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**Growth, Employment Policies and Economic
Linkages: Egypt**

Heba Nassar

Employment
Policy
Department

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization, and*¹ which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work², in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

José Manuel Salazar-Xirinachs
Executive Director
Employment Sector

¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

Despite relatively positive economic performance in the years prior to the global economic and financial crisis, countries in the Euro-Mediterranean basin present important employment and labour market challenges. Their unemployment rate is one of the highest in the world and their labour markets are characterized by high incidence of underemployment, employment in the informal economy and poor working conditions. Gender inequalities and particularly the low labour force participation of women are issues of major concern. Negative labour market outcomes together with more demand for labour in European countries have resulted in labour migration from East and South Mediterranean countries towards the Northern shore of the Mediterranean. Furthermore, the recent global economic and financial crisis has led to a significant economic downturn and countries are facing the prospect of prolonged increases in unemployment, poverty and inequality.

Within this backdrop and in the current economic and social context giving effect to the ILO Global Jobs Pact adopted in the 98th Session of the International Labour Conference (June 2009) is of utmost importance in order to promote productive employment and decent work in these countries. The promotion of productive employment and decent work is high on the agenda of the Euro-Mediterranean Partnership and is an utmost priority in the countries of the region. At the first Euro-Mediterranean Employment and Labour Ministers Conference in 2008 Ministers highlighted the urgency of challenges relating to employment, investment in human capital, and decent work for all and committed themselves to a Framework of Actions which would “contribute to developing a genuine social dimension within the Euro-Med agenda”.

The European Union has long actively supported the uptake of decent work as a global goal. As part of the Renewed Social Agenda the European Commission has “reaffirmed its commitment to promoting the internationally-agreed Decent Work Agenda, including through cooperation with the ILO and other partners, and the mobilisation of all relevant policies”. Furthermore, cooperation to enhance the response to the economic crisis has been recently intensified between both institutions.

Against this backdrop, the International Labour Office (ILO) and the European Commission (EC Directorate-General for Employment, Social Affairs and Equal Opportunities) developed a joint action oriented research project on “Expanding the knowledge base on decent work in Mediterranean countries.” The research undertaken focused on three main themes: 1) economic growth and employment; 2) labour market policies and 3) labour migration. The findings from the research are of great interest for policymakers as well as researchers and are reproduced in a series of working papers. They open up new avenues for research under future programmes.

This paper on Egypt's employment and economic growth linkages, written by Heba Nassar from Cairo University, brings to light current and emerging issues concerning growth, employment policies, and economic linkages in Egypt within the framework of the pervasive world financial and economic crisis. The first part of the study provides an overview of the labour market situation in Egypt. The second section analyzes the employment and growth linkages including through analysis of labour output elasticities. The third section reviews macroeconomic and employment policies in Egypt. The fourth section provides a poverty and job quality profile of Egypt based on a panel survey conducted by CAPMAS to trace household consumption and living standards. The final section is devoted to policy recommendations geared towards improving the job content of growth in Egypt.

Azita Berar Awad
Director
Employment Policy Department
ILO, Geneva

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1. Introduction

The purpose of this research is to analyse the growth, economic policies and employment linkages in Egypt, taking in account the global financial crisis.

The economic and social situation in Egypt is characterized by considerable socioeconomic changes and accelerated reform on the economic sphere, with a degree of economic growth and trade expansion. The global interdependence is rising and the regional economic integration is accelerating. Trade liberalization global production and distribution systems at global level impact employment and quality of jobs. Recently the oil exporting sector has faced the impact of the global crisis through a decreasing of the foreign demand, mainly for manufacturing products, and a decrease of the working migrants' income transfers.

The main objective of the research is to deepen the knowledge base on the growth-employment-poverty reduction nexus in the aim to identify relevant growth strategies and economic policies for enhancing jobs creation and jobs quality, in relation with the European Neighbourhood policy in the Mediterranean area.

The research will focus particularly, on:

1. The trade-employment-labour market relationships, including the impact of trade policy on employment and labour market adjustment;
2. The role of sectoral policies in employment creation and job rich growth, taking in account opportunities in agriculture, manufacturing and services which are appropriate for the country's level of development;
3. The impact of the global financial and economic crisis on employment growth and decent work and the policy responses.

2. The Egyptian Labour Market: Overview

The Egyptian labour Market is characterized by structural distortions intensified by the inability of the rate, as well as the pattern, of economic growth to generate sufficient, productive and decent job opportunities. In fact, the growing mismatch between the population growth and the labour supply, on the one hand, and the labour demand, on the other, will remain the main obstacle against eradicating unemployment and is intensified by the gender and the geographic disparities.

2.1 Definitions in Labor Studies and Sources of Data on the Labor Market:

Labor force is illustrated as the last circle of three circles defining the relationship between the pool of the labor force and labor force. The larger one represents the concept of population at large as the total inhabitants in a country. The second circle stands for manpower, defined as people in the productive age, or total population minus the very young and the very old. It is rather difficult to differentiate between productive and unproductive population, as retirement age has a wide range from 60-69 in the different countries. Meanwhile in practice many children under 15 years of age are engaged in the labor market.

The smaller circle holds proxy for active workforce, or people already engaged in the process of production. Housewives, students, retired workers, and handicapped...do not usually show up in the labor market but they are potential labor force. Excluding those people from the total number of manpower, we get the actual workforce, or the number of

people already available, and / or look for work. These, in turn, comprise both employed and unemployed people (Nassar, H. 2002).

An important concept in labor market analysis is the growth in the labor force, which is determined by the overall population growth rate, the changing age composition of the population, and the change in age-specific participation rates due to changes in school enrollment, retirement age, and housewives who stop working after marriage.

Finally unemployment is a controversial concept, but mainly considering participants of the labor force who want to work did not work for a reference period (one week, one month). The search for work is not included in the market force definition for unemployment.

Major sources of the Egyptian labor market data are three: The population census (PC), the labor force sample survey (LFSS) and the Ministry of Planning statistics. The PC is a complete enumeration undertaken by the Central Agency for Public Mobilization and Statistics (CAPMAS), usually every ten years. The LFSS, also carried out by the CAPMAS, is conducted on an annual basis to follow up current trends in employment. The data of the Ministry of Planning is prepared on the actual deployment of the labor force according to non-standard classification of economic activity.

Many studies concluded that the three sources of data are non-comparable. It has been claimed that the data prepared by the Ministry of Planning are estimates based mainly on annual reports of government organizations and public sector authorities and on unpublished reports for the private sector⁵ The LFSS had been taken in May, an agricultural peak employment month, while the PC was conducted in November, in 1976 and 1986, a slack season. Since 1985 several improvements in the conduct of the LFSS occurred such as adopting two reference period, one week and three months, undertaking the LFSS four times a year, in March, June, September and December and increasing the size of the sample to cover 48000 residential units. The PC and LFSS treat the army and police personnel differently, while the PC identifies them as part of the labor force, the LFSS screens them off. Moreover the PC considers employment for the age group 6 plus, but the LFSS captures it for the age group 12-64. The round of the LFSS October 1988 has considered employment for the age group 6 plus. People over 65 years, who do not work are classified by the PC as outsiders, while the LFSS classifies them as jobless workers. Still, the two sources of data are further different with respect to the treatment of leave of absence. Suspended workers as well as those on long unpaid leaves, one year plus, are among the unemployed by the PC but counted out of the labor force by the LFSS. Finally, graduates carrying out public service are identified as jobless by the PC but considered outsiders by the LFSS.⁶

In the last years two specific LFSS have been conducted :

- The Labor Market Survey 1998 (EPIC and Economic Research Forum) (National Survey)
- The Labor Market Survey 2006 (Population Council and CAPMAS) ,which use different definitions for unemployment and rate of participatin in the labor force for women.

⁵ Nassar,H.2002

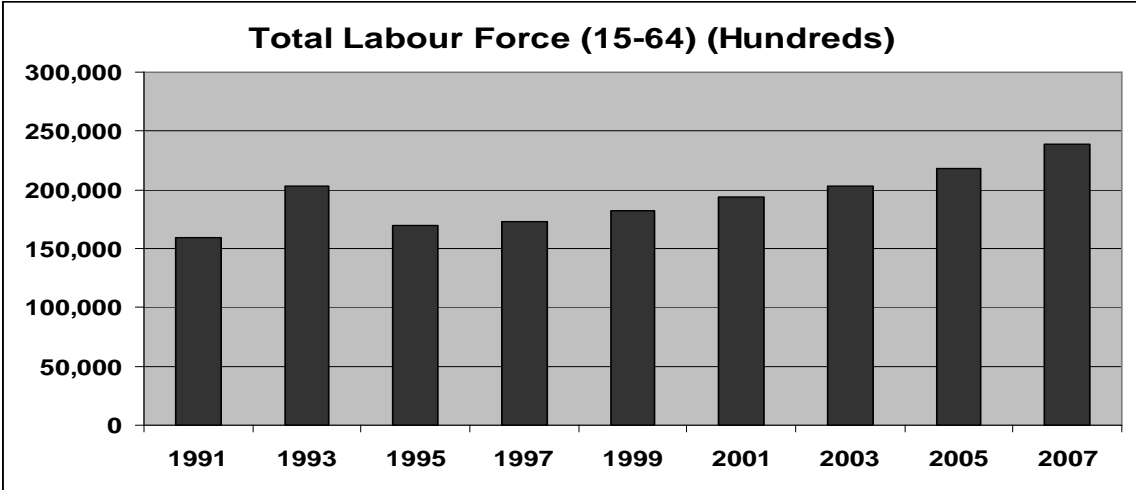
⁶ (www.aucegypt/src/wsite1)

2.2 Population Growth and Labor Force Participation

The Egyptian population has increased considerably during the past twenty years, by almost 20 million. Despite the declining rate of population growth from 3% in the 1980s to 1.9% in the beginning of this decade, the population stood at 59.2 million in 1996 and 76.1 million in 2006 (including Egyptians abroad). The youth population in the 15 – 24 age bracket grew at a high average rate of 2.9% per year from 1990 till 2006, with a high share of the population reaching 21% and a higher share of 35% of the working age population. According to the estimates of the Information and Decision Support Center (IDSC) of the Council of Ministers, the population which amounts to 71 million in 2005 will increase to 94.1 million in 2025 (in a low scenario which assumes a decrease in the birth rates) and to a further 105 millions in the same year (in a high scenario which assumes the current birth rates to prevail). Accordingly, the dependency ratios will range between 36.8% in the first scenario and 52.2% in the second one.⁷

As for the labour force, it has been growing at an approximately constant average rate of 2.9 percent per annum across the inter-census periods between 1976 and 1996. Figure 1 indicates the increase in total labor force in Egypt from 15885900 in 1991 to 23859000 in 2007 in accordance to the Labor Force Sample Survey (LFSS) of CAPMAS

Figure 1. Total Labor Force over the period 1991-2007



Source : Table 1 Appendix

During 1988 – 1998, the labour force annual rate of increase was estimated at an annual rate of 2.2%. Assaad in the special labor force sample survey (LFSS 2006) indicated that over the period 1999-2006 the direct implication of rising labor force participation rates (figure 1) and falling unemployment is that employment has grown fairly rapidly during the 1998-06 period and that employment to population ratios have increased. Overall employment to population ratios have gone up from about 42 to 47 percent using the market definition of economic activity, and from 55 to 58 percent using the extended definition (including all subsistence activities).

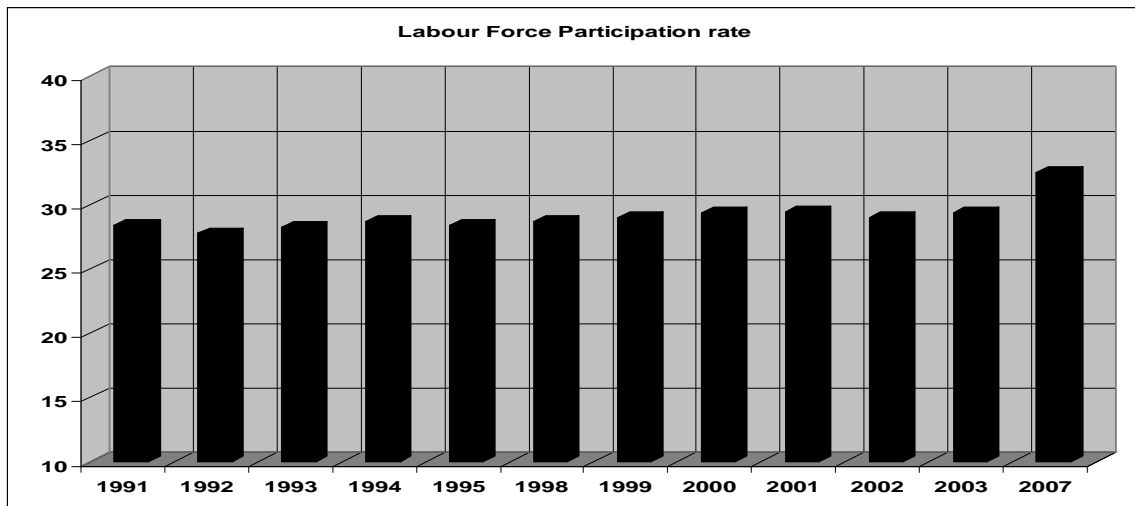
It has been indicated that employment growth was fairly widespread, affecting both males and females and urban and rural areas. Rural females in particular have greatly increased their employment ratios by the market definition although the change was small

⁷ Osman, M(2005), The Population Increase: a demographic gift or a development curse IDSC, Cairo

by the extended definition. This was justified as a result of better measurement of market activities that were previously included as subsistence activities and as a consequence of the decline of subsistence due to the bird flu epidemic. Surprisingly the bird flu was regarded the reason for the decline in Female employment ratios in urban areas.

