Labor Markets and School-to-Work Transition in Egypt: Diagnostics, Constraints, and Policy Framework

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ABSTRACT

Analysis in this policy note indicates a rapid deterioration in employment opportunities for young individuals transitioning from school to work in Egypt. Despite substantial improvements in labor market outcomes in recent years (in raising employment and participation and in lowering unemployment), unemployment rates in Egypt remain exceedingly high among youth entering the labor market for the first time. A slow school-to-work transition remains the main reason behind high unemployment rates. Young entrants to the labor market have become more educated than ever before: the share of the working-age-population with university education in Egypt has increased significantly between the years 1998 and 2006 (from 14% to 19% among men and from 9% to 14% among women). However, youth are unable to capitalize the time and resources invested in their education as the labor market is not providing enough good-quality jobs for them. To cope with scarce formal jobs, young-educated workers are opting to work in the informal sector and/or withdraw from the labor force, which is contributing to a deadweight loss of recent investments in education. There are three key factors that seem to explain why school-to-job transition remains low in Egypt: investments in the private sector remain low and capital intensive, new graduates are not equipped with the skills demanded by the private sector, and the public sector still provides incentives for educated individuals (mainly women) to queue for private sector jobs. There are several policy options used in the international context to further enhance the performance of the labor market; such as removing obstacles in regulation, enhancing employability of new entrants, reforming the civil service, and designing targeted programs aiming to boost labor demand.

JEL Classification: J20, J30, J40, J50

Keywords: labor markets, Egypt, unemployment, training, labor regulation, school-to-job transition

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INTRODUCTION

Despite substantial progress in labor market outcomes in recent years (higher rates of employment and participation and lower rates of unemployment), quality of employment in Egypt has suffered an important deterioration, especially among youth entering the labor market. Young entrants to the labor force have become more educated than ever before but are unable to capitalize the time and resources invested in their education as the labor market is not providing enough good quality jobs for them. There is stagnation in the creation of good private sector jobs and the growth of public sector employment (a traditional source of employment for highly-qualified workers) is not enough to absorb all new entrants in to the labor market. Furthermore, new graduates do not possess the set of skills in demand in today's labor market. Employers often consider young workers unattractive for employment because they lack the skills and experience necessary to fill available vacancies. The education and training systems are often unrelated to the job market demands, resulting in inadequate curricula that seems unaligned to the competencies required by employers. To cope with scarce formal jobs, young-educated workers are opting to work in the informal sector (in low-quality/low pay jobs) and to withdraw from the labor force. These combine phenomena contributes to a deadweight loss of recent public and private investments in education.

Egypt is not the only developing country facing these challenges. As such, the main objective of this policy note is twofold. First, it discusses existing empirical evidence to identify the main constraints to employability in Egypt. Next, it reviews examples of successful reforms, policy options, and programs that have been designed and implemented in other developing economies and which have proven to improve employability for new entrants to the labor market. While the note develops and discusses a general policy framework to promote employability, it does not aim at this stage to provide any specific policy recommendations. The note is structured as follows: Section I presents some facts about the school-to-work transition in Egypt using available micro data; Section II identifies two important constraints to youth employability; Section III discusses policy options available to facilitate the school-to-work transition. A brief conclusion follows.

I. SCHOOL TO WORK TRANSITION IN EGYPT

Despite positive job creation, labor market outcomes remain very stagnant for new entrants to the labor market (mainly youth and women). Despite moderate growth in GDP (averaging 4.5 % per year in the period of study), between the years 1998 and 2006 labor market indicators in Egypt displayed significant improvement. Labor force participation rates rose from 48.4 to 53.1% of the working-age population (15-64); unemployment rates decreased from 13.8 to 9.6% of the labor force; and the overall employment rate in the country rose from 42 to 48 % of the working-age population. Still, Egypt displays lagging employment indicators (higher levels of unemployment and lower levels of participation/employment) among youth and women. Unemployment rates remain very high among youth and women, and especially among those with higher levels of education. Unemployment rates among young women are much higher than among young among men, reaching up to 50% (vs. 17 to 18% among young men) (Figure 1). Unemployment rates are highest among skilled youth, as they generally queue for public

sector jobs (Table 1) while unemployment rates among low-skilled youth are rather low as they rapidly absorbed in informal sector jobs (Assaad, 2008, 2009).[2]

Figure 1: Unemployment rates by age and gender [Egypt, 2006]

Source: World Bank using the 2006 Egypt Labor Market Panel Survey (ELMPS) survey.

Table 1: Unemployment rates by education and gender [Egypt, 2006]

	Unemployment rates in % ***Men***	*% Share of Unemployed*	*Unemployment rates in %* ***Women***	*% Share of Unemployed*
Primary or below	1.71	13.06	1.77	2.98
Preparatory/Sec. General	3.32	4.58	8.92	1.15
Secondary Vocational	7.11	48.94	36.76	65.84
Tertiary	10.52	33.42	29.11	30.03

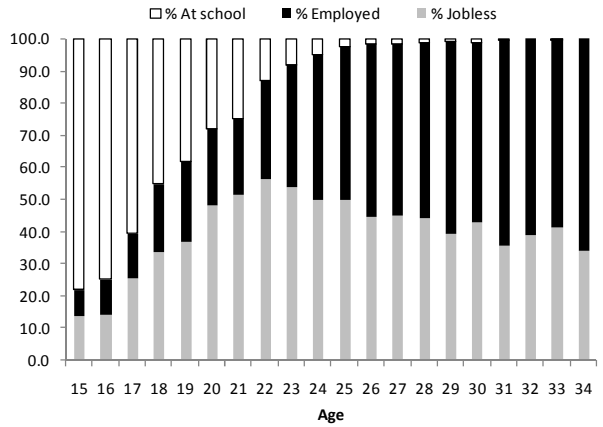
Source: World Bank using the 1998 and 2006 ELMPS survey.

Slow school-to-work transition remains the main reason behind high unemployment rates. In Egypt, it takes about 7 years for youth to transition from school to work, as measured by the time it takes from when 50 percent of the population is enrolled in school to when 50 percent of the population is employed (Figure 2). In developed countries, it takes an average of about 1.4 years for new young entrants to get a stable job. Individuals 15 to 29 years old account for more than one-quarter of the total population of Egypt and for about 22 per cent of the total Egyptian labor force. Young people also account for the largest segment of all the unemployed Egyptians: 8 out of every 10 unemployed in Egypt are youngsters entering the labor market for the first time (Assaad, 2008, 2009). This group of young individuals is more educated than ever before. The share of the working-age-population with university education in Egypt has increased significantly (from 14% to 19% among men and from 9% to 14% among women) between the years 1998 and 2006. At the same time, Egypt's former policy to guarantee public employment for university graduates has been suspended, which has contributed to slowing the growth of the public sector and has in particular affected new female graduates (who generally aim to find public sector jobs). As a consequence, many school graduates, especially women, become

[2] Egypt displays lagging employment indicators (higher levels of unemployment and lower levels of participation and employment) compared to developing countries in East Asia and Latin America and to developed countries. This is especially true among women, who display very high (unemployment (low participation) rates in the international context.

jobless after graduation. According to ILO (2007), 5 out of every 10 new young entrants remain unemployed for many months after having graduated from school. [3]

Figure 2: School-to-work transition among Youth [Egypt 2006]



Source: World Bank using the 2006 Egypt ELMPS survey

To cope with scarce formal jobs, young-educated workers are opting to work in the informal sector and/or withdraw from the labor force. One of the main changes in the Egypt's labor market between the years 1998 and 2006 was the rapid raise of informal employment as a share of total employment. This phenomenon is robust to several frequently used measures to quantify the levels of informality in labor markets (see Table 2). Informality, as measured by share of workers not contributing to social security (i.e. without access to pension and health insurance coverage through their employers) increased nationally from 49% to 58% in the period of study. Although the informality levels remain lower in urban areas than in rural areas, which is not surprising given the weight of the agriculture sector in rural areas, urban informality grew faster reaching 43% of the overall labor market.

