

# Reformulating Labor Market Policies:

Job Creation for Youth in  
Egypt

Egypt Network for Integrated Development

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**Policy Brief 006**

# Reformulating Labor Market Policies: Job Creation for Youth in Egypt

## 1. Key Messages

Growth in developing countries must be founded on three pillars. The first is macroeconomic policies that render sustainable fiscal positions and credible monetary policies. The second is competitiveness, by enhancing structural reforms and investing in human capital, especially for youth in various stages of education and training. The third and most important pillar is a focus on employment generation, which is more intimately related to employment elasticity of growth by sector of economic activity.

Developing economies, such as Egypt, are in dire need for a package of integrated labor market policies and actions. Such a package must propose a strategy for youth empowerment, which for Egypt can be classified into four groups of interventions, as follows:

- i) Programs that target the less developed regions in the South so as to better access high quality education, vocational training, health and sanitation, and housing;
- ii) Sector strategies for Egypt's identified engines of growth, which enjoy high employment elasticities including manufactured exports, tourism, agri-business, ICT and the huge MSME sector;
- iii) An enabling environment for micro and small entrepreneurs with better access to land, to credit, and to extension services;
- iv) The promotion of youth-led and youth-run voluntary projects that target MDGs and national goals.

For young women with low-level skills, these programs would be community-based. In addition to the upgrading of Egypt's Technical Vocational Education and Training (TVET), the youth skills that are most in need are entrepreneurship, management for self-employment and leadership to partner with local government in service delivery and monitoring for good governance.<sup>1</sup>

## 2. Egypt's Labor Market Dynamics

Egypt faces an unprecedented demographic pressure with more than 23 million young men and women in the age group 18-29.<sup>2</sup> The two common features of disadvantage for youth are the level of unemployment, and a prolonged "wait-hood," which delays family formation and the setting up of independent households. Also, one fifth of this youth bulge is illiterate, which is more widespread in females than males, scoring 27% and 15% respectively, and which significantly decreases in higher socio-economic classes, reaching 42% in the lowest compared to 4% in the highest socio-economic class. And as for higher education, more than half the youth at the highest socio-economic class are enrolled in universities, compared to 0% and 5% for those in the poorest two quintiles.

### 2.1 Unemployment and its peak groups

According to the 2006 Population Census, almost 92% of the total unemployed were in the age group 15-30 years, while their participation rate scored a low of 38%. High youth unemployment is also an insertion problem; 93% of the unemployed are first time job seekers. Unemployment hits females more than males, as unemployment rates reached 40% for female youth and only 19% for male youth. More importantly, unemployment exists among the poor, who cannot afford to remain unemployed. Moreover, for youth with university degrees, unemployment jumps to nearly 45% for females and 25% for males, compared to 30% for females and 12% for males among university graduates of all ages (15-64 years).

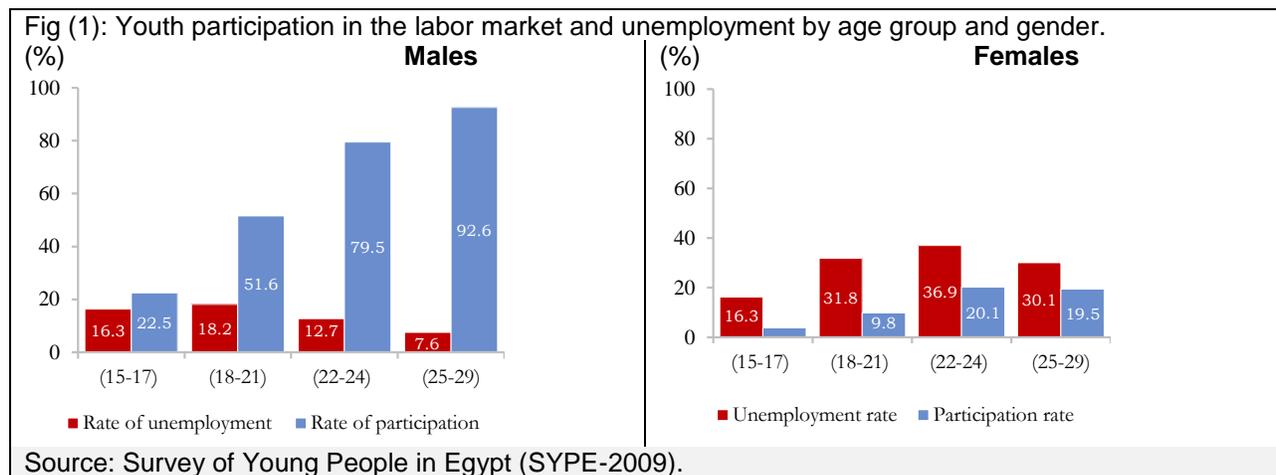
According to the Survey of Young People in Egypt (SYPE), participation in the labor market increases concurrently with the decline of unemployment among males as the age group grows. As shown in figure 1, the rate of male participation in the labor market and unemployment in the age group (15-17) came to