While labour supply grew at an average annual rate of 2.2% between 1996 – 2006, employment increased during the same period by an average annual rate of 2.4% and reached a figure of 20.7 million. The average growth rates were higher for rural than urban areas, and for males than females.

Figure 2. Labor Force Participation



Source : Table 2

Moreover LFSS 2006 indicated that overall employment growth based on the market labor force definition over the 1998-2006 was 3.9% per annum, over one and a half times the growth of the working age population(in rural areas at 5.3% p.a. compared to 2.0% p.a. in urban areas).⁸

Employment growth was fairly widespread, affecting both males and females and urban and rural areas. Rural females in particular have greatly increased their employment ratios by the market definition although the change was small by the extended definition. This was justified as a result of better measurement of market activities that were previously included as subsistence activities and as a consequence of the decline of subsistence due to the bird flu epidemic. Surprisingly the bird flu was regarded the reason for the decline in female employment ratios in urban areas.

Projections of future trends of the labour force point to a high figure by the year 2025 (27.7 million). Other projections⁹ over the next 15 years point to higher figures, an increase from 23 million in 2005 to 27 million in 2010 and to 34 million in 2020. These projections foresee the annual addition to the labour force to increase from 660 thousands in the 1998 – 2005 periods, to 790 thousands in the 2005 – 2010 periods and to the same

⁸ As indicated by Asaad these figures are based on place of residence not place of work and that many of the jobs rural residents are in urban areas. Female employment grew at more than twice the rate of male employment (6.9% p. a. vs. 3.1% p.a.). This may partly be a reflection of the better measurement of household-based market activities.

⁹ Assaad. R (2003), Labour and Human Resources Development, Egypt Country Profile Project, ERF, Cairo, P.5

figure in the 2015 – 2020 periods. In fact all these projections indicate how serious is the challenge of generating the sufficient and productive job opportunities to absorb the new entrants to the labour market (this section has been reduced and rephrased to concentrate just on an overview of labour force estimations).

2.3 Profile of Employment and Unemployment in Egypt:

Table 1 indicates clearly the low skilled workforce of Egypt as 40% of total labor force is illiterate or just reading and writing, however graduates of technical intermediate education represent almost a third of total Egyptian labor force and university education graduate reach 15.5% of all graduates , both categories are facing the highest unemployment rate as will be indicated in the unemployment analysis.

Table 1. Distribution of Working Individuals (15-64) by education and gender (2008)

	Male		Female		Total	
	Hundreds	%	Hundreds	%	Hundreds	%
Illiterate	50031	27.7%	17796	39.9%	67827	30.1%
Read& Write	22100	12.2%	1613	3.6%	23713	10.5%
Below Intermediate	18921	10.5%	1368	3.1%	20289	9.0%
Intermediate	3246	1.8%	618	1.4%	3864	1.7%
Technical Intermediate	54569	30.2%	10724	24.0%	65293	29.0%
Above Intermediate	6908	3.8%	2365	5.3%	9273	4.1%
University and Above	24640	13.7%	10173	22.8%	34813	15.5%
Total	180415	100.0	44657	100.0	225072	100.0

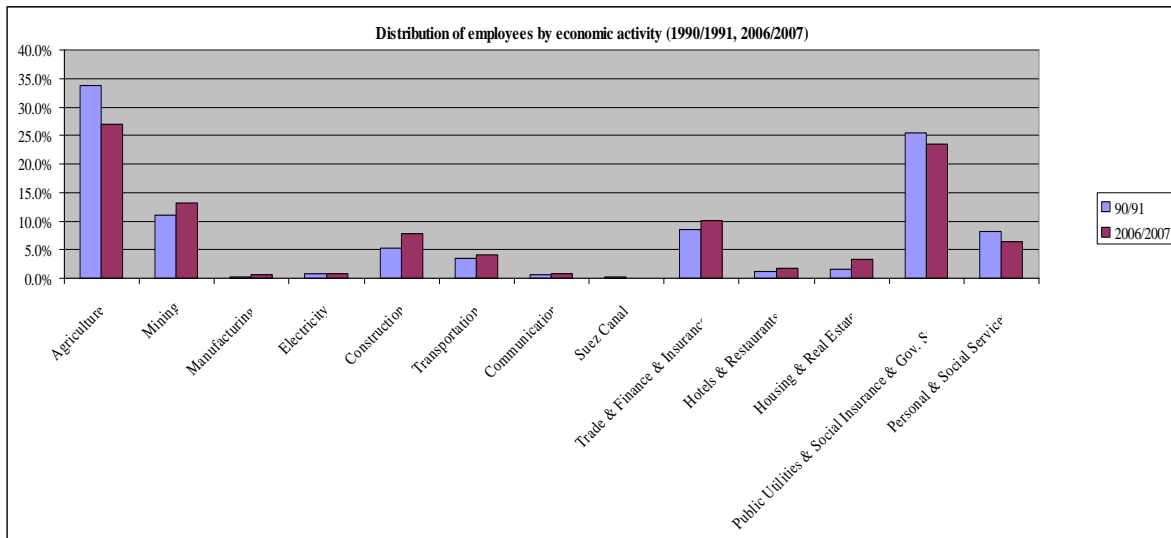
Source: CAPMAS, Labor Force Sample Survey 2008 retrieved from

http://www.msrintranet.capmas.gov.eg/pls/emp/lab_sampz

The sectoral distribution of employment indicates that currently 27% of the labor force in 2006/2007 are working in agriculture and fisheries characterized by low value-added and productivity. The manufacturing sector, characterized by its forward and backward linkages, employs only 13.2% percent of total workers. The trade and finance(10.2%), the construction sector is absorbing 7.9% of employment, while the general government administration(public utilites absorbs 23.5% of total labor force, as indicated in table 3 appendix . In general almost a third of the workers are in the service sector and more than half in the productive sector, where less than a third of the workers are still in the agriculture sector.

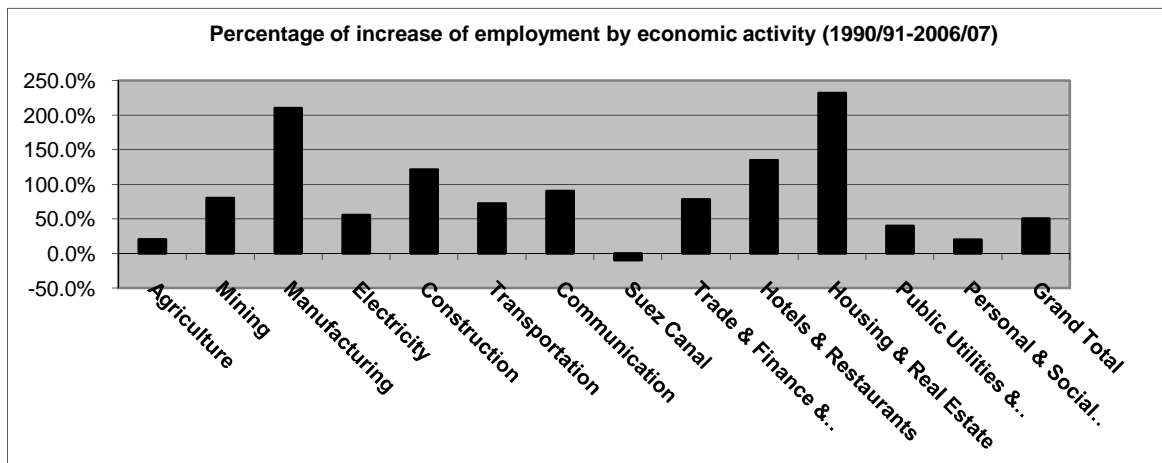
Hence the trend in the distribution of the labor force by economic sectors the growing importance of the service sector and the decling importance in the agriculture sector as an employment absorbing sector over the period 1990/91-2006/2007 as indicated in figure 3

Figure 3. Distribution of employees by economic activity over the period 1990/1991-2006/2007



Source : Table 3A Appendix

Figure 4. Percentage increase of Employment Distributed by Economic Sectors



Source :Table 3B Appendix

Figure 4 indicates the percentage increase of employment by economic activities over the period 1991-2007 and shows that housing and real estates, manufacturing, hotels and restaurants have experienced the highest percentage increase in employment over the period 1991-2009, however their share in absorption of labor is very low as indicated from figure 4.

However the crude figures of LFSS show that trade, tourism, finance and insurance sectors were promising sector for employment growth over the period 1990-2007. Employment growth in trade, hotels and restaurant sectors (tourism) was 4% on average over the period 1990-1995 (2.5% for trade and 1.5% for tourism) while the finance and insurance sector grew almost at 4% over the same period. Despite the fact that both the electricity and water sectors as well as the social service sector were growing at a higher rate over the same period, the demand on labor in both sectors represent to a large extent the employment guarantee policy of the government sector rather than real demand on labor. Transport and communication experienced some increases in employment but together these sectors still represent only 6% of total employment. The agriculture sector is a negative employment absorbing sector over the last decade 1990-2007/8.

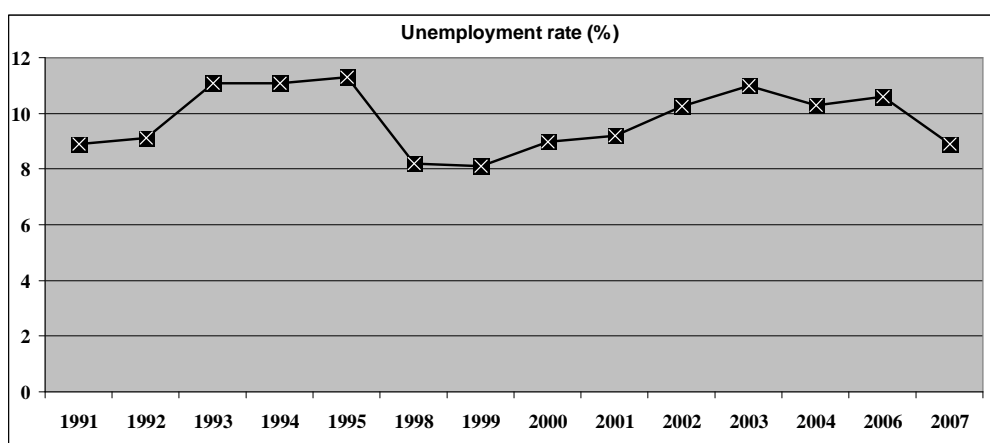
As indicated in previous periods the rate of growth of employment in the manufacturing sector is very low, estimated at 0.5% over the last decade, while the construction sector is witnessing several fluctuation I the absorption of labor.

Manufacturing is just absorbing an eighth of the labor force. In the manufacturing sector women still constitute a limited share. Women working in manufacturing are concentrated in labor intensive industries such as textiles and garments, food processing and pharmaceutical (43 percent, 14 percent and 13 percent from all female workers in the industrial sector).

Unemployment increased from 8.9 percent in 1991 to 11.3 percent in 1995(Fig.5). The rate declined to 10.6% in 2006, however after the economic crisis it is estimated to have increased to 9.4% in April 2009.¹⁰

Almost 92 percent of the unemployed persons are young people in the 15–29 age group. The majority of the unemployed are new entrants to the labor market, who were seeking a job for the first time. Unemployment is distributed evenly between both urban and rural areas. It was mainly concentrated among secondary school graduates and university graduates (Table 1)

Figure 5. Unemployment rate over the period 1991-2007



Source : Table 4 Appendix

Table 2. Distribution of Unemployed (15-64) by Education and gender (2008)

	Male		Female		Total	
	Hundreds	%	Hundreds	%	Hundreds	%
Illiterate	312	2.9%	62	0.6%	374	1.7%
Read & Write	196	1.8%	67	0.6%	263	1.2%
Below Intermediate	514	4.8%	128	1.2%	642	3.0%
Intermediate	281	2.6%	188	1.8%	469	2.2%
Technical Intermediate	5363	49.7%	5951	55.8%	11314	52.8%

¹⁰ Source: CAPMAS, Labor Force Sample Survey 2008 retrieved from http://www.msrintranet.capmas.gov.eg/pls/emp/lab_sampz

Above Intermediate	740	6.9%	834	7.8%	1574	7.3%
University and Above	3380	31.3%	3426	32.2%	6806	31.7%
Total	10786	100.0	10656	100.0	21442	100.0

Source: CAPMAS, Labor Force Sample Survey 2008 retrieved from http://www.msrintranet.capmas.gov.eg/pls/emp/lab_sampz

Moreover, the average duration of unemployment is highest among the youth, reaching 39, 63 and 65 months for the age group 20-25years, 25-30years and 30-40 years, respectively.¹¹ The relationship between unemployment and educational attainment appears to be negative as the incidence of unemployment is highest among those with intermediate education, followed by those in university

However the profile of the currently unemployed differs currently significantly from that of the workers who are likely to be displaced by economic reforms and will be public employees, male and experienced. These workers will be older than the new entrants to the work force and have more financial responsibilities(Asaad, 2006)

If we follow Atkinson approach saying that the term “skilled” is often treated as synonymous with “educated,¹² we find that despite the fact that Egypt is endowed with surplus of manpower, the missing match between the educational system and the labour market is a major dilemma. This is reflected in the above mentioned relatively high unemployment rates in Egypt especially among higher education graduates as more than one third of unemployed in Egypt are university graduates. (31.7%) in 2008 as reported by the Central Agency for Public Mobilization & Statistics, Labor Force Sample Survey 2008. Language and computer skills have become basic skills that the labor market consider as necessary and elementary, not an asset.

