

Policy Perspective

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PROMOTING SUCCESSFUL TRANSITIONS TO EMPLOYMENT FOR EGYPTIAN YOUTH

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This Policy Perspective argues that active labor market policies, such as public employment schemes, wage subsidies, job search assistance, and skills training have not been effective in improving the quantity or quality of employment for youth in the Middle East and North Africa region and will likely not be very effective in the future.

Instead, improving the business climate for small firms, particularly by reducing the regulatory burdens of operation and formalization, can help create employment and improve job quality. Policies that create safe, accessible, and acceptable jobs for young women also play an important role in ensuring successful employment transitions for youth.

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Introuction

Egyptian youth¹ are facing increasingly difficult transitions to employment. Not only are youth facing high unemployment rates (as high as 22% for those aged 20-24), but when they do obtain jobs, these jobs are of increasingly poorer quality for a given level of education. These difficult transitions to first employment have serious long-term implications for youth since the first job often determines a young person's entire employment trajectory (Amer, 2015; Roushdy & Selwaness, 2015). Thus, identifying policies that promote insertion into good jobs is key to promoting successful employment trajectories for youth. This Policy Perspective shows that active labor market policies (ALMPs) are unlikely to help with the initial transition to employment in Egypt. Instead, policy makers should focus on improving the investment climate for small firms and on creating safe and accessible employment for young women.

¹ Different age groups are often used to denote the group 'youth.' This Perspective examines patterns of labor market insertion, which, in Egypt, primarily occurs between the ages of 15-24, but also presents statistics for a variety of age ranges to illustrate issues in the labor market.

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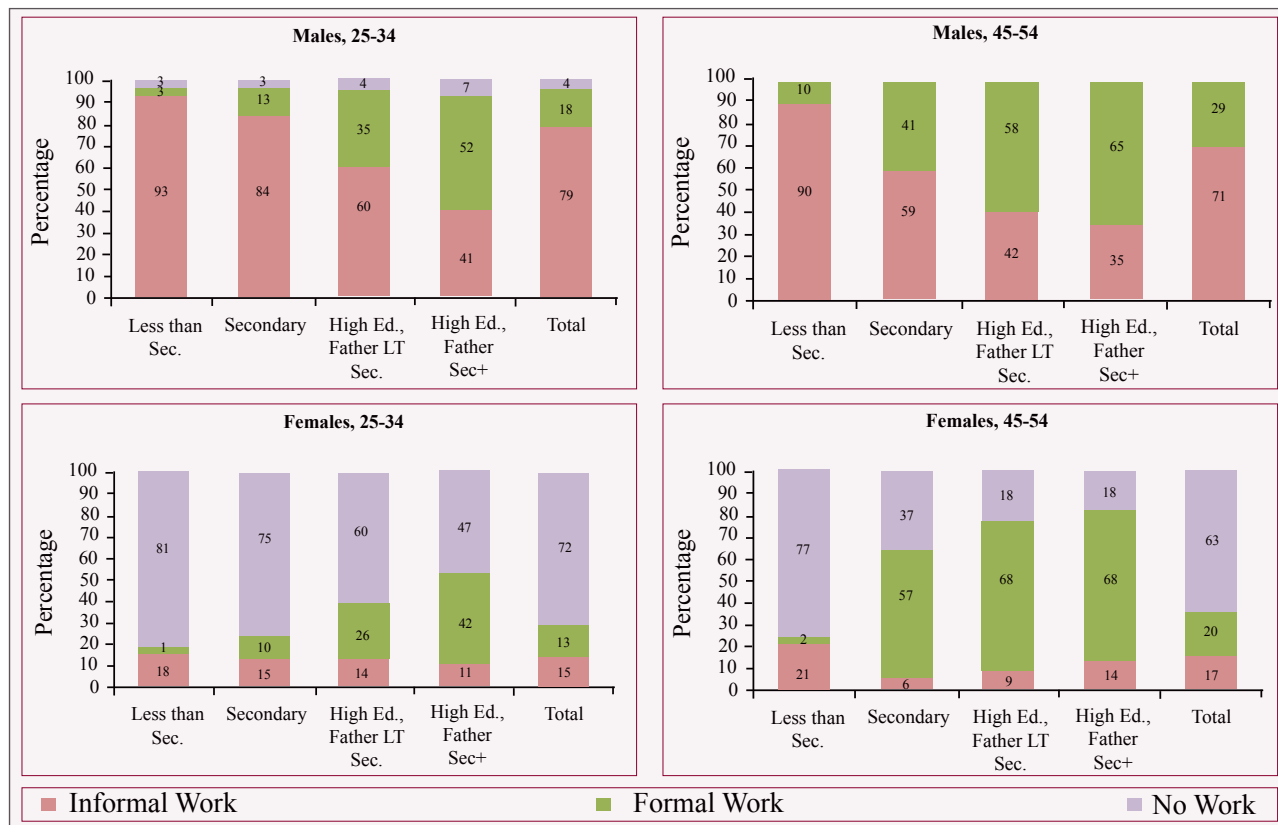
1. Patterns of Transition across Generations: Youth are More Educated but Find Worse Jobs

The pattern in previous generations was that if

a young person acquired a secondary or higher education, she or he could almost certainly join the middle class by means of a formal job², usually in the public sector. Today, youth holding secondary or higher education degrees face much worse prospects when it comes to attaining formal employment than the generation of their parents. Additionally, socio-economic status plays an increasing role in obtaining good jobs.