Table 2: Informality trends in Egypt

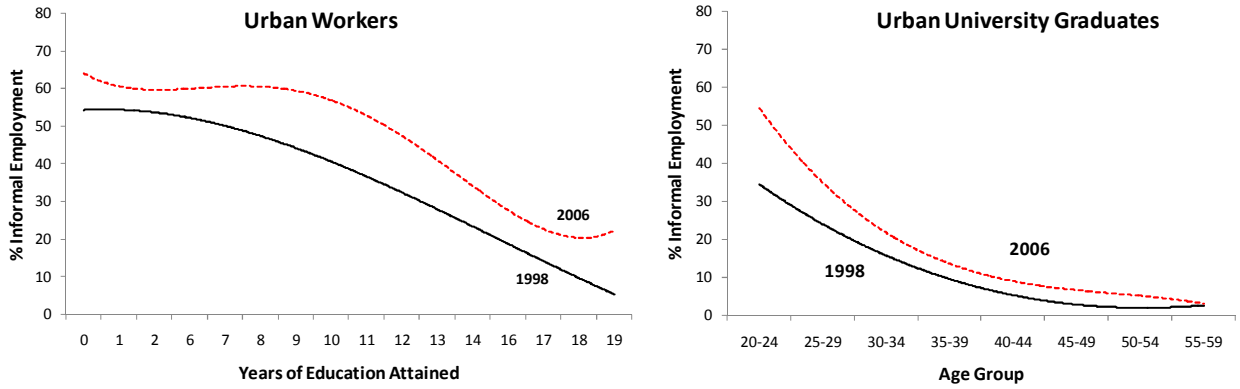
	*Workers **not** contributing to social security as % of total employment;*	*Workers **without** a contract as % of total employment*	*Share of workers in firms with less than 5 employees*
		Total	
1998	49.0	56.0	40.0
2006	58.3	62.8	52.6
% change	19.0	7.6	12.1
		Urban	
1998	33.6	44.4	32.2
2006	42.6	48.8	44.0
% change	26.8	12.8	9.9
		Rural	
1998	62.4	66.1	45.6
2006	70.0	73.4	56.1
% change	12.2	4.1	11.0

Source: World Bank using the 1998 and 2006 ELMPS survey.

[3] For more detailed information on female labor force participation see World Bank (2010)

The increase in informality has deeply affected young entrants with higher levels of education. While informality remains lower among more educated workers, it is increasing much faster among this group (Figure 3, left panel). While in 1998 only a minority (less than 10%) of all workers with more than 17 years of education worked in the informal sector, by year 2006 the same share had raised between 20 and 30%. It is worth noting that acquiring informal jobs is a way for young/educated university graduates to enter the labor market, gain experience, and eventually move into formal employment as informality decreases quickly with age (however, women are less likely than men to transition from informal into formal sector jobs) (World Bank. 2010)(Figure 3, right panel). The increase of educated workers within the informal sector is an outcome of both choice but mainly because of the increased supply of informal jobs. Yet, the raise in informality among highly educated individuals is not exclusive among youngsters. Indeed, informality rates are on the raise among the highly educated adult population as well. Moreover, as illustrated in Table 3, labor force participation among more educated women has decreased noticeably between the years 1998 and 2006, suggesting that many qualified women are withdrawing from the labor force due to lack of formal jobs. Marriage is also an important determinant explaining why educated women withdraw from the labor force. Educated women employed in the private sector (which is largely informal) are more likely to exit the labor force after marriage than women with government jobs. This occurs because the growing private sector generally does not provide a "family friendly" environment as compared to the public sector (e.g. maternity leaves, flexible schedules, daycare facilities, etc) (see World Bank, 2010).

Figure 3: Informality by age-group and years of attained education



Source: World Bank using the 1998 and 2006 ELMPS survey.

Table 3: Female Labor Force Participation by Education Attainment

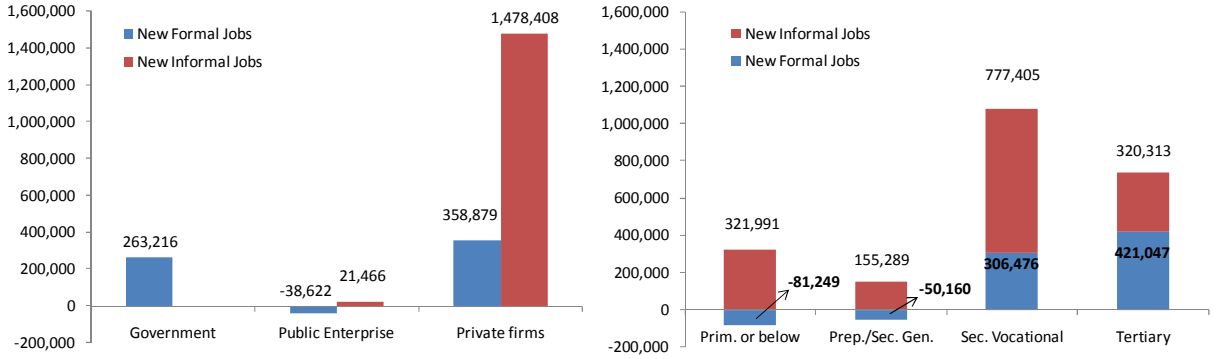
Education Attained	***1998***	***2006***
Vocational Secondary 3-Yr	57.45	39.50
Vocational Secondary 5-Yr	61.52	69.06
College	79.40	49.04
University	72.50	60.72

Source: World Bank using the 1998 and 2006 ELMPS survey.

A large share of all jobs created between 1998 and 2006 for university graduates were "informal" (low quality/low pay) private sector jobs. The private sector was the main engine for the creation of new jobs in Egypt between the years 1998 and 2006. Estimates from the ELMPS data (limiting the sample to urban areas only) indicate a net creation of more than 2

million jobs in Egypt in the period of study. The majority of these new jobs (about 62 %) were informal (low/quality low/pay) private-sector jobs (Figure 4). The private and public sectors managed to create only about 583 thousand new formal jobs, most of which were filled by workers with secondary vocational and tertiary education. Note that the majority of all new formal jobs (about 360 thousand) were created in the private sector. Nevertheless, even among highly educated workers, the majority of all net employment creation occurred in the informal sector. Among workers with primary and/or secondary general education, all net job creation was in the form of informal jobs. Among this group of less skilled workers, there was actually some net job destruction of about 130 thousand formal jobs. [4]

Figure 4: Net Job Creation between years 1998 and 2006 [Urban Egypt]



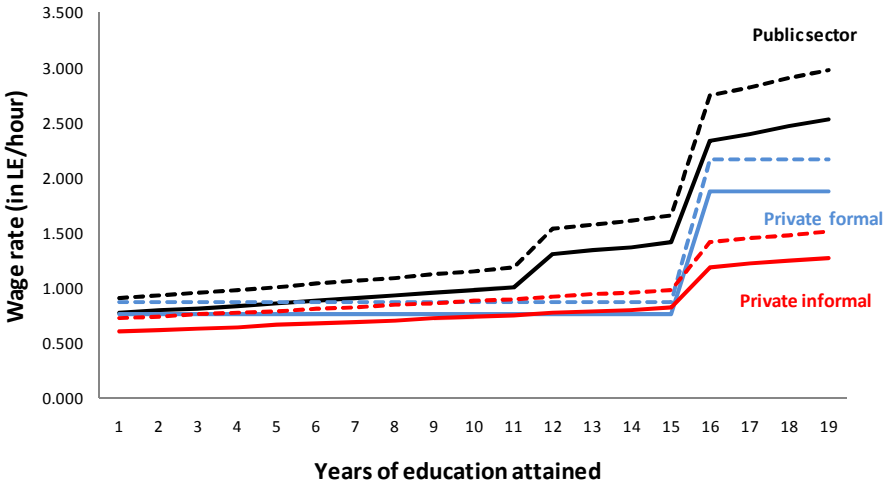
Source: World Bank using the 1998 and 2006 ELMPS survey.