In the present time, there has been an increased attention to the importance of providing high quality and well integrated training programs that could provide the young students with the basic skills they need in the labor market.¹³ Several surveys and studies have indicated the problems the young graduates face in getting engaged in the labor market. On the other hand, it was always cited that employers face several problems in finding qualified graduates.

According to the ILO school to work transition survey,¹⁴ the level of satisfaction of employers with their young recruiters is generally fair (66 percent). However, many employers have criticized the low abilities of the youth graduates in applying knowledge learned at school where 41 percent of employers assessed it as poor. The same low ranking is given to the practical training provided to young applicants at school as about half of the interviewed employers view it as poor (48 percent of employers). Egyptian employers face difficulties to recruit qualified workers, as the training system fails to produce skills that are required to perform the job(Tab.3).

Table 3. Distribution of young workers’ skills assessment by employers SWTS 2005.

¹¹ CAPMAS, Labour Market Sample Survey, 2008

¹² Atkinson, 2007

¹³ Bhaduri, ILO, 2005

¹⁴ The survey was undertaken to assess the opportunities and challenges facing young Egyptian people age 15-29 in the labour market as they first exit school. The survey targets 5 different groups of respondents, namely in-school youth, job seekers, young employees, self employed and own account workers. In addition the survey covered employers and managers who are hiring young workers.

Workers' skill	Very Good	Fair	Poor
Required technical skills	18.2	50.5	31.3
Practical training at school	10.1	42.4	47.5
Communication skills	38.6	49.4	12
Writing skills	39.2	41	19.8
Ability to apply knowledge learned at school	22.4	37	40.6
Commitment and discipline	62.9	28.9	8.2
Overall preparedness	13.5	66.1	20.5

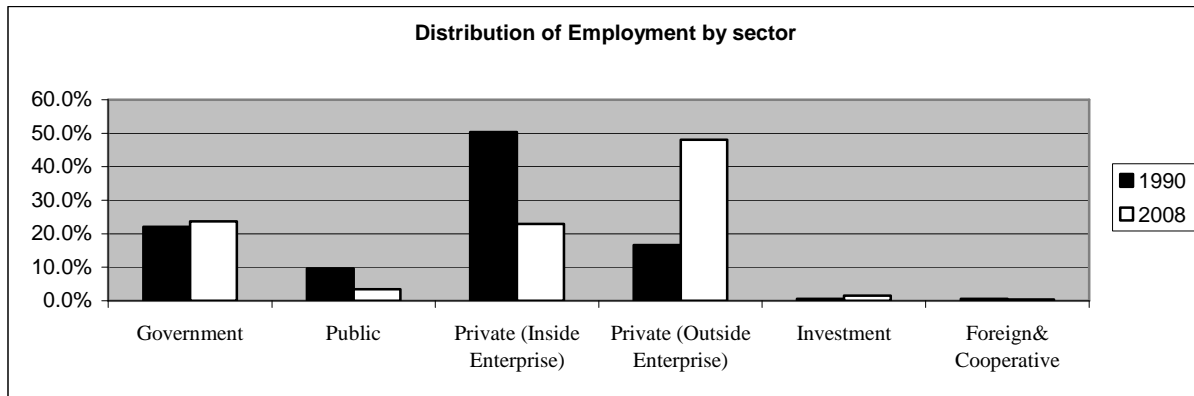
Source: ILO (2006) School-To-Work Transition Evidence From Egypt: Final Report

2.4 The Informal Labor Market

The Egyptian economy is characterized by a large and growing informal sector that has been a major source of job creation for some time. However, the jobs created in this sector are not decent enough in terms of wage, sustainability and work conditions. Moreover, a lot of jobs in the formal sector lack stability due to the absence of social security coverage and work contracts, as employers refuse to enter into (definition of informal) binding work contracts and complain about the high cost of the social security system. Population census data indicate that informal employment reached 2.4 million, 2.9 million, and 4.8 million workers in 1976, 1986 and 1996 respectively¹⁵ as measured by the number of workers out of establishments and those working in establishments with less than 5 workers, exclusive of agriculture. Informal employment can also be measured using Labor Force Sample Survey (LFSS) data, in which case, it will be defined as the number of private sector workers employed outside establishments (including agriculture). Under this definition, informal employment reached 10.8 million in 2008, representing 48.1% percent of total employment. Approximately 20 percent of informal employment was among females, representing 48 percent of total female employment (Table 6 Appendix) and figure 6. Figure 6 illustrates that almost 23.7 percent work in the government and 3.4% percent in the public sector, while the private sector employs 22.9% in the formal private sector and 48.1% in the private sector outside establishments, which has been taken as a proxy for informal sector.

Figure 6. Distribution of employment by sector over the period 1990-2008

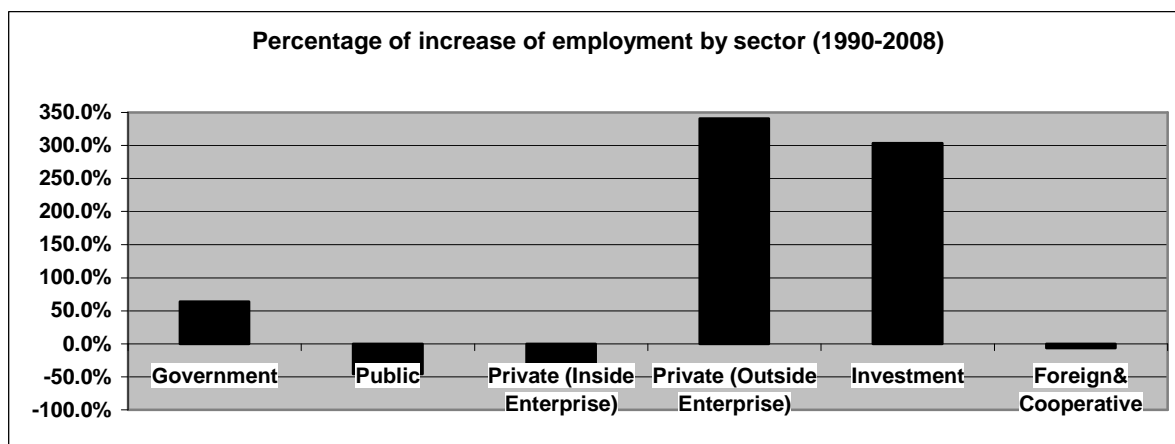
¹⁵ El Ehwany and El Laithy 2006,



Source :Table 5 Appendix

As indicated in figure 6 the private sector (outside establishment) or the informal sector has witnessed the highest growth in terms of employment absorption. This is clearly indicated in figure 7, which illustrates the percentage increase in employment by sector.

Figure 7: Percentage of increase of Employment Distributed by Sector (1990-2008)



Source :Table6, Appendix

Two sectors have been reported as sectors with very large informal sectors: the tourism industry and personal services.

3. Employment and Growth: Overview

Modern growth theory gives a large role to human capital. In some models, such as the Lucas (1998) model, human capital drives growth. Everything else – capital, output – adjusts endogenously to the accumulation of human capital. In R&D models, such as the variant estimated by Benhabib and Spiegel (1984), human capital is the factor that is engaged in R&D and so its productivity determines the rate of growth. This model, however, is less relevant to Egypt, as R&D activity is concentrated in a very small number of advanced countries.¹⁶

To understand the connection between labor market structure and growth research should concentrate on the relation between labor market structure and the contribution of

¹⁶ Sumon Kumar Bhaumik, Saul Estrin, Klaus Meyer, 2004

human capital to GDP growth. In the neoclassical production function without human capital.

$Y=AKaLb$. Human capital in some models influences the technological parameter A , through for example R&D or imitation of more advanced countries' technologies. And sometimes it augments the labor input L as a productive factor. In the first class of models it influences, at least temporarily, the rate of growth of A , and hence of output.

In the models which make human capital the engine of growth, the rate of growth of the capital stock eventually converges to the rate of growth of human capital. In addition, the capital-labor ratio, which determines productivity, is also determined by the human capital production function. The prediction of growth models is that a country with more human capital will eventually have more physical capital as well.

Growth accounting exercises decompose the growth of output into growth due to capital, employment and total factor productivity (TFP). For the MENA research on growth and labor, growth accounting exercises should concentrate on the likely contribution of human capital to TFP growth.

Nevertheless, total GDP growth declined in all countries after the fall in the price of oil in 1982. Investment also declined, and in one case at least, in that of Egypt, it declined sufficiently to imply a rise in TFP growth from the early period to the second. On average, however, TFP growth declined, and in three out of the five countries, it became negative. The independent and more careful estimate of Nehru and Dhareshwar (1994) shows a low TFP growth in all countries in the period 1960-0 and, more strikingly, a negative overall TFP growth rate for the region as a whole over the period **1983-1990 is indicated in Table 3** including Egypt. TFP growth in the MENA region compares poorly even with the rest of Africa.¹⁷

Table 4. Average annual growth rates, 1983-1990, percent

Country	GDP	Capital stock	Labor force	TFP	1960-90(a)
Algeria	2.1	2.8	3.3	-1.0	0.52
Egypt	5.1	2.5	2.6	2.5	0.80
Jordan	1.0	4.5	3.5	-2.9	-0.56
Morocco	4.0		3.4		0.03
Sudan	0.4	-3.2	2.9	-0.1	-2.42
Tunisia	3.8	1.0	3.4	1.4	0.83

Source : Sumon Kumar Bhaumik, Saul Estrin, Klaus Meyer, Determinants of Employment Growth at MNEs: Evidence from Egypt, India, South Africa and Vietnam, Discussion Paper No. 1272, August 2004

The low performance of TFP in the MENA region **in general** has to be explained, TFP growth in the region was so low, in view of the fact that their low initial income should have given TFP growth rates above the average of the world economy. The relatively high investments in human capital that took place in these countries since the 1960s should also have contributed to faster convergence dynamics, i.e. faster TFP growth during the sample period. For the research on labor markets and growth, the task is to identify any features of the labor markets of the MENA countries which contributed to the low TFP growth.¹⁸

¹⁷ Sumon Kumar Bhaumik, Saul Estrin, Klaus Meyer, 2004

¹⁸ Nabli, M. & Jennifer Keller (2002)

3.1. Employment and Growth in Egypt:

Egypt's current employment problem is characterized by inadequate labor absorption of graduate students and under utilization of unskilled human resources. Additional problems are overstaffing in the government sector, coupled with shortages in skills, and negative implications for employees' productivity.¹⁹

Several factors have led to the difficult situation in the labor market:

On the supply side various factors played a role such as population growth rate estimated by 1.9 percent, Egypt's population is estimated to be almost 76,000 million in June 2009, 51.2 percent of which are males. During the period 1995-2005, the population increased by almost 20 percent, despite efforts to reduce the annual population growth rate from 2.1 percent in the late 1990s to 1.9 percent in 2008 . The share of the age group between 15 and 64 years to total population increased from 57 percent in 1995 to 62 percent in 2005.²⁰

The overall labor force participation rate is estimated by 45% in 2008 and in general there is a substantial increase in the number of graduates from higher education since mid 60s with the expansion in free higher education. *Growth of the labor market is at a rate faster than the population growth rate estimated at 3.5% over the period 1996-2006.*²¹ With the increase in productivity it is estimated that the rate of growth of GDP should reach 7% to keep pace with the employment growth rate, which might reach 4% in the coming decade taken into account an increase in the participation rates of females with the expansion in education.

On the demand side economic growth played a crucial role:

In general, Egypt during the early sixties witnessed a fairly rapid economic growth in terms of GDP growth rates in general (6.1%) or at the sectoral basis (28.5% for agriculture and 21.6% for industry to GDP in 1965/66). However the decline in the unemployment rate from 2.7% in 1960 to 1.15% in 1966 was not a result of high growth rates achieved in this period but a result of the government guaranteed employment policies pursued in 1961. These policies led to a sizable increase in the labor force in the public sector as well as the government sector due to the rapid growth of the public sector after nationalization and the increase in the number of graduates as a result of the expansion of free education.

During the period **1973-1986** the Egyptian economy enjoyed exceptional high overall growth rates. They reached 10% in the second half of the seventies following the adoption of the open door policy and the increase in oil prices. This growth was achieved due to substantial flows of foreign exchange triggered mainly by the oil boom in the Gulf countries. This period included the implementation of the first five- year plan (1982/1983-1986/1987) which adopted expansionary economic policies.

During the second five – year plan (**1987/1988-1991/1992**) economic growth sluggish and GDP grew in real terms by 4%-3 % on average. Several factors contributed to the deteriorating record of growth, the most important of them were the external shocks (the decline in oil prices and the implications of the Gulf crisis), coupled with the contraction of the investment activities and the deflationary measures adopted by the

¹⁹ Nassar,2002

²⁰ Nassar,H. Hassan Zaki and Somaya Abdel Mola (2007)

²¹ Asaad, R. 2007

government to implement the first phase of the Economic Reform and Structural Adjustment Programme (ERSAP) launched in 1990.

The *second half of the nineties* witnessed favorable internal and external developments that led to a remarkable growth of the economy. The rate of growth was estimated at (5-6%) in the years 1997/1998- 1999/2000. This record of growth was the outcome of the reforms undertaken in ERSAP-1, coupled by the debt forgiveness of the Paris Club and the sharp increase in capital inflows.

The negative impact of the Luxor Massacre, the Asian Crisis and the fall in oil prices by the end of the nineties have led to severe recessionary trends starting the year **2000/2001**. GDP growth rates have fallen to 3.4% in that year, further to 3.2% in the subsequent two years 2001/2002 and 2002/2003. Again, the external shocks represented by the events of September 11th, 2001 and the regional conflicts and wars, have worsened the economic situation.