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<sup>1</sup>Handoussa, H, et al. (2010), Situation Analysis: Key Development Challenges Facing Egypt, Egyptian Government and UN Agencies, Egypt.

<sup>2</sup> Definition of youth is 15-29 years of age throughout this paper unless otherwise indicated.

22.5% and 16.3% respectively, versus 93% and 8% in the age group (25-29). In striking context, unemployment rate scores highest among females in the age group (22-24) at 37%, and the rate of participation in the labor market flattens out since the age of 22 for females at the low average of 20%.

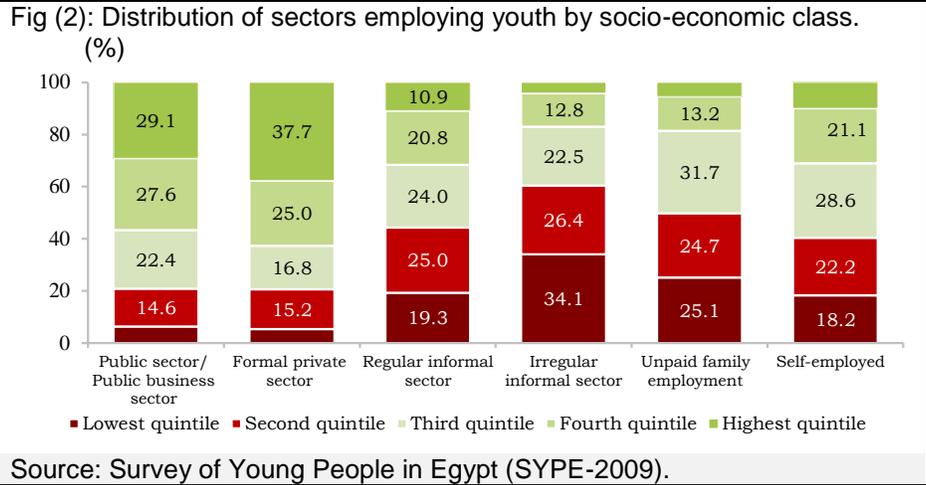


Household income and wealth also have a market impact on youth employment. In this context, rate of participation in the labor market and unemployment came to 63% and 10% respectively in the lowest socio-economic class compared to about 47% and 15% respectively in the highest. In other words, male participation in the labor market demonstrates a decline coupled with a simultaneous increase in unemployment with the increase of socio-economic class. However, the female rate of participation in the labor market increases with higher socio-economic class as reflected in a rate of 10% in the lowest socio-economic class versus 19.5% in the highest.

Besides, the overall average unemployment period stood at about 33 months. However, when tracking different generations, it significantly declines. As for the gender dimension, the average unemployment period increases among female job seekers compared to male job seekers by one and a half years. In this context, the average unemployment period reached 46 months among females compared to 29 months for males. The average period of unemployment also regresses with the increased educational level. Moreover, the average unemployment period declines to its lowest among youth in the highest socio-economic class where it scores about 18 months compared to about 23 months for the lowest class.

## 2.2 Employment Force Decomposition

Both the public sector and public business sector together attract highly educated youth, whereby the percentage of university graduates and postgraduates in both sectors, reached 43% and 44% respectively. Youth from lower socio-economic class are less advantaged in obtaining jobs in the public sector/public business sector or the formal private sector. They maintain higher dominance in the informal sector. Youth who belong to the richest 40% of families acquire more than half of the jobs in the formal sector. In contrast, nearly two thirds of Youth (61%) who work in the irregular informal sector belong to the poorest 40% of families in society.