Having to rely on informal sector jobs constitutes an important loss of human capital for young entrants. Returns to education (even among those with university education) are very low in the informal sector. Informal jobs are generally associated with low-wages, suggesting low levels of productivity as compared to the formal sector. Indeed, net hourly wages among informal workers in the private sector are quite low. For instance, a worker in the informal sector who has completed 5 years of education (equivalent to primary education) earns similar wage-rates to those of a worker who has attained 12 to 14 years of education (equivalent to complete secondary and some post secondary education). On the contrary, returns to investments in secondary and tertiary education (as well as returns to work experience) are quite significant in the formal sector as well as in the public sector. For instance, a formal worker with 12 and 16 years of education (equivalent to complete secondary and tertiary education respectively) would earn wages-rates that are twice to three times larger than those earned by a formal worker with 5 years of education (equivalent to primary education) (Figure 5). [5]

[4] Informality is proxied by the share of overall employment not making social security contributions (i.e. without access to pension and health insurance coverage through their employers).

[5] It is likely that there are unobserved factors that explain the difference of returns in the formal/informal that have to do with the selection into form/inform employment, which is not random. For instance, personal connections, networking, and other unobserved heterogeneity (such as effort and ability) may influence formal/informal wage differentials.

Figure 5: Net wages and returns to education – formal vs. informal workers

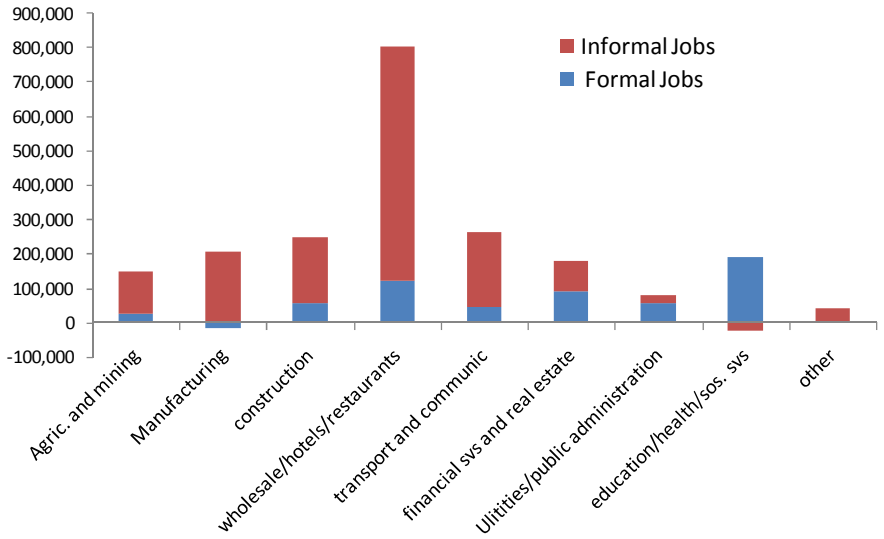


Source: World Bank using the 1998 and 2006 ELMPS survey. Sample: urban wage earners working between 30 and 60 hours per week.

Most of the net job creation between the years 1998 and 2006 occurred in the wholesale, construction, and service sectors (mainly hotels and restaurants). Over the past 10 years, Egypt has progressed substantially in strengthening its investment climate. Tariffs and corporate tax rates tumbled, while customs and tax administration improved. The financial sector has been undergoing reforms as well. The Government took steps to reduce its ownership in the banking system; restructuring banks and non-bank institutions, and strengthening the regulatory framework for sound and competitive financial services. Private businesses also acknowledge that the Government has become more sympathetic to business and more open to the input of the business community on several key initiatives (ICA, 2008). As such, there has been an important dynamism in the private sector as the main engine of net job creation.

The large majority of the net employment creation occurred in the informal–private sector. Figure 6 illustrated the net job creation in urban Egypt by economic sector. Results indicate that a large share of all net employment creation between the years 1998 and 2006 (about 1.3 million new jobs) occurred in the construction, transport and communications, and wholesale and service sectors (mainly hotels and restaurants). Note that the manufacturing and agriculture sectors were also important engines of net employment creation: about 350 thousand new jobs were created in these two sectors between the years 1998 and 2006, the majority of which were informal sector jobs. Results also indicate that net "formal" employment creation occurred largely in social services (education and health); public administration; financial services and real estate; and wholesale, hotels, and restaurants.

Figure 6: Net Employment Creation by Sector [Urban Egypt 1998-2006]



Source: World Bank using the 1998 and 2006 ELMPS survey.

II. WHAT ARE THE MAIN CONSTRAINTS PREVENTING NEW ENTRANTS TO GET JOBS?

a. Sluggish Investments in the Private Sector

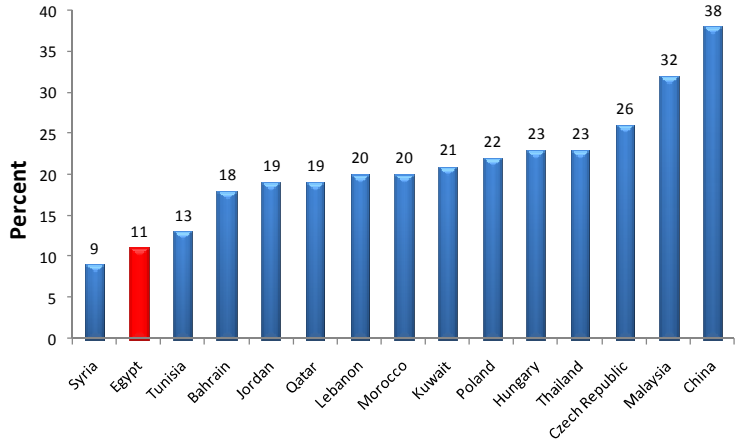
Despite great achievements in promoting a better business climate; private investment in Egypt remains low by international standards. Egypt's tax and regulatory improvements are one of its greatest success stories (World Bank, 2009). It is well known that Egypt has ranked among the top ten reformers measured by the Doing Business Indicators of regulatory burden in three of the last four years. There has been steady progress in reducing the burden of taxes and substantial improvement in tax administration. Business registry was streamlined through one-stop shops making procedures clear, simpler, easier to comply with, and less subject to discretionary enforcement. Additional reforms were introduced in such areas as simplifying property registration, establishing a private credit bureau, activating a competition authority, and streamlining building regulations. Despite all this progress, private investment remains lagging in Egypt in the international context as indicated in Figure 7. Due to high energy subsidies and negative real interest rates, most private investments in Egypt seem to be channeled through capital (not labor) intensive activities. There are major constraints that prevent employment and investment from growing faster:

- *Macroeconomic stability*: The perceptions of uncertainty deter investments. Macro-economic instability is the number one constraint to business climate according to employers' opinion in the 2008 Investment Climate Assessment (ICA). Employers perceive that growth has notably slowed due to the financial crisis and by a contraction of revenues from the Suez Canal, tourism and exports. Employers feel that unemployment is edging upward as well as inflation (World Bank, 2009).