Growth resumed gradually and picked up to 4.1 % in the year **2003/2004** and to 7% in **2007/2008**, thanks to high oil prices, the increase in Suez Canal and tourism earnings, as well as the growth in the construction sector.

However it is worth mentioning that the economic boom, which Egypt witnessed over the period 1973-1981 and 2004-2008 did not solve the employment problem and the unemployment rate was estimated by 7% in Census 1976 and 8% in 2008.

Egypt has followed a pattern of development in the sixties that was called "Development from Above", a strategy that emphasized growth in a few sectors (industry) and a few geographical regions (Alexandria and Cairo) assuming that the development efforts will trickle down to the whole economy. However the implications of this policy were:

- A low labor absorption capacity in the industrial sector estimated at 12% due to increasing capital intensity protected by import substitution policies.
- The creation of push factors in rural areas through a strict quota system, fixed prices of input and output and a biased investment policy that led to the decline in real per capita income of rural workers in comparison to urban workers from 37.1% in urban areas in 1975 to 22.5% in 2004. Labor absorption capacity in the agriculture sector declined from 52.8% over the period 1959/60-65/66 to 28% over the period 1986-2006.²²

Due to the declining employment absorption rate in the productive sectors over the seventies, the main labor absorptive sectors were both the untradable sectors and the construction .

Two additional mechanisms were developed to absorb surplus labor: the growth of the informal sector in urban areas and external migration to the oil rich economies which absorbed almost one eighth of the Egyptian labor force on average over the period 1974-2008.

Despite efforts exerted by the government to boost economic growth and promote jobcreation, the early years of the new millennium witnessed a sharp recession that negatively impacted job creation. The external shocks which have hit the economic growth including the East Asian financial crisis during the late 1990s, the decline in oil prices, as

²² CAPMAS, Population Census, 1996

well as the Luxor terrorist attacks affected also the employment absorption rate, which has been exaggerated with the financial crisis in year 2008/2009.

Rate of growth declined from 7% end of 2007/2008 to 4.1% in the first quarter of 2008/2009. Tourist revenues declined by 7.8% over the same period, while revenues of Suez Canal declined by 2.5%. Deficit of trade balance increased by 25% of over the first quarter of 2009, the deficit in the balance of payment by 75% and the rate of growth of export increased by 23% over the same period. Rate of growth in investment reached 3.6% over the first quarter of 2009 while it was 3.6% in the last quarter of 2008. This led to an increase in the new employment opportunities from 181 thousand to 128 thousand in the first quarter of 2009 in comparison to the last quarter of 2008 and an increase in the unemployment rate to reach 9.4% in April 2008.²³

It is also worth noting that the government failed to adopt adequate labor market policies to overcome the shortcomings of macroeconomic policies and to face the consequences of the different internal and external shocks.

3.2 Sources of Employment Growth

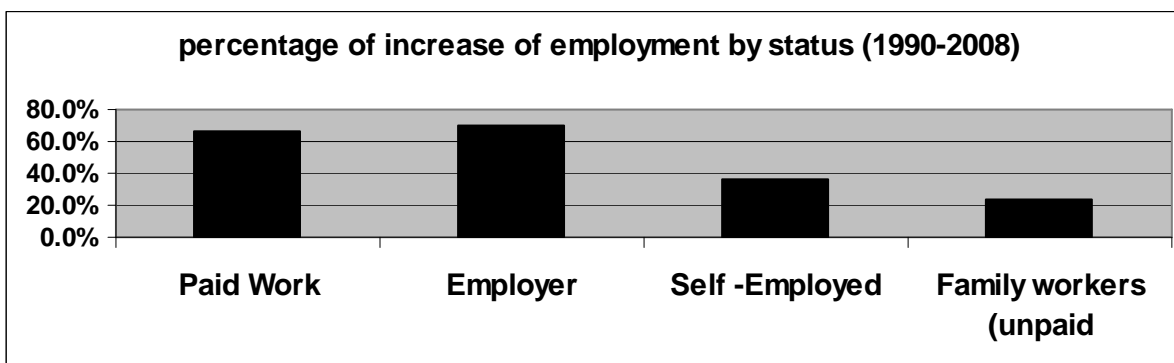
The data of LFSS1991- 2006 shows that the government and state-owned enterprises, have experienced an absolute decline in employment from 1998 to 2006 (Figure 7). However still the government is the largest contributor to employment growth in Egypt, for both males and females, with more rapid growth rates for females as revealed. On the other hand, despite the efforts of the Egyptian government to promote the role of the private sector in economic activity and employment generation since it has adopted the Open Door Policy in the beginning of the seventies, the achievements of that sector in employment absorption fell short of expectations.

The data of the LFSS 1990-2007 show a significant increase in the private sector (outside establishments), which is including farm and non farm activities. The Government sector comes at second place after the private agricultural and non agricultural sector. All other sectors show a decline in their share in employment over the period under study. The public sector which is an absorber of a large share of employment in Egypt has witnessed a negative increase in employment due to the contraction of this sector.

Private non-agricultural wage work has grown vigorously in the 1998-06 period in both urban and rural areas with an overall average annual growth rate of 5.3%. Non-wage work, which includes employers, self-employed individuals, and unpaid family workers, has also grown rapidly.

Figure 8. Percentage increase of employment by status (1990-2008)

²³ Naasar, 2009



Source : Table 7 Appendix

Excluding the agriculture sector the *Government* has been considered as the fastest growing segment and the largest contributor to employment growth in Egypt. "Government employment grew at 4.2% per annum, nearly twice as fast as total employment and contributed 38% of the net jobs creation during the period (1990-98)"(Asaad,1999)

The Private Non-Agriculture wage employment has been considered the second fastest growing segment of the labor market after the government with the fastest growth occurring in finance, insurance and real estate, followed by the manufacturing sector.

Always the state owned enterprises show a negative rate of growth in labor absorption by 2.6 percent on average over the period 1988-1998 as a result of privatization.

Rural non agricultural sector is the fastest growing sector, growing at a rate higher than the rate of growth of non agricultural urban sector: Taken into consideration the subsistence agriculture in economic activities the comparison between urban and rural employment showed that the rural non agriculture sector was the fast growing sector in Egypt over the period 1988-1998 contributing nearly half of all employment growth. Urban non agriculture sector is growing at a rate half the rate of growth in rural non agriculture sector and is absorbing almost 28% only of the increase in total employment. The comparison between females and males show that the share of males in non agricultural employment growth has been always higher than the share of women in non agricultural activities, which is not the case for agricultural activities, indicating that farm activities are still the main absorbing activities for females.²⁴ However annual average growth rates for males has been always lower than the average estimated for females excluding non agricultural rural areas. One should always take into consideration that this survey adopted the subsistence agriculture approach, which extends the participation of females in economic activities to include domestic production for market and non market reasons as well as animal husbandry.

²⁴ Asaad,R.1999

3.3 Labour Output Elasticities:

The highest labour output elasticities²⁵ are in the finance and trade sector followed by the construction sector and the communication and transport sector. This reflects the pattern of capital/ labor ratios in the different sectors that are more capital intensive in the productive sectors and in particular in manufacturing. It indicates the areas of potential growth connected with an increase in the output in these sectors.

Table 5. Elasticity of Employment by Sector, 2000 – 2009

	Elasticity of employment Period 2000-2007		
	Employment growth	OUTPUT GROWTH	ELASTICITY
TOTAL	1.84	2.90	0.81
Agriculture	0.84	1.64	0.51
INDUSTRY	2.68	3.62	0.73
MANUFACTURING AND MINING	2.13	3.40	0.65
ELECTRICITY , GAS AND WATER	4.40	12.69	0.34
CONSTRUCTION	3.85	2.54	1.49
SERVICES	2.28	3.06	0.73
FINANCE AND TRADE	4.01	2.28	1.75
TRANSPORT AND COMMUNICATION	3.96	3.50	1.10
COMM, SOCIAL AND PERS SERVICES *	1.30	3.11	0.44

Source: Calculated by the author from CAPMAS LFSS data and Ministry of Economic Development Data

This also explains the trend in the labor market over the period 1990-2007 where the financial sector was the fast growing sectors in the economy in terms of labor absorptive capacity.

²⁵ **Employment Elasticity to GDP** :It is measured to assess if the growth of the economy was able to create enough job opportunities or not. The percentage change in employment in response to 1% change in G.D.P.

Two methods of measurement

1- Arc Elasticity:

$$\varepsilon = \frac{\Delta E / E}{\Delta Y / Y}$$

Where E: Employment, Y: G.D.P.

□ is elasticity i.e. the percentage change in employment in response to 1% change in G.D.P.

This method is considered easy but does not reflect stable trends and does not allow cross time comparisons.

2- Point Elasticity:

$$\ln E = \beta_0 + \beta_1 \ln Y$$

Ln: is the logarithm for the corresponding change

The regression coefficient is P1. In other words, elasticity would refer to the percentage change in employment that accompanies 1 percentage change in the G.D.P.

4. Macro economic policies and job creation in Egypt.

4.1. Macroeconomic developments

Throughout most of the 1990s, Egypt succeeded in implementing a stabilization program that managed to slow down inflation and make progress in restoring internal balance. The Government of Egypt (GoE) reduced trade barriers, initiated a privatization program (though it slowed down in the latter part of that decade), and upgraded and expanded infrastructure. Consequently, economic performance improved over the 1990s with the exception of 1997/98 when real GDP growth rate dropped mainly due to Luxor massacre and its severe impact on the economy. The budget deficit dropped from 20% of GDP in the early 1990s to 1.3% towards the end the decade; and average annual inflation declined from 22.2% in 1990 to 2.8% in 2001.²⁶ Real GDP growth increased from 4.6% in 1994/95 to 5.9% in 1999/2000; and private sector share in GDP rose from 64.3% to 70.4% during the same period. These trends were reversed in 2000/01 due to the stagnation of the economic reform process, which was further aggravated by a slowdown in the international economy and the impact of 9/11. In addition to the detrimental effects of capital flight during that period, the economy suffered a major blow as tourism declined due to tightened global finance in the aftermath of the Asian financial crisis and the attacks on tourists. These were further exacerbated by the appreciation of the Egyptian pound, which was pegged to the US dollar (at LE3.4). In effect, the government experienced substantial official reserve losses. The corrective action taken by the government to tighten monetary policy in 1999/2000 resulted in the decrease in private credit. However, this came at the cost of a decline of real GDP growth rate from 5.9% in 1999/2000 to 3.4% in 2000/01. Real GDP growth continued to fall and reached its lowest level in a decade in 2002/03 (3%), and GDP per capita plummeted to US\$963.

However, economic activity recently witnessed a turnaround, accelerating to 4.3% in real terms in 2003/2004 and to 5% in 2004/2005. Economic growth maintained a faster pace during the course of 2005/2006, in response to bold trade and tax reforms. Economic growth maintained its rapid pace in 2006/2007. The Egyptian economy has been growing at an average rate of 6.1 percent over the past three fiscal years (2004/2005 – 2006/2007). Growth is expected to continue favorably as witnessed by the data available for the second quarter of the fiscal year 2007/2008. Data confirmed that GDP growth has reached 7.2.

External demand has played a crucial role in bolstering the economy, but it is the strength of growth in domestic demand, particularly investment demand, that will essentially determine the resilience of economic growth in the medium term. Meanwhile, as business confidence improved, investment demand is showing signs of recovery. The strong growth in consumption demand has triggered a secondary effect. Investment percent contribution to growth in GDP has picked up with consumption demand contribution to GDP growth. A development that indicates that the Egyptian economy could sustain a healthy growth in the medium term.

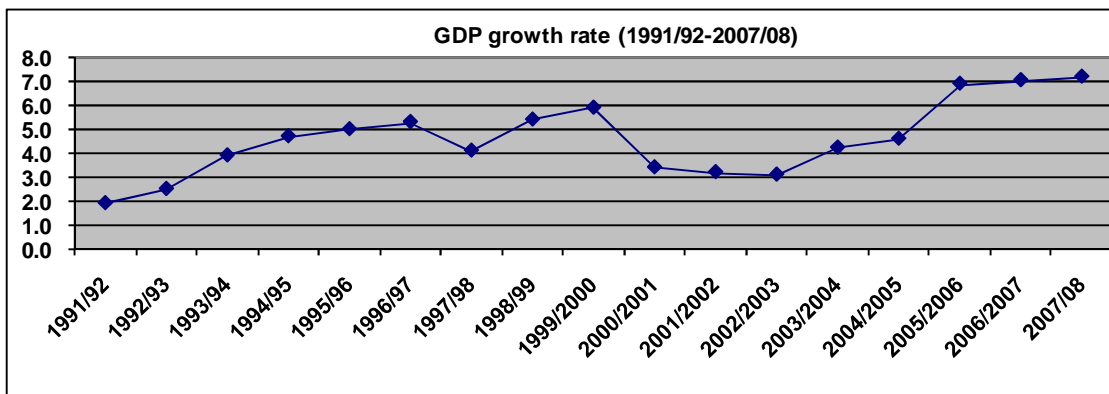
Although private sector growth was negatively affected by the economic slowdown during the early years of the millennium, the acceleration of consumption demand since 2002/2003 which has carried into 2006/2007 is owed mainly to a stronger private sector. As

²⁶ Ministry of Foreign Trade, Economic Statistics 2003

public sector consumption weakened, its contribution to total consumption growth has diminished. Thus in real terms, total consumption is almost exclusively driven by private consumption demand. Between 2003/2004 and 2006/2007, the private sector has contributed around two thirds of the GDP growth rate. Main engines of growth in the four years were from manufacturing, wholesale and retail, agriculture, construction and building and transportation, amounting to three quarters of the contribution of the private sector. The remaining momentum came from extractions, restaurants and hotels and real estate activities. This explains clearly the above mentioned main absorbing sectors of employment mentioned above

Figure 9 shows the fluctuations in the rate of growth of GDP in constant prices with an increasing boom since 2002/2003 till 2007/2008.