### 2.3 Entrepreneurship

Although Egyptian youth still show a preference to work in government, a growing percentage favors entrepreneurship according to the Global Entrepreneurship Monitor (GEM). With regards youth engagement in entrepreneurial activity, the GEM results are very promising in terms of the relatively high representation by business owners who are under 34 years old. The Total Entrepreneurial Activity rate (TEA) which measures the percentage of the population (18-64 years old) either actively trying to start a business or already owning and managing a business less than three and a half years old is 7%, a significant drop from 2008 when TEA was about 13%.

If GEM results are extrapolated to the total population in Egypt, an estimated 2.7 million people are entrepreneurially active, of which 0.8 million are nascent entrepreneurs, 1.9 million are owners of young business and 1.72 million are owners of established businesses. Demographic groups of the adult population with the highest TEA rates were: 1) men; 2) those in the 25-34 year age group; 3) those with a second degree; 4) those in the household income group of EGP 6,001-8000; 5) those living in Cairo; and 6) those that are self-employed.

Early-stage enterprises and established businesses are concentrated in consumer-oriented services (42% and 38%, respectively) such as the retail trades, hotels and restaurants, etc. Whereas nascent entrepreneurs are actively operating in the manufacturing sector, young business owners are operating mainly in utilization, transportation, storage and communication. Also, export orientation is very low among Egyptian entrepreneurs.

### 3. Sectoral Performance and Policies

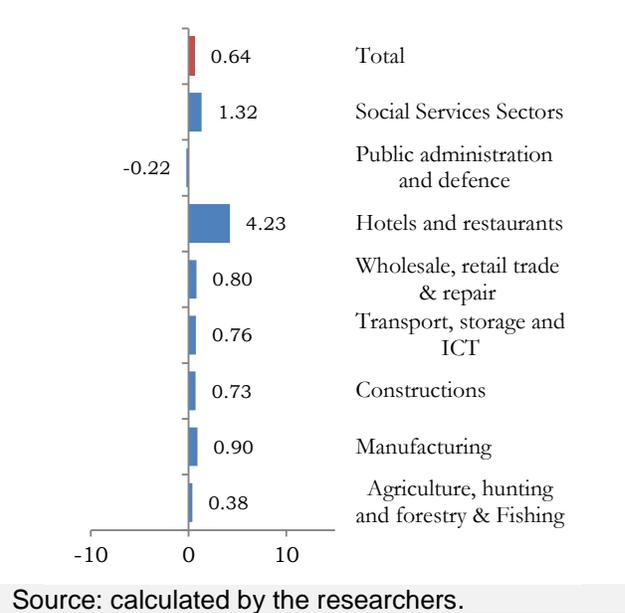
A major reason that explains why Egypt's GDP growth between 2005 and 2010 has not been translated into decent job creation as described above, with high unemployment and segmentation along age groups, class and gender, is the low sectoral elasticity for agriculture and government services, as well as rigidities in the labor market for other sectors, including manufacturing.

### 3.1 Employment elasticity of growth

At the national level the estimated elasticity for the four year interval 2005/06-2009/10 is 0.64 corresponding to an annual average positive GDP growth (6.0%) and an annual average positive employment growth (4.3%), which is considered relatively high. Although this situation represents a balanced growth-employment-productivity relationship, it conceals the lack of adequate structural change to generate sufficient jobs to match the increased supply of more than one million new entrants. Agriculture still weighs heavily at 30% of total employment, with an elasticity of 0.38, which is only half of the average employment elasticity of GDP. Public administration which accounts for about 10% of total employment shows a negative elasticity.

As illustrated by figure (3), elasticities vary widely across sectors. Just as the average elasticity of employment to GDP is pulled down by agricultural and public administration, a number of other sectors are highly labor intensive, and enjoy high employment elasticity to output.

Fig (3): Average employment elasticities of GDP (2005/06-2009/10)



There are three engine-of-growth sectors that have been identified as growth poles for the foreseeable future. Sector elasticities show that tourism recorded an average elasticity greater than one (4.23), and manufacturing recorded an elasticity of close to 0.9. ICT shows a promising elasticity, which is close to 0.8, implying that it can act as an engine of job creation, especially that it currently accounts for 11% of GDP. All three sectors are predominantly private in nature with firm size ranging from large to small and micro, and all three have great potential for faster growth based on exports. Non-traded services with important elasticities of growth include social services (elasticity of 1.32), wholesale and retail trade (0.80), transport (0.76), and construction (0.73). The implications are that diversification and structural change away from agriculture and the civil service are necessary to achieve GDP growth with higher employment growth.