- *Unfair competition*: Informal competition relate to the existence of informal operators who can undercut formal firms' costs by evading tax, labor, public health and safety, and trade regulations. Also some formal operators hide a portion of their activity in the shadow by evading some portion of their tax, labor or trade obligations or other rules. Employers acknowledge the existence of several competitors who package inferior goods under international brand names or otherwise violate trademarks, patents or copyrights. Finally, employers feel that competition is constrained by dominant firms or by unfairly advantaged and/or connected individuals. Egypt has in recent years introduced a competition law and competition authority. In spite of a number of pending enforcement actions, it cannot be said that the enforcement of competition policy is yet systematic and broadly effective (World Bank, 2009, 2009A).

- *Corruption*: Corruption remains common in obtaining approvals and connections. 51% of all manufacturing firms interviewed in the ICA 2008 report that in order to obtain their municipally granted permits they were required to present an official with an informal payment or gift, and nearly 40% of construction permits were obtained through a bribe of some sort.. Delays, high cost or uncertainty associated with service connections and administrative approvals can pose critical constraints to entry and new investment.

Figure 7: Private Investments as % of GDP (Egypt in the international context)



Source: processed from World Bank (2009)

b. Skills Mismatches[6]

Egyptian employers face difficulties recruiting qualified workers. For the first time, results from enterprise surveys in Egypt (ICA 2008) indicate that firms identify worker skills and education among their top five constraints to business climate. In the MENA context, skills mismatches are particularly identified as a constraint to business development in Egypt (50% of all firms interviewed), followed by Lebanon (38%), Algeria (37%), Jordan (33%), and Morocco

[6] It is important to note that in addition to skills mismatches there might also be a deficiency in the actual quality of education provided, as indicated by the rather poor performance of Egyptian youth on standardized international tests. For example, Egyptian students were ranked at the bottom place of 36 out of 47 participating countries in science and they were ranked at place 37 out of 47 in mathematics.

(31%). Manufacturing employers are demanding an ever more skilled workforce, and the supply is a constraint (World Bank 2009). Enterprises are often staffed with under-qualified workers, who often lack practical experience. This occurs partly because the education system in Egypt has not traditionally been closely linked to policies promoting employment, economic growth, competitiveness, or technological development (ILO, 2007). Upper secondary education and higher education are heavily oriented towards academic university degrees, while programs oriented towards the skills that are most demanded in the labor market still play a marginal role. More than 70% of students in higher education are in humanities and social sciences. This pattern of enrollment is suited for absorbing university graduates in civil services jobs in the public sector, but appears ill suited for national development strategies that draw increasingly on private initiatives and on the expansion of the manufacturing and service sectors.

Employers often find the lack of appropriate skills and experience a hurdle when considering hiring especially young workers. Indeed, according to ILO (2007), experience is the main factor employers take into account when hiring an employee. In addition, employers not only express their dissatisfaction concerning deficiencies in technical/occupation specific skills but also concerning more generic/soft skills sets. Soft skills refer to the cluster of personality traits, social graces, interpersonal skills, language and personal habits that characterize relationships with other people. It also refers to a person's ability to think creatively and independently (Table 4).

Table 4: Young applicants' skills assessment by employers

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	12.0
Writing skills	39.2	41.0	19.8
Ability to apply knowledge learned at school	22.4	37.0	40.6
Commitment and discipline	62.9	28.9	8.2
Overall preparedness	13.5	66.1	20.5

Source: ILO (2007)

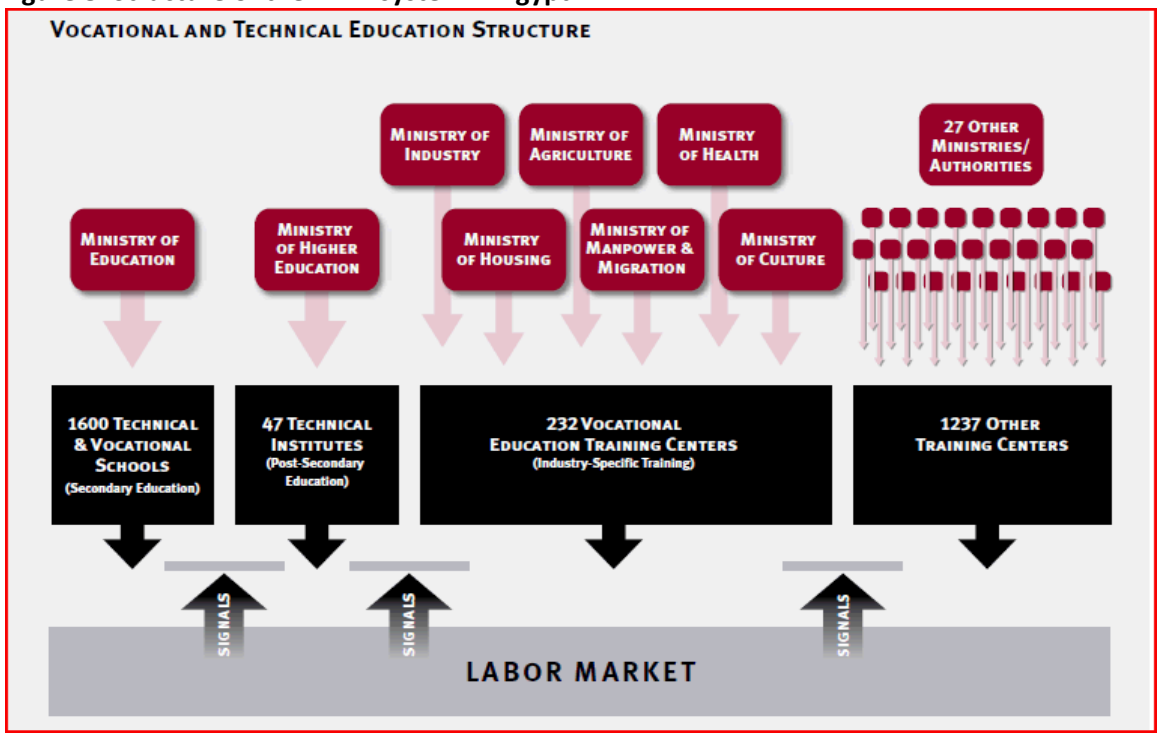
Furthermore, the Vocational Training System is facing numerous challenges. New entrants to the job market are often rejected by employers and often become discouraged from seeking work for which they have been inadequately prepared. Ideally, technical and vocational education and training (TVET) could be an alternative for young entrants to enhance their skills and make them more employable. In practice, despite important efforts in recent years (Box 1), the TVET system largely fails to achieve this objective. There are several reasons why this is the case:

- *The TVET system is largely fragmented:* There are 1,237 vocational training centers in Egypt, affiliated to 27 ministries or authorities, which operate somewhat independently in 19 governorates. The Ministry of Education administers around 1,600 technical and vocational schools while the Ministry of Higher Education manages 47 middle technical institutes. Additionally, six other ministries run 232 vocational education training centers (Figure 8). Vocational education and training suffers from a lack of coordination due to the large number of agencies involved in regulating and providing programs. Furthermore, there is little coordination between training programs and the needs of the labor market:

curricula are outdated and are not reviewed frequently, and many training centers provide predesigned training courses which do not necessarily meet the needs of industry and the private sector. Moreover, monitoring and evaluation of the effects of training programs on labor market outcomes of participants is deficient (or non-existent).