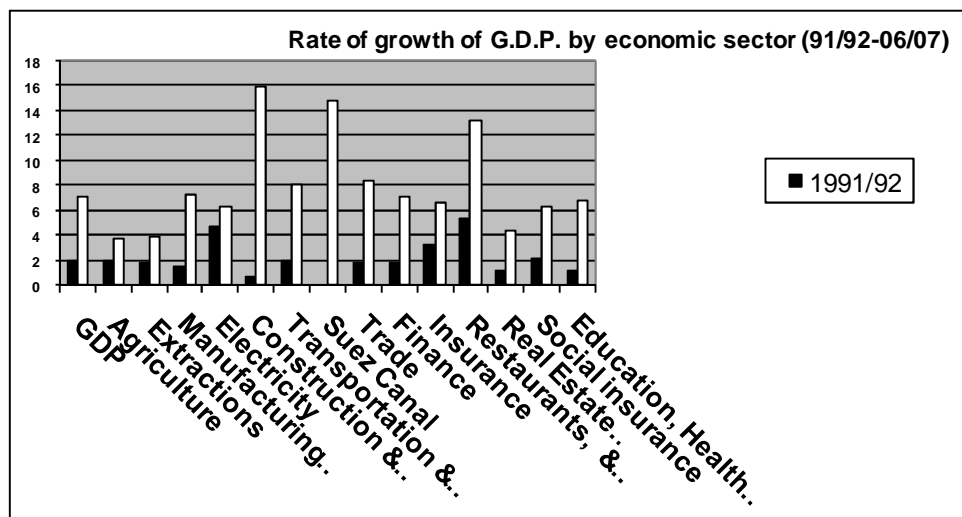
Figure 9. GDP growth rate 1991/92-2007/8 in constant prices



Source : Central Bank of Egypt (2008) Monthly Statistical Bulletin June 2008

Figure 9 indicates the tremendous increase in the construction sector, Suez Canal and the hotel sector. Sectors with the lowest rate of growth of GDP are agriculture , extractions, finance, real estate and social insurance

Figure 10. Rate of growth of G.D.P. by economic sector (91/92-06/07)



Source :Central Bank of Egypt Monthly Statistical Bulletin 2008

The new government set in July 2004 undertook out an ambitious program of economic modernization. The reform of the foreign exchange market established a market-based system and had eliminated the black market by the second half of 2004. In the area of trade policy, reforms have already been introduced to substantially reduce the number of

tariff bands, abolish surcharges, reduce the weighted average tariff rate and simplify customs procedures. In the financial sector, the government has proposed reforms that envisage, among other things, the privatization of at least one state-owned bank, divestment of public shares in a number of joint venture banks and increased mergers within the banking sector. The reform initiative was to modernize the state and to achieve a private sector led growth rate of 7-7.5% that would create gainful employment opportunities and reduce the incidence of poverty.

Reflecting these reform initiatives, the Egyptian economy is now being viewed more favorably in the international context. Egypt is the Doing Business 2008 top reformer across 178 economies. Egypt made the single fastest climb in the overall ranking—jumping 26 places in one year.

The services surplus mounted to US\$ 11.5 billion or 8.9 percent of GDP during FY 2006/2007 against US\$ 8.2 billion or 7.6 percent of GDP a year earlier. This surplus was 39.8 percent higher over the previous corresponding period, because of the increase in services receipts by 17.0 percent to US\$ 20.4 billion and the decline in services payments by 3.1 percent to only US\$ 9.0 billion.²⁷

The global crisis has affected Egypt mainly through the sharp fall in oil prices and the tightening of credit conditions. With high oil prices and strong global investor interest in the MENA Region and Egypt, the MEOEs grew on average by a robust 5¾ percent a year between 2005 and 2008. The external current and fiscal account positions has weakened substantially, which will have an enormous negative impact on the society in general and on the employment situation aggravated by the massive returnees from the Arab countries.

In Egypt there has been a decline in the rate of growth of GDP from almost 8% in summer 2008 to 4.3 % in April 2009. Four sectors have contributed to this decline, Suez Canal(-2.5% over the period september 2008 till march 2009), Tourism(-7.8% over september 2008 till march 2009), the construction sector and the manufacturing sector. A decline in the revenues of the current balance by 25% accompanied with a decrease in the deficit of the trade balance by 75% has led to a recession in several sectors. The implications on the labor market are worth to mention due to the decline in the number of new companies by 7%, the decline in investment of the tourist sector by 61% and of the manufacturing sector by 57% and the financial sector by 21% over the previously mentioned period. The rate of increase in the new investment declined from 32% in the first quarter of 2008 to 3.6% over the first quarter of 2009. The new jobs gain this year have reached 128 thousand new job in comparison to 181 thousand in the last year. All sectors have released workers and a decline by 30% in the migrants is expected, which will affect remittances that reached 8.6 billion dollar in 2008.²⁸

4.2 Investment Policies²⁹

The reported investment rate(19%) is far below in 2008 the level needed to create more jobs in the economy. For an incremental capital-output ratio of four, the investment rate must reach 28 percent to achieve a growth rate of 7 percent. Considering that the

²⁷ Ministry of Investment, 2008

²⁸ Nassar H., 2009

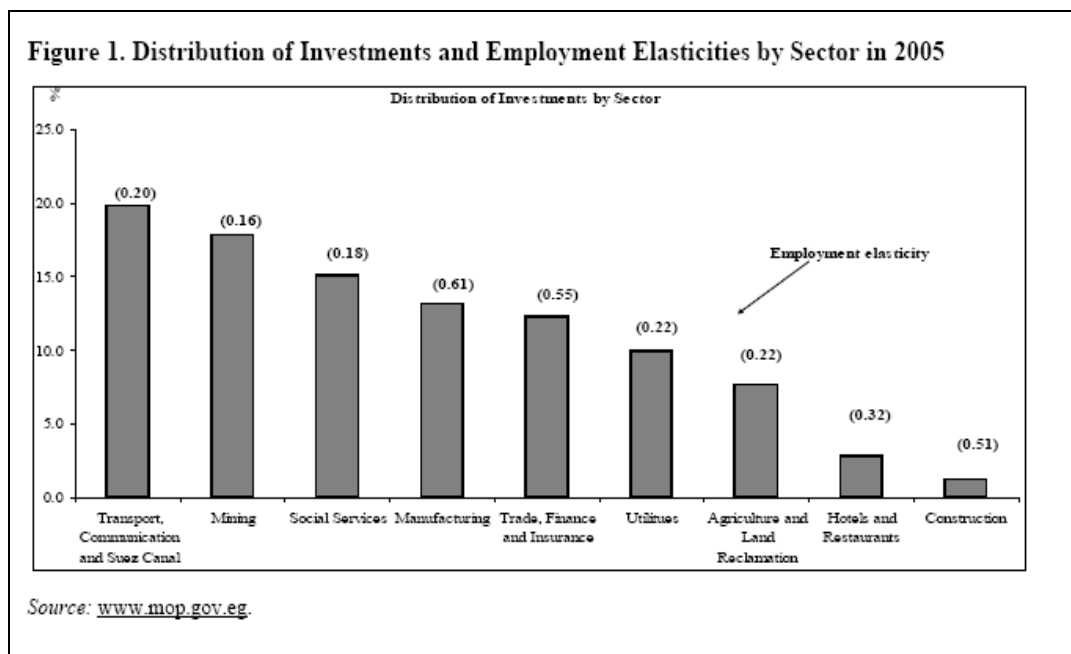
²⁹ El Megharbel, 2007

average employment elasticity for the whole economy was 0.3 in 2004/05, a growth rate of 7 percent would increase employment by 2.1 percent, but investment rate should reach 28%.

In addition, investments are mainly allocated to those sectors with low employment intensity of growth. The distribution of investment by economic activity (figure 1) shows that the sectors with low employment elasticities such as transport, communication and Suez

Canal (0.20), mining (0.16) and social services (0.18) receive the largest shares of investments amounting to 19.9, 17.9 and 15.1 percent respectively, in 2004/05. While the activities with the highest employment elasticities that can create more jobs such as manufacturing (0.61), trade, finance and insurance (0.55) and construction (0.51) receive lower shares of investment, amounting to 13.2, 12.3 and 2 percent respectively, during the same year (MOP 2006). At the same time, the average cost per job in the economy increased from LE 60,000 in the 1980s to LE 100,000 in 2004, reflecting poorly on direct employment creation.³⁰

Figure 11. Distribution of Investment and Employment



4.3. Trade Policy

As stated by Ghoneim achieving export promotion and job creation simultaneously and successfully is a difficult task. It is rather a complex relationship that incorporates several variables that have to be taken in consideration including constraints set due to the engagement of the country in regional or multilateral bidding agreements. First, trade liberalization often results in adjustment costs required to be undertaken in the labor market in order to be able to utilize the comparative advantage. Second, the revealed comparative advantage indicator which might characterize a certain sector does not necessarily coincide in practice with job creation if the forward and backward linkages of this specific sector are

³⁰ Fawzy, S. 2002.

taken in consideration, which could enhance or lessen the job creation capacity of such specific sector. Third, the prevailing international agreements put a lot of constraints on the flexibility of using industrial policy to promote specific industries. Fourth, joblessness may well continue to increase due to high population growth and labor saving technological change whenever trade liberalization takes place. Fifth, selling goods and services abroad often requires the use of a capital intensive biased technology which puts a lot of constraints on the use of labor intensive techniques.³¹

To increase exports, the Egyptian government implemented two rounds of tariff reduction. In 2004, tariffs were cut to 9.1 percent on average, and the number of ad valorem tariff bands was reduced.

The new modifications reduced the average tariffs by almost 25 percent. Moreover, Egypt concluded a number of trade agreements with its main trading partners, namely the EU, the US and Arab countries. It was expected that the dynamic effects of these agreements would stimulate growth, trade, competition, investment and employment.

Despite trade liberalization efforts, which resulted in increased non-oil exports, Egypt's export structure remains heavily dominated by resource-based and low-tech exports, which account for nearly 90 percent of manufactured exports.

Egypt is losing its share in both the European and MENA markets to competitors such as China and Turkey, especially in labor-intensive textiles and clothing industries. Egypt's share of manufactured trade in the European market remained almost stagnant during the period 1995-2007, standing at less than one percent; while the shares of Turkey and China doubled then tripled during the same period. The impact of Egypt's trade agreements on employment is so far negligible. The Egypt- EU Partnership Agreement was restricted to Egyptian tariff dismantling and to the reduction of barriers to EU imports of agricultural products. The Agreement did not address the issue of employment directly; it was only through the funds that Mediterranean Development Aid (MEDA) projects received that employment was targeted. These projects include mainly the Social Fund for Development (SFD) and the Industrial Modernization Program (IMP). In addition, the European Neighborhood Policy ,ENP6 aims to support the neighbors' priorities regarding political, security, economic and cultural cooperation. Obviously, employment is not directly targeted.³²

The Ministry of Trade and Industry estimated that 150,000 workers in the textile sector would lose their jobs due to the elimination of the Agreement on Textiles and Clothing (ATC). After introducing the Qualifying Industrial Zones (QIZ) protocol in December 2005, an analysis of the impact of the QIZ protocol revealed that the majority of firms that export under the QIZ protocol were already exporting to the US and to other markets as well. However, these firms were able to increase their exports to the US under the QIZ protocol, contributing to higher employment.

However QiZ agreements are relatively new and their full impact cannot be assessed accurately. Moreover, to increase their expected benefits, with respect to exports and job creation, a major improvement is required in the performance and competitiveness of the Egyptian manufacturing industries. Ghoneim argued that moving from low technology to medium and high technology and to higher value added exports, as well as competing on

³¹ Ghoneim,A. 2006

³² Kamel Rizk and El-Megharbel 2006.

quality rather than on prices are important prerequisites for export promotion and creation of *decent* jobs.³³

The volume of external trade of Egypt continued to rise in the first half of 2007/08 reaching US\$37.5 billion. The total external trade/GDP ratio therefore rose to 46.8 in 2006/07 percent against 45.5 percent in 2005/06, reflecting more economic openness to the external world. The rise in export proceeds was due to the continuing growth in non-oil exports at a marked rate of 44.7 percent to US\$ 11.9 billion, representing 54.1 percent of total exports. Higher investment demand associated with the September 2004 reduction in tariffs and the recent recovery in economic growth rates was reflected in a rise in imports 24.3 and 25.8 percent increase in 2006/2007 and 2005/2006 respectively and 41.2 percent for 2007/2008.

4.4 Institutional Policies of the Labor Market³⁴

Labour market institutions are entities regulated by national law and whose principal objective is to facilitate the match between labour supply and demand. In Egypt there exists some labour market institutions which bear responsibility for planning and coordinating activities aimed at promoting employment. The principal ones are:

The Ministry of Manpower and Migration (MOMM), which is responsible for facilitating the match between labour supply and demand, helping to increase the employability of the labour force, and monitoring labour market demand. It runs its own training centres, which focus primarily on training of school dropouts and laid-off workers. MOMM is running an

Employment Information Programme, which prepares labour market statistics and publishes the Monthly Vacancy Bulletin. It also organizes an enterprise census once a year, to collect information on training needs from all enterprises with more than ten workers. The Ministry collaborates with employers and workers through the Supreme Council for Human Resources Development and also directly in shaping training policies while it encourages private enterprises to set up their own training centres and provides with them methodological guidance and certification.