Fig (4): Composition of Employment Force by Economic Sector in years 2005 and 2011.

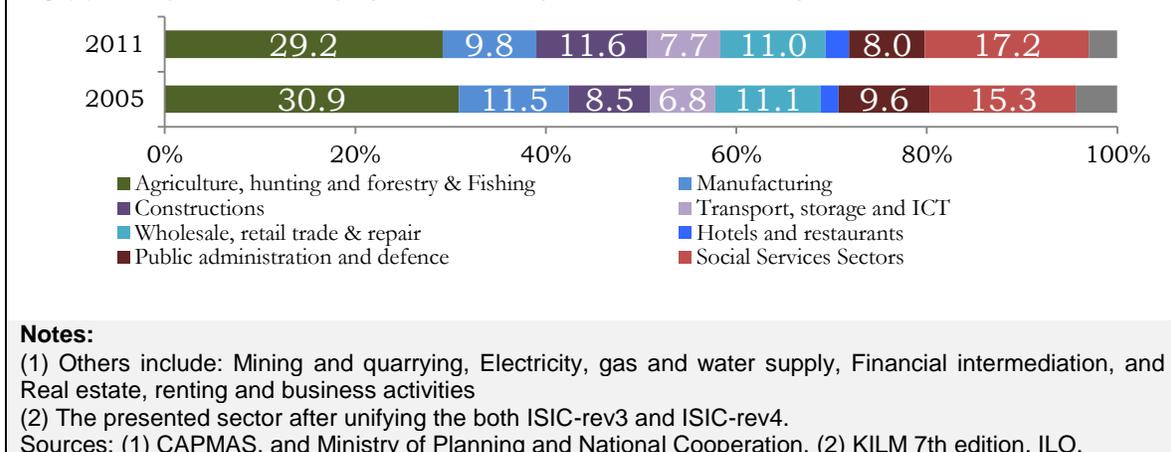
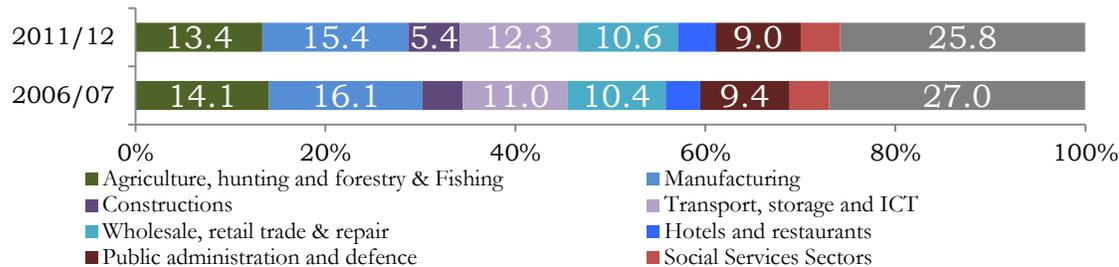


Fig (5): Composition of GDP at factor cost and constant prices (2006/2007) by Economic Sectors in fiscal years 2006/07 and 2011/2012.



**Notes:**

(1) Others include: Mining and quarrying, Electricity, gas and water supply, Financial intermediation, and Real estate, renting and business activities.

(2) The large share in GDP of "Other" is due to the weight of petroleum and mining.

Source: Central Bank of Egypt.

### 3.2 Egypt's Competitiveness Strategy and Engines of Growth

Egypt has so far identified five engines of growth, which are manufacturing industry, tourism, agribusiness, ICT, and the micro, small and medium enterprise (MSME) sector. Another three promising sectors are construction and housing as well as renewable energy. Growth in these sectors has resulted in the GDP growth witnessed between 2005 and 2010, while their structures have resulted in different labor market outcomes.

Existing industries in which Egypt has a comparative advantage include engineering, food processing, chemicals and pharmaceuticals, textiles and garments, building materials, furniture, paper and paper-board industries. New target niches have been identified in engineering, machinery and equipment, labor-intensive consumer electronics, automotive components, life sciences, biotechnology and ethnic/handicraft products. The challenges are mainly to maintain a high growth level of exports, shift to higher technological intensity of manufactured products, and raise the productivity of labor. Besides, the adoption of a national ICT plan in 1999 has also resulted in tremendous growth in the ICT sector. However, in Egypt, only 0.2% of GDP is allocated to Research and Development (R&D) and about 95% of R&D spending comes from the government.