- *Services are often supply-driven*: Ministries in Egypt allocate their vocational training budgets to their providers on an ad-hoc basis not necessarily based on performance (ILO, 2007). Training programs fail to adjust to the type and quality of skills that employers need. A survey conducted by the World Bank on 211 employers regarding the training system indicates that employers consider the training provided by the VTCs is deficient in quality and in market relevance. Employer federations representing small and medium enterprises have reported that the demand for semi-skilled workers and technicians is increasing rapidly, but that trained technicians and skilled workers are in short supply.

Figure 8: Structure of the TVET system in Egypt



Source: Kamel (2006)

Box 1: Recent TVET initiatives in Egypt

Many initiatives have been conducted in order to improve the Egyptian TVET system. In 2000, the Education, training and Employment Sub-committee (ETES) report asked for reform. In 2002, the Egyptian government adopted a Policy statement on TVET. The Supreme Council on Human Resources Development (SCHRD) is responsible for the implementation of the reform. In 2000, a presidential decree re-established the SCHRD as a tripartite body. The SCHRD is chaired by the Ministry of Manpower and Emigration (MoME) and is composed by the relevant institutions for TVET (such as Ministry of Education, Ministry of Higher Education, Federations of Employers, and other representatives). The SCHRD has an Executive Committee and a Technical Secretariat. The presidential decree also created local Councils of Human Resource Development. The role of the SCHRD is "to set up a national policy related to planning and developing manpower and training and set up comprehensive and global national program for the development and optimum use thereof" (ETES report, 2000). In this perspective many programs are being developed:

- The National Skills Standard and Certification Project
- The creation of the National Training Fund
- The World Bank Higher Education Enhancement project
- Mubarak Kohl Initiative (MKI)
- Skill Development Program of the World Bank
- TVET project (European Commission)

Source: ETF (2007)

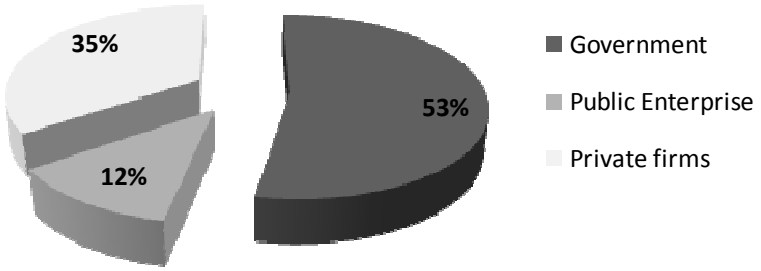
- *Low quality of training*: The efficiency and quality of training are low due to i) insufficient budget allocation and ii) the separation of theory from practice which should be the norm in VTCs providing pre-employment training. According to a CAPMAS survey, few instructors acquired an acceptable training: only 35% had any pedagogical training and only 50% had attended any advanced practical training (ILO, 2007). The VTCs suffer from a lack of knowledge about curriculum development methodologies and an inability to monitor, evaluate and modify curricula. In addition, the vast majority of equipment in training centers is in bad conditions (due to lack of maintenance) or depleted, and/or is underutilized.

c. Public sector still distorts incentives

Egypt's civil service remains large for its levels of development. Egypt's civil service is larger than all countries with similar levels of income and economic structure. Historically, the growth in the Egyptian civil service can be traced to the employment guarantee offered by the Government to university graduates and later extended to graduates of vocational secondary schools and training institutes in the 1970s and 80s. Despite the fact that the employment growth of the public sector has slowed dramatically in recent years and that Egypt's former policy to guarantee employment for university graduates has been suspended since the early 1990s, public sector employment (government and public enterprises) still accounts for about 65% of all formal sector employment and for 45% of all new formal jobs created in the economy between the years 1998 and 2006 (about 260 thousand jobs) (Figure 9). As a legacy of this guarantee, in addition to overstaffing, the civil service has a serious skill-mix problem. Nearly 37% of government employees are vocational school graduates who were not necessarily hired on a needs basis. Moreover the guarantee itself resulted in an artificial demand for vocational

education, thereby channeling a very large section of the population into low skill/productivity jobs (Assaad 2008, 2009). Since public sector jobs are still associated with relatively generous medical and retirement benefits, relatively short work hours, and transportation benefits and on average, public sector real wages have stayed competitive with private-sector wages (although, civil servants' take-home pay is dominated by allowances that distort the incentive structure and create inequities) many educated individuals still queue for public sector jobs. This phenomenon undermines entrepreneurship among young educated workers and contributes to long unemployment spells. Moreover, public-sector jobs are highly attractive for women. The share of female employment in total government employment grew from about 15 percent in 1980 to about 30 percent by 1995 and has remained at approximately the same level ever since. The slowdown in public-sector hiring has led to many women dropping out of the labor force entirely (Shaban 2010).

Figure 9: Share of Formal Employment (Public vs. Private)



Source: World Bank using the 1998 and 2006 ELMPS survey.

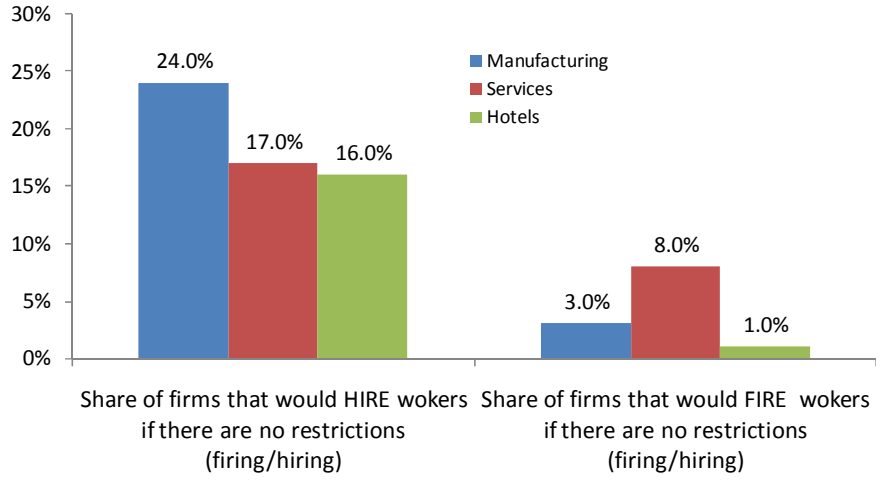
III. WHAT POLICY OPTIONS FACILITATE SCHOOL-TO-WORK TRANSITION

a. Making Labor Markets More Flexible and Improving Workers' Income Protection

Labor regulation and labor taxes, among other factors, seems to be introducing important restrictions to employability. Employment Protection Legislation (EPL) in Egypt remains particularly stringent in Egypt. Egypt enacted a new labor law in July 2003 that gave employers more flexibility to adjust the labor force to economic conditions. Among others, the law introduced fixed term contracts (that can be extended unlimitedly), relaxed hiring and dismissal laws, allowed workers the ability to strike, and introduced rules for collective bargaining and dispositions for settling worker-employer disputes (Assaad, 2008, 2009).[7] Despite the reform, entrepreneurs feel that mandatory benefits and contributions as well as laws/regulations governing hiring and firing of workers continue to be important constraints to employment growth. According to World Bank (2009), manufacturing firms, service firms, and hotels report they would hire a net of 21%, 9%, and 15% more workers respectively if there were no restrictions to hiring and firing workers (Figure 10).

[7] The 2003 reform seems to have improved the flexibility of the labor market in an uneven manner: the reduction in the excessive protection of open-ended employment contracts happened at a cost of shifting most employment generation and destruction to fixed-term contracts as it became possible to renew fixed-term contracts for an unlimited number of times.