The Supreme Council for Human Resources Development is the main body responsible for coordinating the training policies of all ministries. It is headed by the Minister of Manpower and Migration and includes high-level representatives from all other relevant ministries. The Council meets four times a year and announces national training needs. The different ministries are supposed to integrate such announcements in their training programmes in order to adapt them to labour market requirements.

The Information and Decision Support Centre (IDSC) is attached to the Cabinet of Ministers.

It has formulated the National Youth Employment Programme which is being analyzed in this report. In addition, the IDSC is undertaking a labour demand analysis based on newspaper advertisements.

Employment offices are part of MOMM and have a territorial structure.

³³ Ghoneim, 2006

³⁴ Nassar 2003

The Social Fund for Development (SFD) is a semi-autonomous governmental agency under the direct supervision of the Prime Minister. It was created in 1991, as a joint initiative between the Egyptian Government, the World Bank and UNDP with the task of mitigating the negative effects of the economic reform on the most vulnerable groups of people and promote economic development in backward regions. The SFD is very active in the field of job creation and runs several employment programmes.

Some new labour market institutions have recently been or will be introduced in the Egyptian system under Labour Law 12/2003 (hereafter referred to as the Labour Law). One of them is the National Council for Wages. It is in charge of setting minimum wages.³⁵

Institutional policies include labor market regulations and wage policies. This section analyzes the impact of the labor law and minimum wage policy on job creation in Egypt.

4.5. Labor market regulations

Labor market regulations have two conflicting effects: they reduce unemployment while at the same time represent a major barrier for employment. In addition, empirical evidence has shown that the high labor cost associated with stringent labor market regulations affect employment negatively, especially female and youth employment.

The Labor Law enacted in 2003¹¹ accorded employers more flexibility, especially in relation to termination of contracts for well established economic reasons. However, the impact of this law on job creation is so far uncertain. It is evident that public sector jobs are still more attractive because of the high level of protection they provide in relation to termination of workers' contracts, social insurance, and other benefits such as the comfortable working hours that allow workers to moonlight to raise their income. In addition, informal employment reached 47 percent of total employment according to the 2005 LFSS. These facts reflect the limited impact of labor regulations on creating jobs in general and *decent* jobs in particular.

The social security system in Egypt provides wide coverage as it includes government, public and private sector workers, informal employment, employees working abroad and

³⁵ Article 11 of the Labour Law describes the establishment of a new body. "A higher committee shall be established under the concerned Minister for Planning and employing the manpower inland and abroad, comprising representatives of the concerned ministries, as well as representatives of the General Federation of Egyptian Trade Unions and of the employers organizations, to be elected by their organizations equally among them." This committee is responsible for "drawing up the general policy for employing Egyptian manpower in the Arab Republic of Egypt or abroad, and setting the systems, rules and procedures required for that employment". So far it is not clear, whether it will be a new body or whether this task will be given to an existing body.

Another institution which article 145 of the Labour Law describes is the Consultative Council for Labour. Its members will be technical experts and representatives of employers and workers. Article 145 lists its tasks as follows:

- (a) express the view in draft laws connected with labour relationships;
- (b) express the view in international labour agreements before signing them;
- (c) study the subjects connected with vocational and productive relations at the national level;
- (d) propose the means for strengthening cooperation between workers' organizations and employers' organizations;
- (e) propose proper solutions for prevention of collective labour litigations at the national level, particularly in economic crises that lead to interrupting the work wholly or partially of certain projects.
- (f) express the view in subjects referred to it by the concerned ministry.

some vulnerable groups. The social security system is criticized for its high contribution rates, which discourage both employees and employers from paying their contributions and reporting actual wages. In addition, the maximum wage according to which the social security contributions are calculated is very low. Another significant disadvantage of the system is the lack of financial sustainability..

The new Labour Law introduces some quite important changes. The Labour Law applies to all types of enterprises, except the self-employed. It allows employers to hire workers directly, without having to rely on public employment services.

An outstanding innovation of the Labour Law is its recognition for workers of the right to strike. This right is nonetheless restricted to specific conditions which may make it difficult to exercise.

It also introduces a new procedure for dispute settlement. If a dispute on work conditions, terms or employment provisions arises, both the employer and the worker have the right to ask the competent administrative authorities (public employment offices) to start informal negotiations to settle the dispute. This right can be exercised only within seven days of the dispute.

The extent to which the new Labour Law will improve the situation in the Egyptian labour is unclear. The guarantees it provides to workers do not seem to make private employment any more attractive than it was before. Public employment still remains the preferred option because it offers guarantees against dismissal and ensures the benefits of social insurance, vacations and periodical wage increases for employers and workers. Its fixed and limited daily duration also allows workers to exercise other jobs at the same time and thus increase their incomes.

4.6. Wage setting and minimum wage policy

In Egypt, for public employment and public enterprises wage setting mechanisms are defined by law. Labour legislation sets the minimum wage and wage increases linked to the cost of living. It fixes wage levels according to the different job categories, field of specialization, and describes the qualifications required to receive a specific salary. Promotion and incentive mechanisms are also precisely defined. In addition, a maximum amount to be granted for overtime, allowances and incentives is set by law.

In the formal private sector, wages are determined by labour demand and supply. National law only sets the minimum wage, social insurance, special wage increases, and living-cost allowances. These rules have always been largely ignored by private employers and their application can certainly not be imposed by workers, given their low level of unionization. Wages are set almost on an individual level according to personal skills and degree of specialization. In the agricultural sector and in the informal one, wages are determined by the labour market and are therefore rather flexible. As already mentioned, the Labour Law establishes the creation of a new body, the National Council for Wages, and assigns to it the task of setting the minimum wage.³⁶ Egyptian law assures equal rates of pay to men and women for the same work, but not for work of equal value as required under ILO Convention No. 100

³⁶ Article 3 states that workers “shall be entitled to a periodical annual increment of not less than 7 per cent, on its due date, of the basic salary on the basis of which the social insurance contributions are reckoned, until the National Council for Wages issues the decisions regulating the payment of that increment”.

However the impact of minimum wage policy on employment is controversial. Several studies claimed that minimum wage affects employment positively, while others showed they have negative effects on employment.³⁷

4.7. Labour contracts

The aspect of labor contracts is very critical for the issue of decent work. In Egypt, during the period 1988-1998, most newly created waged jobs were not accompanied by a regular contract. In particular, intermittent and seasonal work was far less likely to be covered by a labour contract than permanent and temporary employment. During that decade regular work with a labour contract was declining, especially for women, and reportedly less than one newly recruited worker out of five was hired with a regular labour contract. Employers did not grant labour contracts in order to avoid social security restrictions. Women were more affected than men in this regard, because of the higher social security costs that the recruitment of a female worker required (maternity benefits, child care facilities, etc.).

The new Labour Law mentions two types of labour contract: contracts for an indefinite period and fixed-term contracts. The latter category includes labour contracts with a fixed term and contracts concluded for the accomplishment of a specific task.

The employer still cannot terminate employment without limit of time of his/her employee(s) in the case of financial problems of the enterprise, entire or partial closure of the enterprise or a change in job description of the employee unless both parties agree to the contract termination.

What makes a labour market rigid is thus the difficulty for employers to justify dismissals and the large indemnities that they may have to pay if they want to fire workers due to economic reasons or other unjustified reasons. In addition, employers have always managed to avoid the application of law and of compensation for unlawful dismissal by imposing workers to sign a resignation letter before being formally recruited.

In a situation where workers may be dismissed at any time, if the employer decides to use the already-prepared resignation letter, a fixed-term contract becomes a better option than a contract for an unlimited duration also for workers who at least know for sure when the labour relationship comes to an end. It is nevertheless important to note that temporary labour contracts conflict with the principle of job stability and security for workers, unless broader employment security measures are adopted through labour market policies.

The Egyptian law makes it clear that a labour contract for an indefinite period is the rule and a fixed-term contract is more an exception.

The Egyptian Labour Law does not mention any condition to prevent fraud consisting of the conclusion of an endless sequence of fixed-term contracts to avoid the costs which employers may have to face when they have to dismiss workers employed with a permanent contract.³⁸ Neither a maximum number of extensions nor a maximum total duration of fixed-term employment is thus provided.

³⁸ Article 105 states that "If a labour contract concluded with a definite period terminates with the expiry of its period, it may be renewed by expressed agreement between its two parties for one or more other periods."

Other forms of undermining workers' rights through an unjustified use of fixed-term contracts may derive from the lack of objective reasons according to which such a type of contract may be concluded. The employer may simply decide to recruit an employee for a limited period of time to avoid the norms ruling contracts for an indefinite period of time and the employee may not object to it because national law allows it. In Egypt, most workers in the private sector are employed with fixed-term contracts, while jobs in the government and public sector are normally obtained for an indefinite period. Egyptian legislation grants the right to equal treatment to fixed-term workers and workers hired for an indefinite period of time with regard to access to pension schemes and other social benefits. It is worthwhile mentioning that the new Labour Law does not mention any other atypical form of labour contract, besides fixed-term contracts, to promote labour market flexibility. Part-time work and temporary agency work are not mentioned in the Labour Law. Probation contracts are admitted for a maximum duration of three months.³⁹

Since youth unemployment is a very serious problem, apprenticeship contracts should be highly emphasized and promoted.

4.8. Employment services

Other labour market institutions, largely debated nowadays in Egypt, are those which provide employment services. The institution providing employment services is mainly MOMM, but also other agencies, councils and funds are involved. This new type of employment services should anyway meet the same functioning requirements as existing governmental employment agencies.

MOMM is responsible for monitoring labour market demand. Local employment offices collect information on job vacancies and MOMM advertises them in order to facilitate the match between labour supply and demand. However as of March 2003, the placement rate reached through the monthly bulletin was 40 per cent due both to mismatches between required skills for the jobs and available skills of jobseekers and to the low salaries offered. Local employment offices may send jobseekers with low skills on training courses.

Since 2002 The Canadian International Development Agency has been implementing a project on upgrading of public employment services in Egypt. The project tries to create 25 pilot labour offices, one per governorate. The Social Fund for Development is a partner in the project. Canadian technical cooperation is responsible for methodological guidance and training of officials. Egyptian institutions provide offices and computer equipment. The training component of the project has two modules: one for employment service officials and one for employers and managers. Initial training takes place in Canada and is followed by training for trainers in Egypt.⁸⁹ The Government of Egypt has also allocated resources of its own to modernize some employment offices.

4.9 Labor Market Policies in Egypt.

Labor market policies are defined as government interventions used to correct for failures in the labor market. There are three sets of labor market policies: active, passive

³⁹ In practice, Egyptian Labour Law does not seem to hinder labour market flexibility. Legal obstacles to the proper development of the labour market may be rather identified in the numerous violations of workers' rights and also in the restrictive legislation on SMEs.

and institutional policies. Despite the extensive use of these policies in most developed countries, empirical evidence has shown that they do not succeed in developing countries, due to the lack of administrative capacity and scarcity of the monitoring and evaluation tools considered crucial for their implementation. The following sub-sections evaluate the impact of both active and institutional labor market policies⁹ on the Egyptian labor market.

Job creation is among the most important challenges facing the Egyptian economy. Despite increased economic growth, unemployment is still high and the capacity of the economy to generate enough jobs especially in the private sector remains limited. In addition, the labor market suffers from a mismatch between demand and supply of adequate skills. The poor performance of the labor market can be explained by a number of factors including macroeconomic and labor market policies. The government undertook several reform measures to boost economic growth, increase investments and raise the competitiveness of the Egyptian economy. However, the Egyptian economy is still suffering from major shortcomings, such as unfavorable business environment, poor export performance, severe fiscal imbalance and low level of investment. In addition, labor market policies have so far been unable to address the mismatch between demand and supply and resolve other market failures. The impact of active labor market policies and regulations has been limited, reflecting poor policy design and lack of coordination between macroeconomic, labor market policies and regulations. Moreover, it should be noted that macroeconomic and labor market policies were not adequately coordinated to serve the objective of increasing job creation.

In order to increase employment, a national employment strategy should be designed with the objective of creating more jobs, especially in those sectors with the highest employment elasticity. The strategy should also attempt to address the mismatch between labor supply and demand. More importantly, it should be made an integral part of Egypt's national development plan. Finally, both macroeconomic and labor market policies should be revised in light of the shortcomings highlighted, taking into consideration the lessons drawn from best practices and international experiences.

Several Policy and institutional challenges still face employment growth in Egypt.⁴⁰

4.9.1 Inefficient Policy Integration:

Employment policies cannot be drawn in isolation from all other complementary policies such as the industrial strategy, export strategy and educational policies.

Employment policy can be very effective in influencing the speed and the timing of economic growth rates, if it is integrated with a broad range of strategies and instruments. Potential workers can only become productive workers, if they are absorbed by the economy. Failing to develop this absorptive capacity will not only imply a missed opportunity to translate the human resources into productive labor force, but would also produce chronic problems of long term unemployment with many social consequences.⁴¹

An area of interrelated policies is savings and investment policies, which requires a well functioning financial sector, a stable and predictable macroeconomic environment and a regulatory system that respects private property and promotes the enforcement of contracts. Both policies are needed to enable the economy to create more jobs.