Secondly, the growth performance and resilience of Egypt's tourism sector over the year 2009 confirms that tourism is a principal generator of income and foreign exchange earnings which contributes around 11.3% of GDP directly and indirectly. It is also a labor-intensive industry, generating about 12.6% of Egypt's employment. However, there is a need to better coordinate the inputs of all the many sectors that serve the tourism industry, including airports, aviation, transport and telecommunications.

Third, nearly 70% of Egypt's poor or food-insecure live in rural areas and a large share of these people depends very much on agriculture for their food supplies and for generating incomes. The contribution of the agriculture sector in Egypt exceeds 13% of GDP and over 30% of employment opportunities. Meanwhile, about 57% of the total population in Egypt lives in rural areas, where poverty prevails. As such, enhancing sustainable agricultural and rural development as a means to reduce poverty and food insecurity is a prerequisite for sustainable social and economic development. Also, in spite of the abundance of high quality raw materials, especially fruits and vegetables, Egypt's value added in the food-processing sector does not exceed 20%. However, frozen and canned products enjoy increasing demand as well as supply. Egypt's growth in this sector was 118% from 2005 to 2009.

Finally, the MSME sector has a large potential for job creation but suffers from many constraints. These constraints include: 1) demand-related constraints, arising from weak purchasing power of their primary low-income customers; more intense competition; low involvement in export activity; limited linkages to

larger firms; and use of limited, non-structured and uncoordinated marketing channels; 2) input constraints, such as low utilization of technology; inadequate access to external finance; poor access to adequately priced inputs; and low access to information and business development services; 3) process and management constraints resulting from lack of sophistication of production systems and weak management know-how; 4) labor constraints due to a scarce supply of skilled and trained workers and inability to pay high wages and cover high non-wage labor costs; 5) legal and regulatory constraints which impose heavy compliance burdens and costs on the smallest enterprises (leading to the high level of informality); and 6) entrepreneurship constraints due to an inadequately supportive entrepreneurial environment and culture.

### 3.3 External Migration and Remittances

International labor migration has the benefit of reducing the pressure of a large labor supply, transferring knowledge, and increasing foreign currency through remittances. As a result to insufficient job opportunities in Egypt, almost one fifth of the youth wish to immigrate. This percentage rises to about 29% among male and goes as low as 6% among female. The older the youth is, the less the desire for immigration; i.e. percentages were about 20%, and 15% among age groups of (18-21) and (25-29) respectively. In addition, vocational and tertiary educated youth are more wishful for leaving Egypt. Moreover, about 18% of youth in the highest socio-economic class compared to about 16% of the lowest socio-economic class wish to immigrate.

Therefore, there is a need to consider the relevance of Egyptian workers and employees to international labor market demand, as well as encourage and facilitate internationally recognized accreditation. Furthermore, it would be essential to promote access to employment opportunities abroad, through provision of accredited and market-oriented education and training, as well as through schemes to facilitate Egyptian jobseekers access to suitable vacancies abroad. Egypt should also look to strengthen the link between migration and SME development by encouraging productive remittance use and encouraging investment of financial, social and human capital associated with migrants' return to Egypt.

## 4. Integrated Egypt Labor Market Strategy

This section is devoted to a proposed menu of Active Labor Market Policies (ALMP), which are based on the vision for Egypt's growth and development in the upcoming decades as proposed by consecutive Human Development Reports for Egypt since 2004. The menu is classified into four policy areas.

### 4.1 Linking Education Strategy to Labor Market Needs

#### 1. Reforming school and vocational level education

- Adopting and financing technological, vocational, and technical training programs, and strengthening the interpersonal and communication skills provided by the formal education system, and initiating a wide media campaign and educational curricula for changing the perceptions and attitudes toward technical and vocational education.
- Strategically planning the linking of vocational technical education to labor market demands, through a dual training system, including the faculties of applied sciences. The immediate focus on such specializations would directly boost a number of crucial economic sectors that act as catalysts for job creation and require various specializations.
- Expanding female vocational schools and increasing investments in rural areas, especially in Upper Egypt governorates to help reduce poverty and vulnerability.<sup>3</sup>
- Developing the area of information technology to encourage innovation and creativity.

