and Training (TVET) has been one of the key instruments utilized by the ENID/El Nidaa project to provide employability for TVET graduates and supply the necessary skills needed by enterprises of all sizes. However, such enterprises are hardly available in Upper Egypt and the project has therefore resorted to Training of Trainers (TOT) in five TVET Industrial Secondary Schools in Qena, leading to a jump in teacher test pass rates, from an average of 28% to an average over 80%, as well as supporting the refurbishment of many classrooms. The critical variable has been the selection of top quality trainers with relevant manuals so as to access the TVET schoolteachers with the most up-to-date technical tools that should provide their students with the necessary skills and capabilities to excel in the labor market.

4. Promoting Entrepreneurship:

- Improve access to credit by micro-entrepreneurs via Central Bank of Egypt. The creation of Micro-finance institutions by CBE can be useful.

[9] The successful Turkey experience in the field of developing their vocational education depended mostly on three things: first, involving the private sector in project formulation leads to a more results-oriented, needs-based, and demand-driven intervention design. On the one hand, technicians in the production process clearly define the exact skills they demand and train future employees accordingly. On the other, the tacit knowledge they gain in the production process helps them determine the key details of training courses, such as the computer and operating skills most in demand. Second, bringing the most relevant stakeholders together created synergies in use of resources. This is why private-public-NGO partnership is essential in this case to widen the scope of development and reach the truly disadvantaged categories. Third, advocacy campaigns to raise awareness among the public and the private sector to counter the negative image of vocational education.

- The banking sector does not encourage MSMEs and finances only 16% of all projects in Egypt. This bottleneck needs to be addressed.
- Neither the public, private sectors or civil society offer enough, if any, non-financial services to young entrepreneurs which includes technical and marketing advice.
- Establishing marketing mechanisms and provide training on marketing, leadership and management skills should become institutionalized as a joint responsibility between the government, the private sector and civil society, possibly through collaboration with businessmen's associations. Egypt's Social Fund for Development should make an effort towards expanding and upgrading its non-financial services.
- Young men and women with only the skills of a good craftsman, will certainly be able to produce good quality products but have difficulty in accessing markets, accessing credit or achieving bulk purchases of raw materials. There is a need for a basic nationwide learning program, possibly at secondary school senior level, in establishing and operating an enterprise, exploring the benefits and means of accessing the financial system.

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