⁴⁰ Nassar, 2003

⁴¹ Bloom, et al. (1999)

The isolation of the employment and training policies from economic policies in Egypt is clearly reflected in the investment policies pursued since the 1960s. Import substitution policies have encouraged capital intensive industries and have reduced the relative cost of capital in comparison to the cost of labor. Demand elasticity for labor decreased in industrial and productive sectors as previously mentioned and the highest labor output elasticities were in the finance and trade sectors, followed by the construction sector as productive sectors are capital intensive. In several studies it was indicated that none of the successive investment laws in Egypt linked its package of incentives to levels of employment or even to measures of efficiency. The study indicated that more investments will generate more employment but the investment policy should reallocate resources to sectors with high levels of employment.⁴² Studies on skills necessary to fulfill the requirements of an export-oriented policy as well as a modernized industrial policy are still needed in the Egyptian case.

The link between education, training and employment policies is seen as the cornerstone for an efficient employment policy leading to poverty alleviation and decent jobs. Educational policies must be designed to efficiently improve the quality of higher education, to generate stronger demand. The combination of large numbers of school-age children and higher rates of secondary school enrollment will create enormous pressure to expand higher education. In the meantime, higher education must cope, quantitatively and qualitatively, with the prerequisites needed to interact positively with this process. Higher education might have fulfilled its social and political obligations, but because of the inefficient integration of educational policies with investment policies, its ability to provide the needed human resources for the future has not been realized yet.

Free education may have increased enrollment in higher education institutions and absorbed some of the unemployed. However, as a policy, more entrants into higher education simply shifts the problem: The small part of the present unemployment becomes a larger mass of educated unemployment later.

The adopted labor market policies have not had a clear-cut impact on alleviating educated unemployment, as the policies merely put off a large problem to become a much larger one later. The guaranteed job policy was conceived as a means to employ the educated unemployed, but there was no guarantee for employment because not enough jobs could be created in the formal sector. Given the favorable wage levels of the public sector, the desire for higher education increased tremendously, rapidly increasing the supply of educated workers demanding government jobs. The result was overstaffing and underemployment. The remedial policy of increasing the vocational content of instructions in schools as a way to meet the market requirements had no significant impact due to the lack of popular support for this policy. Prospective wages were clearly not an incentive for vocational training. With the existing wage scales, this policy was shifting the career prospects of labor away from higher rewards to lower rewards.

Policies that increase the flexibility of labor markets also add to an economy's ability to absorb its larger labor supply. Flexibility means the ability of employers to expand and contract rapidly, shift labor among tasks and raise and lower wages in response to market conditions. It also refers to the ability of the workforce to change its working patterns quickly. This must be accompanied by the provision of safety nets for the economically vulnerable or unskilled workers. Even minimum wage policy, though socially important particularly in Egypt, may lead to the expansion of the informal sector; thus the need to design it carefully based on the labor requirements in each sector.

⁴² Abdel Latif, (2001)

Finally, phasing policies and programs is needed. Training policies in Egypt may be carried out in the short run by the SFD to undertake all policy development. In the longer term, policies and programs especially labor market policies and employment programs, can be the responsibility of mainline ministries.. Staff at these ministries will also require some capacity building in order to be able to administer reform in the training policies.

4.9.2 Lack of coordination

Is one of the very important challenges facing several employment creation efforts. At present, different ministries supervise technical education and vocational training activities. The Ministry of Education runs technical and vocational schools, the Ministry of Higher Education supervises high technical institutes, and the Ministry of Industry supervises vocational training centers that are either affiliated to the Productivity and Vocational Training Department (PVTD) or to public companies and authorities. These ministries issue recognized diplomas to their graduates as technicians, first technicians and skilled workers. Other ministries such as the Ministry of Manpower, Social Affairs, and Housing also run vocational training centers at lower levels. Finally, some ministries established vocational training centers to upgrade their employees' skills in the management of these programs. Despite the fact that competition is needed to achieve more efficient allocation of resources, these efforts must be coordinated by various training providers to achieve process stability and permanence, avoid replication, duplication and excess supply, detect shortages, learn from successful experiences and mobilize resources for HRD. This coordination might raise the quality of training and the efficiency of implementation in the country. In Egypt, attempts at policy co-ordination by establishing inter-ministerial committees did not meet the expected success, since these committees were sometimes formed at a ministerial or expert level to discuss a particular subject matter. As a result a few meetings were held.

Coordination is also needed among the different employment programs. Despite the fact that many programs are emergency programs they are still important in cases of acute problems. However, their often overlapping, unrealistic targets and unplanned and poorly designed approaches may disrupt their ultimate effectiveness. The lack of coordination between these programs has led to the duplication and repetition of goals. It also weakened the national belief in these programs.

Diversifying the institutions providing higher education reflects an awareness of the importance of providing a wide range of higher education opportunities to match students' capabilities and ambitions. However, diversification is not sufficient by itself to ensure that present graduates of higher education satisfy labor market needs both quantitatively and qualitatively. To meet the quantitative and qualitative needs of the market requires a massive and coordinated effort among the different providers of higher education.

4.9.3 Paucity of Information:

For an economy in transition to privatization, there is a growing need for labor market information that can help ensure better matching of supply and demand. Lack of information will raise transaction costs and affect the flow of information in a market demand driven economy, where signals for market needs have to be transferred in a systematic and effective way to the institutions involved in HRD in Egypt.

5. Job quality and Profile of Poverty in Egypt

The panel HIECS survey 2005-2008⁴³ which is a new HICES panel survey conducted by CAPMAS to trace household consumption and living standards over 2005-2008 demonstrates that due to rapid economic growth Egypt has achieved impressive poverty reduction, reversing the trend of worsening poverty outcomes over 2000-2005. The number of poor was reduced by 1.8 million. Poverty reduction was broadly shared, and all regions achieved reductions in poverty. Real consumption has increased even despite accelerating inflation and rapidly growing food prices. Therefore, there is a strong link between macroeconomic processes and poverty reduction.

The note finds that agriculture was the main engine of poverty reduction, despite its lower than average growth rate (only slightly above 3 percent per year).

Over one half of all movements out of poverty during 2005-2008 were accounted for by those employed in agriculture. The elasticity of poverty headcount with respect to the growth of value added in agriculture (around 3) is largest among all sectors of the Egyptian economy. Outside agriculture, construction, transportation and manufacturing private firms contributed most to poverty reduction.

However the note also concluded that economic growth has not resulted in immediate and universal improvement of living conditions for all. Chronic poverty affects 10 percent of population and is heavily concentrated in rural areas and in Upper Egypt. The reason behind that is the fast growth in food prices which played a significant role in reducing a positive effect of growth on living standards. The cost of the minimum food basket increased by 47 percent between February 2005 and 2008 – much faster than the overall CPI (which increased by 31 percent). Hence the note found that the risk of extreme poverty (inability to meet the basic food needs) increased as a result by almost 20 percent and affected in February 2008 about 6 percent of population in Egypt – more than in any observation point since 1990.

The main finding of the note is large extent of vulnerability and instability in households' living standards. Even though the per capita average consumption increased steadily by 3 percent per year during the period under investigation, at the level of households some experienced very large gains, while other have been exposed to large losses. As a result 20 percent of population became poor. Fragility of the middle class is a serious policy issue. Losses are perceived more acutely than equal gains, which may explain widespread discontent in the population with the economic results.

It was also found that quantity and quality of jobs have only weakly responded to growth. Even though employment expanded by 3 mln, this increase only matched the new entry and had little direct impact on the employment rate. The panel shows sharp difference in poverty risks between permanent and occasional jobs, with women bearing the brunt of the deteriorating job quality.

The last household survey data suggest that there was deterioration in the quality of the jobs over 2005-2008 in accordance to the definition of a decent job with sufficiently high productivity and regularity of income. These properties can be called "quality of jobs".

⁴³ Arab Republic Of Egypt, 2009

The survey indicated that the percentage of the poor with permanent jobs declined from 79.6% in 2005 to 69.8% in 2008, while the share of the poor with temporary jobs increased from 2.4% to 4.8% over the same period. Working in sporadic jobs also implies high exposure to risks of falling welfare. It has been mentioned that occasional and seasonal jobs generate a volatile stream of income for households and can make them more exposed to changes in the economy and therefore more vulnerable to poverty. However such informal jobs were found to be entry points for the poor in the labor markets. The survey showed that 21 percent of those employed in seasonal jobs and 15 percent of those in sporadic jobs managed to escape poverty between 2005 and 2008. The largest risk of falling into poverty clearly was observed among those employed in seasonal and occasional jobs. Low quality of jobs could help explain why many households were found left vulnerable to poverty. The poor quality of the jobs, particularly those held by women, and the high dependency ratio could explain this result.⁴⁴

Coverage of safety nets has expanded, but it still suffers from the lack of targeting resources on the poor, and only weakly affects poverty and vulnerability. Panel data show that between 2005 and 2008 social transfers (mainly social pensions) have expanded the coverage of the poor and near poor quite noticeably – from 5-7 percent to 10-12 percent. The amounts also increased, over and above the inflation rate. Still leakages are significant, targeting and especially the coverage of the poor remain low.

The note concludes that sustaining poverty reduction and reducing vulnerability depend on policy action. In a scenario of growth slowdown on a per capita basis to 2 percent per year, presented in this note, poverty reduction will be sustained only if Egypt avoids further increases in inequality. Sustaining poverty reduction and reversing the trend of increasing inequality and deteriorating extreme poverty will depend on promoting growth in agriculture, strengthening social protection and avoiding further spikes in food prices. Preventing people to become the new poor should be as an important part of poverty reduction strategy as helping those who are currently poor to get out of poverty.

Poverty reduction in Egypt was broad based and even rural Upper Egypt contributed to poverty reduction despite a preceding period of increasing poverty rates during 1995-2005.

The panel data suggest that lower quality of jobs is associated with higher poverty risk.

Working in sporadic jobs also implies high exposure to risks of falling welfare. Occasional and seasonal jobs generate a volatile stream of income for households and can make them more exposed to changes in the economy and therefore more vulnerable to poverty. But at the same time such informal jobs may represent entry points for the poor in the labor markets.

Low quality of jobs could help explain why, in spite of the positive vector of poverty reduction so many households were found left vulnerable to poverty. The poor quality of the jobs, particularly those held by women, and the high dependency ratio could explain this result. Increased instability of jobs, especially in some growing sectors is a cause of high exposure to risks of sharp falls in consumption observed in the panel data.⁴⁵

⁴⁴ Arab Republic of Egypt, Economic Growth, Inequality and Poverty: Social Mobility in Egypt between 2005 and 2008, Policy Note, January 18, 2009

⁴⁵ Arab Republic of Egypt, 2009

6. Policy recommendation

Despite steady economic growth over several time spans in Egypt in the seventieth of the last century and over the period 2004-2008 in Egypt , the country achieved very modest gains in increasing employment.

Poverty and unemployment, especially among the young, are widespread. Employment has shown to be a partial answer to the question of poverty. The majority of the poor are working in rural areas and in low productivity activities. The 'growth-employment- nexus' has not been sufficiently successful in increasing employment opportunities mainly because of low growth elasticities of employment and low integration of the new entrants , because of lack of skill, in the labour markets where new jobs are created. What is needed above all is an employment policy that puts the emphasis on strengthening the growth-employment nexus by promoting job creation and improving the access of the poor to such jobs. At the same time more emphasis should be placed on quality jobs and the notion of decent jobs in particular for the poor. Anti-poverty policies should also be put in place to provide support for a large number of people who are just above poverty line and thus vulnerable to poverty in case of minor deterioration in the macroeconomic conditions or their poverty stricken household economy. Macroeconomic stability, pro-poor short-term employment policies (through labour intensive public work projects and by focusing on sectors where poor are concentrated) and improving opportunities for the poor in order that they would benefit from employment growth and receive decent jobs.

Three following quotations in the paper may be the basis for our policy recommendation:

- "Egypt current employment problem is characterized by inadequate labor absorption of graduates students and under utilization of unskilled human capital";
- "The main labor absorptive sectors are both the untradeable sectors and the construction sectors over the last twenty years";
- "The government failed to adopt adequate labor market policies to overcome the shortcomings of macroeconomic policies and to face the consequences of the different internal and external shocks";
- Growth in employment was insufficient to release pressures on the labor market, and the link between employment and poverty is weak.
- "Agriculture was the main engine of reduction poverty"... "Outside agriculture, construction, transportation and manufacturing private firms contributed most to poverty reduction"... "Quantity and quality of jobs have only weakly responded to growth. Even though employment expanded by 3 mln, this increase only matched the new entry and had little direct impact on employment rate"... " » lower quality of job is associated with higher poverty risk. Working in sporadic jobs also implies high exposure to risks of falling welfare."

Hence our policy recommendations should emphasize job creation, improvement of the jobs quality volume and poverty reduction

Concerning job creation efforts, the government should focus on both the demand and supply side to achieve jobs quality volume. Better targeting will help us in achieving poverty reduction as well :

- Encouraging growth that targets full employment to maintain economic growth momentum with low inflation.

Due to the economic crisis GDP growth declined to 4.1% in 2009 while it was 7% early 2008. For the unemployment problem to be alleviated, GDP growth must speed up to 7 percent again a year.

Most studies have pointed to the importance of encouraging intense employment growth through long term growth strategies that are labor-intensive. This means creating employment opportunities at a high rate in modern fast-growing sectors such as the exporting industries, and the finance sector and increasing investment rates similar to the low levels of Southeast Asia, which are 30% on average. Savings rates must also be raised, and capital leakage out of Egypt should be terminated and private investment climate must be improved.