Figure 10: Net employment creation if firing/hiring restrictions were abolished in Egypt.



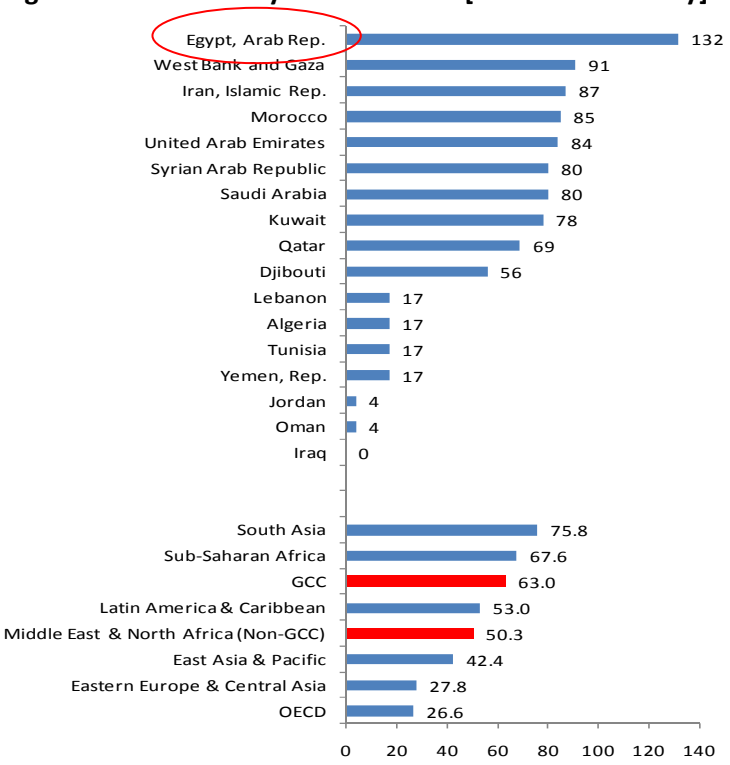
Source: processed from World Bank (2009A)

In particular, firing regulations remain strict and firing costs remain high for international and regional benchmarks, which tends to negatively affect employment creation, especially among youth and women (Almeida and Carneiro, 2006). While the termination of workers due to redundancy is legally authorized, firms face complex procedures that involve notification and consultation with the Ministry of Manpower and Migration for dismissals. Furthermore, the costs of dismissal of a redundant worker in Egypt are among the largest in the world. One indicator generally used to compare firing costs is the "Redundancy Cost Indicator" (RCI) (Angel-Urdinola and Kuddo, 2010). The indicator measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. Results indicate that the RCI in Egypt accounts for 132 weeks of salary as compared an average of 50 in the MENA region, 53 in Latin America, 28 in Europe and Central Asia (ECA), and 27 among OECD countries (Figure 11).

At the same time, labor taxes in Egypt are high for regional standards. Labor Taxes and contributions in Egypt (equivalent to 25.6% of corporate profits) are high for international standards.[8] High labor taxes discourage labor demand by raising labor costs to employers and labor supply by lowering the real consumption wage of workers (Rutkowski, 2007). They create a "tax wedge" between labor cost to the employer and the worker's take-home pay, which is tantamount/equivalent to a negative shift in labor demand. Also, higher labor taxes – under some circumstances – could also lead to a slowdown in economic growth (Daveri and Tabellini, 2000).

[8] Social contributions constitute a significant share of labor taxes in Egypt. The pension system have been managed on a pay-as-you-go basis and financed by a 25% contribution rate – the highest in the region (World Bank, 2007). The 2010 reform of the pension system was recently submitted to parliament proposing an important decrease in social contributions. The effects of the reform in labor demand, however, have been un-assessed. This reform constitutes an important step in reducing labor taxes. For more details see World Bank (2009a).

Figure 11: Redundancy Cost Indicator [In Weeks of Salary]



Source: Angel-Urdinola and Kuddo (2010)

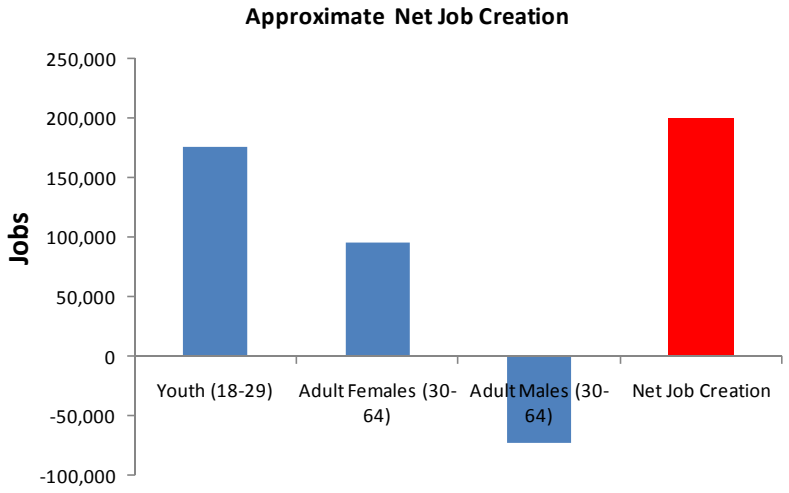
The reform of labor regulation should go hand in hand with the introduction of appropriate social protection measures. Because of current limited social insurance coverage, income protection policies in Egypt are based to a large extent on the regulation of dismissal procedures and severance pay. Egypt has an unemployment insurance scheme. Employees enrolled in the mandatory social insurance scheme have access to unemployment insurance benefits offering 60% of the prior to lay-off wages for a period up to 7 months spent with job search. A 2% payroll tax is imposed on wages in association with the UI scheme. In effect, this mechanism hardly exists; during the period 2001-07 in average 330 people received benefits. The factors contributing to the low utilization are (i) a lack of public awareness about UI benefits among plan members, (ii) restrictive eligibility conditions, (iii) the difficulty of (and the stigma attached to) documenting a "just-cause" firing decision, and (iv) low overall lay-off risk among covered open-ended contract employees (World Bank, 2008). A recent reform of the of social insurance, which largely benefited from the World Bank's technical advice, and which included a revision of UI scheme; was submitted to parliament during the first semester of year 2010. The reform introduces unemployment insurance savings accounts (UISA), whereby employers deposit a specified fraction of the worker's earnings in a special savings account on a regular basis. Upon separation workers can make withdrawals from their savings accounts as they deem fit. Unfortunately, the intended impact of expanding coverage after this reform may be undermined because the existing labor market regulations are extremely protective towards regular open-ended jobs, which are also the group eligible to benefit from the new UI scheme. In general, a reform in UI systems should go hand-in-hand with a reform in employment protection legislation, especially in relation to dismissal laws and procedures.

b. Design Programs Targeted to Youth and Women – International Experiences

Subsidies:

In periods of healthy economic growth, subsidizing social security contributions for youth and women is a policy option to create new jobs. As part of a broad labor reform package approved by the parliament in Turkey aiming to reduce non-wage labor costs in the labor market, the Government of Turkey designed a subsidy for new youth and women hires between July 2008 and June 2009 consisting of 100% of employers' social security contributions (at the legal minimum wage) in the first year, with a 20 percentage points decline per year in the subsidy in the following four years. According to a program evaluation piloting a similar program in selected regions in Turkey between January 2004 and December 2005 (Betcherman, Daysal, and Pages, 2007), the growth rate in employment among youth and female workers in provinces that benefited from subsidies was 1.7% per month while in provinces that did not benefit from the subsidy displayed the growth rate was 1.1% per month (i.e. subsidies contributed to a 63% increase in the growth rate of employment in beneficiary provinces). Using this pilot experience to predict the impact of the program nationally, the program could have contributed to a net creation of approximately 163,000 to 235,000 new jobs (World Bank, 2010) (Figure 12). Unfortunately, Turkey was hardly hit by the financial crisis, undermining the impact of the program. Programs like this, while attractive to promote employment among targeted groups, could be expensive. Estimates from the Turkish Treasury indicate that generating one extra job for those benefiting from the program could cost between 12 and 17 thousand US dollars.