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<sup>3</sup>Abdel Mowla, A. Somaya. 2011. *Vulnerable Employment in Egypt*. The Egyptian Center for Economic Studies (ECES) Working Paper Series, No. 165. Cairo, Egypt: ECES.

## **2. Toward a faster and effective school to work transition**

- Strengthening institutional capacity in providing suitable employment services to result in sound matchmaking. In this regard, career guidance services can be improved in the Public Employment Services of the Ministry of Manpower and Migration (MOMM), in collaboration with the Ministry of Education (MOE).
- Encouraging educational and training institutions to undertake post-graduation research to identify if/where their graduates have been employed and assess a number of issues, namely: employment constraints, and degree of matching between graduates' skills and labor market needs.
- Institutionalizing the collaboration between education institutions and industrial federations and chambers of commerce to adopt effective Technical Vocational Education and Training (TVET) programs.
- Designing a continuous process of career counseling from preparatory education stage onwards, as well as a national standard for career guidance that should adapt international standards and experiences within the national context.
- Strengthening the role played by civil society organizations in establishing career guidance units, particularly for school dropouts.

## **4.2 Legislative Reforms in Labor, Insurance and Pension Laws**

### **1. Reform wages & employment policies**

- Adding and operationalizing regulating laws of the Supreme Council for Wages and Employment, which would assume several tasks that are recommended to include:
  - Taking all necessary measures to revise wage and employment policies, set a minimum wage and narrow the variations between wages among different job hierarchies in the state bodies.
  - Examining and updating the wages' general structure in the government sector on a regular basis as scheduled by the council's regulating law.
  - Setting and approving the annual increase of government sector employees.

### **2. Reform of worker representation**

- Reforming labor laws on freedom of assembly and collective bargaining.
- Monitoring syndicates' election and formulating committees in charge of preparing and endorsing syndicates' legislations and providing necessary guarantees that would secure free and fair syndicates' elections coupled with independence from the political regime.
- Reforming the public sector by establishing committees to monitor job performance and ethical conduct of government employees to ensure integrity and impartiality in providing public services.
- Restructuring the administrative side of the public business sector to enable it to adopt the Malaysian "formula" in terms of separating management from ownership.
- Supporting civil society and its role in monitoring the performance of governmental institutions, fighting corruption and setting mechanisms of accountability and transparency.

## **4.3 Implement Sectoral Policies Conducive to Growth and Structural Change**

### **1. Expand and diversify the industrial base and eliminate distortions of the industrial sector**

- Promoting investment in Egypt's five emerging engines of growth, especially those that are labor intensive sectors, including conventional and modern activities, and those producing for exporting. These engines include manufacturing industry, tourism, agribusiness, ICT and the MSME sector. In the manufacturing sector, focus should also be given to areas where Egypt has a comparative advantage, for example, engineering, food-processing, chemicals and pharmaceuticals, textiles and garments, building materials, furniture, and paper industries.
- Expanding the size and geographic diversification of industrial zones to involve new target niches identified in engineering, machinery and equipment, labor intensive consumer electronics, automotive components, life sciences, biotechnology, and ethnic/handicraft products.

- Prioritizing industrial clusters linked to MSMEs, since their products are directed towards low-income consumers, when MSMEs are linked to larger enterprises, the demand for the products will increase significantly.
- Creating local investment funds to finance infrastructure investments, as they involve high employment potentials, especially for seasonal low skilled labor.
- Improving the performance of Egypt's extensive network of commercial offices and diplomatic missions in promoting exports and FDI inflows.

Any stimulus plan should be further reinforced by embracing an agenda for public investment that includes high job content, including public works program, which could be managed by local government in the short term as a way of offering quick employment for large numbers at a relatively low wage. Public works provide a temporary scheme for employment, eliminating the risks of burdening the state budget and fiscal insolvency over the medium term.