Figure 1 compares the first jobs for youth (aged 25-34 in 2012) to the first jobs obtained by the generation of their parents (aged 45-54 in 2012). Among those with less than a secondary education, the chances of obtaining a formal job have remained small for both generations. However, for Egyptians with a secondary education, the chance of obtaining

Figure 1: Relationship between Socio-Economic Status and First Jobs, by Sex and Cohort, Egypt, 2012



Source: Authors' calculations using ELMPS 2012

²Formal jobs are those with social insurance and/or a contract.

a first formal job dropped from 41% to 13%, across the two generations for males and dropped from 57% to 10% for females. Higher education graduates who have fathers with less than a secondary education used to enjoy similar chances of gaining a formal job as graduates from more privileged backgrounds, but this is no longer the case. Now, for instance, a less privileged female with higher education has only a 26% chance of a first formal job, compared to 42% for a more privileged female with the same level of education. This is primarily driven by the decline in public sector jobs, as socio-economic status matters more in obtaining private sector jobs than public sector jobs (results not shown).

Since it is primarily youth with secondary education or with higher education but from less privileged backgrounds that are expecting formal employment but facing much lower chances of obtaining it, this brief focuses on policies that are likely to help these youth.

2. Policy Measures to Promote Successful Transitions

There are a number of obstacles to successful employment transitions in Egypt that certain policies might redress. This section discusses three potential policy levers: (1) active labor market policies (2) reducing barriers to investment and formalization, particularly for small firms, and (3) creating accessible women-friendly employment.

2.1 Active Labor Market Policies: Questionable Effectiveness

In theory, active labor market policies (ALMPs) can upgrade worker skills, promote job creation, and assist in matching workers with employers. The reality is that these programs will not improve labor market insertion in Egypt in the absence of a substantial increase in labor demand.

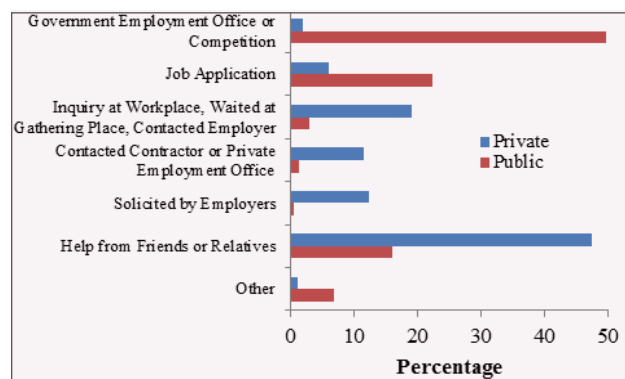
The classic ALMP in Egypt was guaranteeing public sector employment to secondary and higher educa-

tion graduates. Besides resulting in a bloated bureaucracy, this policy created massive distortions in the labor market and encouraged queuing and thus higher unemployment among youth (Assaad, 1997). Recently, the national Youth Employment Program revived the practice of hiring youth in the public sector (Semlali & Angel-Urdinola, 2012). Since those who can afford to queue for public sector jobs are from privileged backgrounds, reviving public sector employment schemes, while politically expedient, is not only inefficient, but will also worsen inequalities in the labor market.

Wage subsidies for educated new entrants are also a common ALMP. The idea behind wage subsidies is that employers who can hire at a discount due to a subsidy will add more jobs and job seekers will find work sooner. The available evidence suggests that wage subsidies do not create new jobs. For example, one such program targeting female graduates in Jordan had no significant effects on net employment (Groh, Krishnan, McKenzie, & Vishwanath, 2012). In Tunisia, employers who hired subsidized graduates were usually hiring anyway and the graduates receiving the subsidy were the most employable (Broecke, 2013). Wage subsidy programs are therefore both inequitable and inefficient.

Job search assistance programs are ALMPs designed to address the problem of matching between workers and employers. However, programs can only match workers with existing employment demand; they do nothing to improve the quantity or quality of jobs offered, which is likely to make job search and matching programs ineffective. For instance, in Jordan, a program that found job matches for 564 graduates led to only nine jobs being obtained, primarily because graduates were unwilling to accept low prestige jobs in the private sector (Groh, McKenzie, Shammout, & Vishwanath, 2014). Moreover, evidence suggests that public employment services in Egypt are only effective at connecting workers with public sector employers, not private employ-

Figure 2: Method of Obtaining Employment by Sector, Wage Workers Ages 15-34



Source: Authors' calculations based on ELMPS 2012

ers. Figure 2 shows that while individuals who were working in the public sector during 2012 relied heavily on government employment offices or competitions to find employment, workers in the private sector relied on help from friends and relatives or contacted workplaces and employers directly.