Figure 12: Employment Effects of Targeted Subsidies to Social Contributions in Turkey [Estimates, July 2008-June 2009]



Source: World Bank (2008)

While wage subsidies have the potential to be advantageous for certain groups, if treated as a temporary measure, unintended macroeconomic side-effects question their longer term usefulness. Available evidence suggests that wage subsidies work to the advantage of women and young individuals, especially for those from disadvantaged backgrounds (Galasso et al. 2002; Betcherman et al. 2007), and that they are particularly effective when combined with other programs, such as on-the-job training, counseling, and job search assistance (Kluve 2006).

Wage subsidies seem cost-effective in countries such as Poland and Argentina (Cunningham et al. 2010). However, unintended macroeconomic side-effects of wage (and employment) subsidies include deadweight loss (hiring from the target group that would have occurred also in the absence of the program), substitution effects (the extent to which jobs created for the target groups replaces jobs for other groups), and displacement effects (the possible reduction of jobs elsewhere in the market) (Calmfors 1994).

Youth Programs:

Comprehensive training programs targeted to youth (16-29) through public-private partnerships have proven successful to increase employability. In recent years, Egypt has initiated important efforts to design and implement labor market program targeted to youth and women (Box 2)[9]. Most of these programs focus on in-class training (hard skills). Only a few provide some type of practical experience, focus on soft-skills, and/or provide some type of employment services and/or labor market intermediation (Angel-Urdinola, Semlali, Brodmann, 2010). Many countries, particularly in the OECD and Latin America, have moved from in-classroom towards a more comprehensive training model which includes the provision of in-classroom and workplace training plus supplementary services such as counseling and mentoring, monitoring, job search and placement assistance, and soft and life skills training. Youth unemployment rates soared in many Latin American economies during the late 1990s as a consequence of the Tequila and Argentina crisis. To address this issue, the Chilean government designed what is known as "*Chile Joven*" program. The program basically offered comprehensive "demand-driven" training programs to unemployed youth between 16 and 29 years of age. The program was so successful that similar models were customized throughout Argentina, Colombia, Dominican Republic, Panama, Peru, Paraguay, and Republica Bolivariana de Venezuela. Depending on the specific needs identified the programs can be targeted to either the general unemployed youth population, or to specific marginalized groups such as school drop-outs.

- *Public-Private partnerships*: training programs are directly linked to an internship with a private employer previously identified by the training institution. To achieve this, training providers (contracted through public mechanisms) must assure practical experience for the trainee, which create incentives for the training provider to not only train beneficiaries, but also serve as intermediaries between them and the private sector.

- *Training provides hard and soft skills*: the program provides youth not only with technical skills, but also with life skills. Some programs, like *Juventud y Empleo* in Dominican Republic, integrate life skills education to help young people be more effective employees and citizens. Among the topics taught are self-esteem, teamwork, communication skills, work organization and service skills, job search skills, and knowledge related to risky behaviors (reproductive health, drug use, violence, etc.). Similar life skills modules are also integrated into the second chance education program.

[9] For a detailed inventory of Active Labor Market Programs in Egypt, see Angel-Urdinola, Semlali, Brodmann, 2010

- *Training provides practical experience*: As mentioned above, in order to ensure the demand-driven nature of the training, training providers are required to identify internships with local employers. They subsequently design/adjust the content of the technical training based on the specific needs of the employer. As such, the willingness of employers to take on interns (and in some cases vacancies) serves as a proxy for employer demand in that field. The internships last for about 8–12 weeks, during which staff from the training providers accompany and monitor participants.

- *Flexibility*: some youth generally contribute to the household income and/or take care of their children during regular hours of business or school. For this reason classes are held at nights and on weekends and offer different schedule alternatives. In order to ensure commitment of the trainee, some of these youth programs charge a minimal/affordable fee when students enroll.

- *Monitoring and Evaluation*: most of the programs rely of experimental techniques to monitor the impact of the training program on participant labor market outcomes. Carefully designed impact evaluations in Argentina, Chile, and Dominican Republic indicate that youth who participate in the program display a 10 to 21 % higher likelihood to find employment than otherwise similar youth who do not attend the program. Furthermore, evaluations indicate that earnings among those who find employment after having participated in the program are 10 to 21 % larger than among those who find employment but did not participate in the program (Table 6) (World Development Report, 2007)

Box 2. Two Examples of Policy Pilots Seeking to Improve Female and Youth Labor Market Outcomes

- *The Gender Equity Model Egypt (GEME):* There is evidence that working conditions which are not 'gender friendly' are an implicit mobility barrier for working women in Egypt. Hence, encouraging firms to make their work environment more gender friendly is another potentially useful labor market program. In this context a small pilot project, the GEME, has been initiated under the World Bank's Gender Action Plan to promote gender equity in private firms through engendering policies which facilitate equal access to jobs and opportunities for training and professional development within private firms. Participating firms undergo a certification program that audits their existing policies towards female employment, and draws up an action plan identifying areas to target.

- *The Egypt Impact Evaluation of the Micro and Small Enterprise (MSE) Lending Project*: Encouraging women to start their businesses and become employers rather job seekers has been recognized as a crucial strategy for improving women's economic participation in Egypt. An important new initiative in order to better understand female and youth access to entrepreneurial financing and financing impact is the MSE Lending Project. The World Bank is providing a financial intermediary loan to the Government which is to be passed through to the Social Fund for Development to foster MSE growth. One important component of this program will be to use post office branches as loan outlets. Besides offering a standard microfinance loan product, which all microenterprise owners in the village will be eligible to apply for, it is proposed that the post office branches will have a product targeted at female household heads with the aim of providing them with productive employment opportunities.

Source: World Bank Gender Assessment Egypt, 2010

Table 6: Cost and impact of youth training programs – some examples

	Argentina *Projecto Joven*	Chile *Chile Joven*	Dominican Republic *Juventud y Empleo*
Coverage (people)	116,000	165,000	
Cost per trainee (US$)	2,000	730 to 930	
Program's Impact			
Employment (% point increase)	10	21	6 to 8
Earnings (% point increase)	12	26	10

Source: World Development Report (2007) and Vermehren et Al (2006)

Early Childhood Development:

Many young women could be encouraged to work by having access to affordable care for their children. Although the Egyptian Kindergarten program (targeting 4-5 year olds) has grown rapidly in the past decade, it covers only a fraction of the eligible population and poor children display very low enrollment rates. ECD programs targeting 0-3 year olds (through e.g. mother at-home training) remains next to non-existent. Subsidizing childcare and preschool education has several externalities that positively affect the welfare of future generations. First, international evidence (MIT 2006) suggests that high-quality early childhood education and care helps prepare young children to succeed in school and eventually in life. This translates into economic returns because they are associated with lower repetition and dropout rates throughout a student's lifetime. Second, and directly relevant for this Report, a developed child care education industry could be economically important because it creates jobs and allows parents (mainly young mothers) to be economically active. Furthermore, international experiences have shown that investing in Early Childhood Development (ECD) and Early Childhood Education (ECD) benefits the overall economic competitiveness, creates job opportunities while offering significant return on public investment (Box 3)

Box 3: Childcare Programs in Chile, and the US.