Governance, prudential regulations, trade reform, enhancing privatization are important steps towards growth and employment creation.⁴⁶ To ensure sustained economic growth rates and faster recovery two sets of complementary reforms are crucial: (1) those that improve the business climate for the private sector to thrive, and (2) those that improve government spending and economic management.

- Rationalizing employment in the government sector :

The government accounts for as much as 40-60 percent of gross domestic output and of employment, a sector that essentially has low productivity and wage levels. Unlike the 1960s and 1970s, better labor market outcomes cannot be guaranteed through public employment. Rationalization of employment size in the public sector is necessary to improve the performance of this sector and increase the wage level.

- Increasing the capacity to absorb labor in agricultural activities for poverty alleviation:

While labor absorption capacity in agriculture has declined in Egypt from 40% in the 1970's to 28% in 2008. Most of the poor in Egypt are concentrated in agriculture. Despite its lower than average growth rate (which averaged to only slightly above 3 percent per year) and low employment generation over one half of all movements out of poverty during 2005-2008 was accounted for by those employed in agriculture.⁴⁷ Outside agriculture, the private sector was a source for the largest part of the flow out of poverty during the period. Construction, transportation and manufacturing private firms contributed most to poverty reduction, despite high informalization of labor contracts.

Short term measures to promote employment in the agricultural sector include provision of all required inputs for the agricultural sector, support of cooperatives in facilitating loans and training on modern agricultural methods and encouraging growing profitable crops.

Long term measures include also increasing investment directed towards the agricultural sector, completion of infrastructure and social services in rural areas.

- Enhancing small business for poverty alleviation and job creation

Initiatives may be introduced to directly promote self-employment for young people, such as access to credit and training in business skills. This can be achieved the establishment of a national program to support linkage channels between small and medium-size business as well as large ones through *subcontracting* and *franchising* agreements, issuing laws that provide incentives for the small business, expansion of financial facilities and encouraging institutional development.

⁴⁶ Nabli, K. (2002)

⁴⁷ Arab Republic of Egypt ,2009

- Private sector development for quality job opportunities

The government needs to adopt macroeconomic policies which encourage overall economic and employment growth. Private sector development is the most important area. There are many areas where regulations and bureaucracy can be simplified such as ‘one-stop shops’ for business start-ups. These policies are especially required of labor-exporting countries in Egypt, where studies have revealed various investment obstacles like bureaucracy. On the other hand short term policies constitute incentive fiscal and monetary policies Wage subsidies, or financial incentives to firms have sometimes been used to promote the employment of specific groups such as young people.

- Developing the informal sector for quality job :

Skills of informal labor must be developed and informal protection and social security schemes should be developed as this sector is a major sector for employment growth in Egypt.

- Developing jobs in newly emerging sectors

Employment opportunities are open to young people with high-tech skills such as software engineering. Other employment opportunities created by ICT are middle income, which are better suited to young people with upper secondary or tertiary qualifications. ICT technology may be used also in the search for work. Eradication of illiteracy is a precondition for using ICT.

- Education can play a key role in promoting quality job opportunities

Although there is high unemployment in Egypt, surveys and studies revealed a shortage of skills for some currently promising sectors such as finance, insurance, hotels, tourism, and communications. To provide the required skill for these sectors, educational and training policies must be coordinated.

Investments in the education sector need to be revisited to emphasize quality rather than quantity.

Life-time learning is necessary to meet new requirements and to enhance labor market flexibility, as also “life-time employment” does not exist any more.

- Training allows for better quality job and poverty alleviation ;

These are important training programs:

- Linking Employment with training, education, universities and productivity:

This means also the introduction of programs covering areas of anticipated future needs, e.g. advanced technologies, and service industries Linkage between actual employment, career prospects and type of training will render training demand driven. Forms of partnership are different such as “regular contact with the pupils, providing work experience and advice on curriculum through governing bodies, industrial advisory committees, teacher/instructor updating, help with the delivery of courses,

placements/employment for students and involvement in improving and expanding the skills, of the existing workforce”.⁴⁸

- Training for the Unemployed for poverty alleviation

This kind of training is socially needed but usually characterized by poorly directed and consequently ineffective. Diversification its approaches and upgrading its techniques and enhancing NGOs to participate in this kind of training can improve its conditions.

- Self Employment training

This kind of training can be achieved by creating links with local communities, regional training boards and local banks, which can provide financing and guidance for the entrepreneur graduates.

- Active Labor Market Policies (ALMPs)

Active labor market policies (ALMPs) might affect the demand side by creating additional jobs directly through public works programs. They might also be supply-side interventions by training the unemployed to meet the requirements of the labor market. In some cases, they are used to correct for failures in the education system. Further, they can provide a link between both sides of the labor market through employment offices and labor market information.

- Targeting for poverty alleviation

The immediate aim is to assess how changes in the social assistance and subsidies affected vulnerability, mobility out of poverty and chronic poverty. This assessment will be conducted to take into account the effects of higher food prices on poverty, effectiveness of coping strategies, affordability and spending patterns of households.

- Improve observance of the law for better quality of jobs.

The private sector jobs in Egypt are often those offering poor salaries, bad working conditions and inadequate social benefits. It is usually this sector which avoids labour regulation by forcing workers to sign a resignation letter prior to recruitment, does not pay indemnity in case of unfair dismissal or any other case of violation of workers' rights or uses repeatedly fixed-term contracts for work of a long-term nature. The informal employment presents even worse conditions and terms, giving no protection to workers against dismissal, non-payment of wages, occupational injury, etc. These unlawful practices should be stopped by their explicit prohibition in labour legislation accompanied by higher penalization in case of their occurrence, much stronger labour inspection to identify legal abuses among employers of all types.

- Making public works more labour intensive and leading to regular employment.

Public works programmes in Egypt are directed mainly towards improving infrastructure in rural and deprived urban areas, ecological projects and to activities promoting social and human development of communities. Priority needs to be given to labour-intensive technologies creating more employment but without compromising the

⁴⁸ ILO 1997

quality of delivered products. The schemes should also offer adequate training to participants allowing not only good work performance on tasks within the project, but also providing skills for regular employment after the public works scheme is over.

- Providing decent income support to unemployed jobseekers.

In Egypt there are several types of social assistance (passive labour market policies) for persons who lose their jobs. However, the number of people benefiting from these programmes is very low as the eligibility rules exclude the majority of those in need of income support during unemployment and the level of benefits is almost negligible. The only programme providing higher amounts is the early retirement scheme, which stimulates also relatively well skilled, prime aged workers to withdraw from the labour market. . The early retirement scheme should be reformulated and “activated” to encourage younger displaced workers to look for new wage employment. If their skills are not on demand, vocational counselling and suitable training should be offered to them. The existing unemployment benefit scheme needs to be expanded to gradually cover all those who lost their jobs in the formal sector, which also means, according to the insurance principle, that gradually all the employers and workers would have to contribute to the system.

In order to raise minimum wages and at the same time avoid the negative effects on vulnerable groups, it might be useful to reduce the social insurance contributions of both employer and employee, especially for females and young people. In addition, labor market regulations in general and those related to minimum wage in particular should be enforced to ensure compliance by private sector firms.

- Formulation of a comprehensive employment promotion strategy.

There is a need formulation of a comprehensive and realistic employment promotion strategy for Egypt, which would involve the relevant economic and social ministries, the social partners and important sections of the civil society.

- Strengthening social dialogue for employment generation, quality jobs and poverty alleviation.

In Egypt if unions could increase the effectiveness of their representation of workers and improve the articulation of their views, needs and interests, two concrete actions could help strengthen workers' organizations. The Labour Law delegates the regulation of quite a few topics to ministerial decrees. Taking advantage of the fact that decrees can be more easily modified than a law passed in Parliament, effective engagement of the trade unions in social dialogue at the national level can significantly improve employment security of workers through amendments to existing legislation.

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Appendix

Table 1: Total Labor Force (15-64)

	Hundreds
1991	158 859
1993	203 597
1995	169 685
1997	172 764
1999	182 304
2001	193 395
2003	203 597
2005	217 918
2007	238 590

Source: CAPMAS, Labor Force Sample Survey, various issues

Table 2: Labor Force Participation rate by gender

	Labor Force Participation rate
1991	28.4
1992	27.8
1993	28.3
1994	28.7
1995	28.4
1998	28.7
1999	29
2000	29.4
2001	29.5
2002	29
2003	29.4
2007	32.5

Source: CAPMAS, Labor Force Sample Survey, various issues

Table 3A: Employment Distributed by Economic Sectors (Percentage)

Sectors	90/91	91/92	94/95	95/96	98/99	99/00	01/02	02/03	04/05	05/06	06/07
Agriculture	33.7%	33.1%	31.3%	30.6%	29.3%	28.9%	28.4%	28.1%	27.6%	27.3%	27.0%
Mining	11.0%	10.9%	11.4%	11.5%	11.9%	12.1%	12.3%	12.5%	12.8%	13.0%	13.2%
Manufacturing	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.5%	0.5%
Electricity	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Construction	5.3%	5.5%	6.1%	6.3%	7.2%	7.6%	7.8%	7.8%	7.8%	7.8%	7.9%
Transportation	3.5%	3.6%	3.6%	3.7%	3.7%	3.8%	3.9%	3.9%	4.0%	4.1%	4.0%
Communication	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%	0.7%	0.8%
Suez Canal	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Trade & Finance & Insurance	8.6%	8.5%	8.9%	9.0%	9.3%	9.4%	9.5%	9.8%	10.0%	10.1%	10.2%
Hotels & Restaurants	1.1%	1.1%	0.9%	0.9%	1.2%	1.2%	1.2%	1.3%	1.5%	1.6%	1.7%
Housing & Real Estate	1.5%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	3.3%	3.3%	3.3%	3.3%
Public Utilities & Social Insurance & Gov. Services	25.4%	25.9%	26.3%	26.6%	26.3%	26.1%	26.4%	25.0%	24.4%	24.0%	23.5%
Personal & Social Services	8.1%	8.1%	8.3%	8.3%	7.9%	7.8%	7.3%	5.7%	6.0%	6.2%	6.5%
Grand Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Source: Author's calculations based on the Ministry of Economic Development Database retrieved (August, 2009) from <http://www.mop.gov.eg/English/Employment.htm>

Table 3B: Percentage of increase of Employment Distributed by Economic Sectors

Sector	Growth rate
Agriculture	20.3%
Mining	80.3%
Manufacturing	210.3%
Electricity	55.1%
Construction	121.6%
Transportation	72.4%
Communication	90.5%
Suez Canal	-10.0%
Trade & Finance & Insurance	78.5%
Hotels & Restaurants	134.7%
Housing & Real Estate	232.0%
Public Utilities & Social Insurance & Gov. Services	39.4%
Personal & Social Services	19.7%
Grand Total	50.4%

Source: Author's calculations based on the Ministry of Economic Development Database retrieved (August, 2009) from <http://www.mop.gov.eg/English/Employment.htm>

Table 4: Unemployment rate (15-64)

	Unemployment rate (15-64)
1991	8.9%
1992	9.1%
1993	11.1%
1994	11.1%
1995	11.3%
1998	8.2%
1999	8.1%
2000	9%
2001	9.2%
2002	10.25
2003	11
2004	10.3
2006	10.6
2007	8.9

Source: CAPMAS, Labor Force Sample Survey, various issues

Table 5: Distribution of Working Individuals (15-64) by Sector

	1990		1995		2001		2003		2005		2008	
	00's	(%)	00's	(%)	00's	(%)	00's	(%)	00's	(%)	00's	(%)
Government	32602	22.1%	39556	26.3%	48601	27.7%	51906	28.6%	49876	25.80%	53407	23.7%
Public	14271	9.7%	13580	9.0%	10424	5.9%	10466	5.8%	8739	4.50%	7757	3.4%
Private (Inside Enterprise)	74228	50.3%	66515	44.2%	43032	24.5%	41038	22.6%	43269	22.40%	51431	22.9%
Private (Outside Enterprise)	24572	16.7%	29131	19.3%	71222	40.6%	75849	41.9%	89692	46.40%	108298	48.1%
Investment	838	0.6%	1064	0.7%	1598	0.9%	1344	0.7%	1252	0.60%	3379	1.50%
Others Foreign & Cooperative	855	0.6%	741	0.5%	697	0.4%	586	0.3%	591	0.30%	801	0.40%
Total	147553		150587		175574		181189		193419		225073	

Source: CAPMAS, Labour force Sample Survey, various issues

Table 6: Percentage of Increase of Employment Distributed by Sector (1990-2008)

Sector	Percentage of Increase
Government	63.8%
Public	-45.6%
Private (Inside Enterprise)	-30.7%
Private (Outside Enterprise)	340.7%
Investment	303.2%
Foreign & Cooperative	-6.3%
Total	52.5%

Table 7: Distribution of employment (15-64) by status

Work Status	1990		2001		2003		2005		2008		Percentage of Increase (1990-2008)
	00's	%	00's	%	00's	%	00's	%	00's	%	
Paid Work	81502	56.2%	108020	61.5%	104860	57.9%	116051	60.0%	135075	60.00%	65.7%
Employer	19913	13.7%	31390	17.9%	32353	17.9%	28047	14.5%	33839	15.00%	69.9%
Self – Employed	17834	12.3%	19877	11.3%	21917	12.1%	23828	12.3%	24367	10.80%	36.6%
Family workers (unpaid)	25644	17.7%	16394	9.3%	22059	12.2%	25099	13.0%	31794	14.10%	24.0%
Total	144893	100.0%	175681	100.0%	181187	100.0%	193418	100.0%	225075	100.00%	55.3%

Source: CAPMAS, Labour force Sample Survey, various issues

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