## **2. Implement the strategy for MSME development**

- Design an action plan with a specific timeline to implement Egypt's MSME strategy designed four years ago. This plan would prepare specific programs, projects, and initiatives, to be undertaken on an annual basis, to achieve its objectives by the end of a five-year period. It would include estimated annual budgets, human resource requirements, and responsible implementing partners/bodies for each program/ project/initiative. Use of a results-based management (RBM) framework approach is recommended.
- Streamlining and accelerating the issuance of licenses and permits of small enterprises from the municipalities to include them in the formal sector, and creating a set of public incentives policies for formalization, such as; the State's contribution to the social insurance coverage of young and new SMEs employees..
- Supporting entrepreneurship activities in the private sector by streamlining and simplifying bureaucratic procedures, granting temporary tax exemptions to small activities, and minimizing bankruptcy burdens and business failure.
- The Challenge of Scaling-Up Best Practices: best practices exist in all realms of human development, ranging from preschool education to sanitary networks for low-density villages. Scaling-up calls for governance reform, institutionalization of capacity at different levels, resource mobilization, and strengthening high-level monitoring and evaluation. Activities that can be scaled-up to a national level could thus include housing and sanitation schemes for the poor, upgrading informal settlements, health insurance for various levels of household incomes, extension services for agriculture and mechanization, research and higher education on a not-for-profit basis. Scaling-up efforts require extending and strengthening partnerships to achieve wide coverage. New partnerships will require creating new management and operations systems to support scaling-up while maintaining the core values and quality of pilot projects.
- Establishing an MSME Federation grouping all specializations, and comprising MSME owners in order to assume the marketing and exporting role for such projects among other duties.
- Facilitating obtaining funding including the benefit of Venture Capital mechanism, as well as receiving technical support and marketing of projects. And establishing business incubators according to global standards.

## **4.4 Improve Labor Market Information System**

### **1. Adopting an Information Disclosure Policy**

- Issuing the information disclosure and circulation law in consultation with the various stakeholders.
- Issuing a national glossary of statistical concepts and standards, including -in addition to the definitions- the government agencies entrusted with data collection, analysis, and production; while producing the data and the (METADATA).
- Requiring government agencies to publish their reports, studies and statistics, based on a pre-designed and disclosed government information system.

- Establishing the Egyptian Portal for Education and Labor Market Statistics, which should act as a joint portal among ministries and authorities involved in education, labor, investment and statistics.

## **2. Proceeding towards Informatics decentralization**

- Activating the role of the Villages and Governorates Information Centers and linking them to the national databases and computer networks so that they can feed into the databases on the local level, and these centers can make use of the deliverables of this system in providing reports and studies to support decision-making at the local level.
- Establishing and assisting regional and sectoral observatories, which can be considered the nucleus of the Labor Market Information System.
- Activating and expanding the scope of the Government-to-Government (G2G) project, which is being implemented in the Ministry of Administrative Development (MoAD) to ensure mutual exchange of information and statistics between various governmental agencies.
- Accelerating the creation of an Employment e-system to help identify the most important characteristics of skills supplied and demanded in the labor market. This will create a credible media platform to show that the government is aware, and seeking to gain further knowledge about the unemployed to provide them with the relevant training programs.

## **3. Adherence of all authorities, organizations and institutions which undertake data collection, analysis, and production to international standards in the statistical data quality, as well as in the monitoring and evaluation of policies, procedures and projects to ensure their effective and competent use.**

- The Central Agency for Public Mobilization and Statistics (CAPMAS) would review and audit the statistical quality of the data obtained from the Egyptian Labor Market Information System.
- Assigning the Egyptian Labor Market Information System to monitor the results and impacts of the various policies and programs on the collective, sectoral and employment statistics and indicators of the Egyptian labor market, continuously during and after the implementation of these projects.

## **4. Engaging civil society and the private sector as key partners in the management of the Egyptian Labor Market Information System.**

- The process would start by identifying the means and regulations needed to develop and deepen partnerships with civil society and private sector by key government entities who work in education, training, and labor market through capacity building in the areas of operations and activities related to building and operating the Labor Market Information System.

## **5. Adopting decision-making policies in the areas of education, training, and employment based on the optimum utilization of the deliverables of the Egyptian Labor Market Information System.**

- Building forecasting and early warning systems to identify future needs, problems, or symptoms that could limit the ability of the Egyptian labor market to expand.
- Designing the training and qualification systems based on the deliverables from the Labor Market Information System to achieve consistency between the training and qualification sectors on the one hand; and the labor market on the other. Ensuring clear and accurate disclosure of the existing training and qualification programs in all sectors to make them accessible for use in the implementation of future training programs.

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