"Chile Grows with You" (*Chile Crece Contigo*):
The Government of Chile launched a social policy initiative in 2006 promoting full support for the country's children as of their birth. Through it, boys and girls are protected from the moment of conception with relevant and timely services that allow for early stimulation and provide opportunities for their comprehensive development. Under the policy, Chilean children from the poorest families are eligible to attend daycare centers and preschools for free. The aim is to ensure that all children have access to primary health care, and that all the families receive tools to better support the growth of their children not only in terms of health and nutrition, but also psychological support. The program offers direct action to help the poorest 40% households.

US Minnesota Childcare:
Minnesota child care is generating more than 28,000 full-time jobs and $962 million in gross receipts annually. It is a significant job-creating, income-generating industry sector and is critical to the state's economy. Minnesota child care contributes more in annual gross receipts than many other major recognized industries in the state (larger than wireless telecommunications -$795 million, business support services -$858 million, and the cattle industry -$944 million). It enables businesses to recruit employees, decrease absenteeism and turnover, increase productivity and - ensuring a strong economy also in the future - by preparing children for academic success.

Source: Dolan (2006); and Traill et. Al (2003)

c. Modernization/reform the TVET System and improving the efficiency of employment services and active labor market policies

There are basic ingredients to increase the viability and effectiveness of training programs: provision of comprehensive/integrated package of services; orientation to labor demand; linkages to real workplaces; careful targeting with adequate profiling of clientele; and monitoring and evaluation. This could be achieved by a realistic allocation of resources on cost-effectiveness basis; through closer interactions with the private sector, by designing the right incentives (such as performance contracting with training providers); and building closer partnerships with employers and business communities. Modern TVET are generally built upon three main pillars:

- *Coordination among stakeholders*: Clear mechanisms and institutional settings to coordinate between the public and private sector and between training providers and beneficiaries constitutes a key factor of success for the delivery of TVET services and programs. In Latin America, "*Entra 21*" provides a model whereby a central institution coordinates TVET programs serving as a link between the public and private sectors. *Entra 21* was created in 2001 to improve the employability of youth in Latin America and the Caribbean by equipping them with the skills demanded by the labor market and securing employment for the graduates. The organization operates in 18 Latin American and Caribbean countries (35 projects) that seek to satisfy two different audiences: youth looking for work, and employers looking for qualified applicants for entry-level jobs. The International Youth Foundation (IYF), which is an international NGO, acts as the overarching umbrella organization: coordinating the efforts of NGO's, the public and the private sector in the various countries. The program details vary from country to country; but the NGOs often work directly with the Municipal Government to identify the labor market needs and the youth's skills deficit in order to bridge the skills mismatch.

- *Orientation towards job search assistance and intermediation:* Together with demand-driven training, job-search and recruitment services are important to bridge inefficiencies in the labor market related to frictional unemployment. There are several tools for achieving this purpose. One is to increase the capacity of public employment offices to offer job-search assistance, such as information about various opportunities in education and continued education, specialized job counseling, job placement, and professional orientation services. Indeed, job-search assistance programs are found to be the most cost-effective for youth in OECD countries (Quintini and Martin 2006; Betcherman et al 2007). Another successful tool is to design performance based contracts whereby training providers play a role as intermediaries between beneficiaries and the private sector. This entails that, inter alia, youth and TVET Graduate would have access to employment services after completion of their education/training as well as the possibility to access internships during the course of their study.

- *Performance monitoring:* Information provides directives for adjustments and change. A critical need for a well functioning TVET system is to have a good Labor Market Information System used for performance monitoring (i.e. to assess program's effectiveness against predetermined objectives). This would also provide youth with

information on actual needs of the labor market and encourage enrollment in vocations on the rise and vice versa. The value of performance management information is to help organizations and programs to clearly identify its objectives and best use its resources to achieve those objectives. Performance monitoring would also provide TVET institutions and trainers with directives towards a frequently revised set of specializations in demand, and allow for various relevant (including TVET) diplomas, courses and programs to follow suit with a dynamic revision of curricula to match market projections (locally and internationally, depending on the sector). Selecting appropriate and useful performance indicators requires careful thought about capturing program objectives while balancing the need for accurate and relevant information with simplicity and ease of data collection.

- *Information and choice:* It is important to design TVET systems in which users have the capacity to choose technical careers in high demand as well as the training courses and training providers that better suit their professional interest, schedule, and preferences. Some countries, like Chile, Colombia, and the United States, provide students with training vouchers. Vouchers allow consumers to choose the type of goods or services and the provider that is best for them. Of course, vouchers systems require that availability and dissemination of information about providers and training courses is available. In Colombia, through a process of lottery assignment, students were given vouchers for vocational training (some redeemable in public training institutions and others in private training institutions). Results from a detailed impact evaluation of the program indicates that students who obtained private vouchers did much better (higher completion rates, and better employment outcomes after completion) due to more flexible curriculum and schedules available in private institutions.

d. Reform of the public sector.

While the public sector in Egypt are hiring smaller numbers of high school and university graduates, these jobs are still highly desired and may become more so at a time of economic insecurity. In the long run, the government should change their employment practices, to remove the distortion effects of public sector employment. To begin with, the Government Guarantee under the Law 85 of 1973 stands suspended but has not been abolished[10]. If the status of this guarantee were clarified there could be a significant reduction in queuing for Government jobs (Shaban 2010). The current entry level hiring is formula-based, which gives weight to the year of graduation, level of education, grades, etc. The system was initially designed to reduce the risks of favoritism in hiring; however, there is little proper evaluation of actual skills. The public sector could introduce merit-based pay and promotion measures that stress productivity, in turn sending better signals to young people, their parents and schools. Written exams and interviews (that evaluate personal traits, academic records, language abilities and functional numeracy) for prospective labor market entrants and judicious use of recommendation letters from teachers and employers would begin to direct government hiring away from current methods (Dhillon 2009).

[10] In some cases, such as in the case of graduates of the Institute of Tax Collectors (Ma'had Al Sayarefa), all who graduate are still guaranteed jobs in the Ministry of Finance.

In order to address public sector overstaffing voluntary retirement schemes need to be developed - in addition to continued attrition. Roughly 30% of current government positions are redundant.[11] Even if only half the slots falling vacant due to retirement over the next 10 years are filled, the size of the public sector would be reduced by only about 10%. Therefore if a further dent is to be made in the size, voluntary retirement schemes need to be developed. The experience gained in the Bank's ongoing work with other governments (for example, Morocco and Yemen) to develop such schemes could be useful in Egypt (Shaban, 2010).

CONCLUSION

Labor market outcomes in Egypt remain very stagnant for new entrants to the labor market. Youth in Egypt displays higher levels of unemployment and lower levels of participation and employment. As a consequence, new entrants to the labor force – albeit more educated than ever – are unable to capitalize the time and resources invested in their education. There is stagnation in the creation of good private sector jobs, forcing young entrants to work in the informal sector and/or withdraw from the labor force. The main constraint preventing new entrants to get jobs relates to the stagnation of private investment coupled with skills mismatches. The education and training systems are often unrelated to the job market demands, resulting in inadequate curricula that seems unaligned to the competencies required by employers. There are several policy options that could facilitate school to work transition; such as making labor markets more flexible, enhancing employability of new entrants though well designed vocational training programs, increasing quality of education, public sector reform, and designing programs aiming to boost labor demand of new graduates.

[11] CAOA functional analysis carried out of various government departments.

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