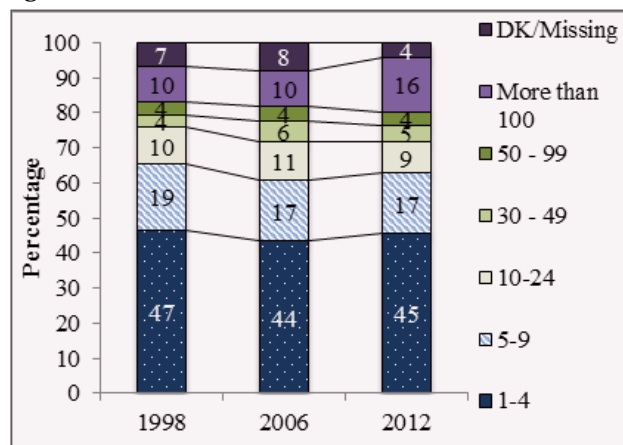
Skills and entrepreneurship training are designed to address a perceived lack of skills as a limiting constraint on youth employability or self-employment. The global evidence on skills training programs shows limited short or long term impacts on labor market outcomes (Card, Kluge, & Weber, 2010). Vouchers that publicly finance skills training can at least increase training in small and medium enterprises (Görlitz, 2010). It is important to make training market-driven, allowing employers to choose between public and private trainers and to upgrade the skills of both new hires and current workers.

Overall, ALMPs do little to increase the quantity or quality of the jobs available, which appears to be the binding constraint in Egypt. Addressing the underlying structural issues that limit employment and job quality is likely to be more effective than implementing ALMPs on a large scale.

2.2 Improving the Investment Climate for Small Firms

A key issue limiting the quality and quantity of employment in Egypt is the poor investment climate, particularly for small firms. Out of 189 countries, Egypt ranks 128th in terms of its business environment, below the MENA average and below comparable countries such as Tunisia, Morocco, and Jordan (World Bank, 2013a). Historically, politically well-connected firms have been able to 'capture' the lion's share of credit and land, as well as exercise undue influence on policy making, leading to decreases in employment growth (Diwan, Keefer, & Schiffbauer, 2014). This non-competitive environment contributes to a 'missing middle' in the size distribution of firms. In Egypt, micro firms with fewer than five workers have consistently contributed just under half of all private sector employment since 1998 and small firms of between 5-9 workers another 17-19% (Figure 3). Medium-sized firms ranging from 10 to 99 workers contribute only around 20% of employment, evidence of a missing middle. In Egypt, inconsistent enforcement of laws and regulations, insufficient market information, and a lack of finance have all been identified

Figure 3: Distribution of Private Wage Employment by Firm Size, Ages 15-64, 1998-2012 (Percentage)



Source: Authors' calculations based on ELMPS 2012

as barriers to the growth of small firms (Loewe et al., 2013). For example, despite the proliferation of targeted finance programs, just 3% of micro and small household enterprises in Egypt had start-up support from public funds, banks, or NGOs (Rashed & Sieverding, 2015). Improving the investment climate for small firms can have a number of benefits. As firms grow, they will not only contribute to job creation, but larger firms are also more likely to be formal, which could also improve job quality.

How can the investment climate be improved? Easing regulatory burdens can affect firm size and employment creation. For instance, in India, states which introduced more stringent labor regulations saw smaller firms, fewer registered firms, and less employment growth (Besley & Burgess, 2004). In Egypt, reforms to the labor law in 2003, which allowed firms greater flexibility to issue temporary employment contracts, and also allowed employers to lay off workers more easily, contributed to an increase in the formality of employment (Assaad & Wahba, 2014). Further reforms increasing the flexibility of employment could encourage employment creation and improved job quality.

Small firms, which are often informal, must not only be encouraged to grow and create employment, but also to formalize so as to be able to provide better quality jobs. However, under current regulations in Egypt, the burdens of formality are enormous. For instance, formal employers must contribute 41% of employees' basic wage to the social insurance system (Roushdy & Selwaness, 2015). These burdens — as well as taxes that are often arbitrarily assessed and other costly regulatory provisions — make it difficult for small and microenterprises to grow and formalize. A useful example on how to reduce the costs of formality for small and microenterprises can be seen in Brazil, where the microenterprise law allows micro and small enterprises to make a single

monthly payment (3%-7% of gross revenues) to cover both federal taxes and social security contributions. When Brazil began this new scheme for small enterprises, it increased formality substantially (Fajnzylber, Maloney, & Montes-Rojas, 2011).

Egypt already has a small and micro enterprise law (Law 141/2004), which has eased some regulatory burdens (Steering Groups of the MENA-OECD Initiative, 2010). Further simplification of regulations for microenterprises, particularly for tax and social insurance regulations remains necessary. The approach we advocate is to encourage formalization by dramatically simplifying the regulations that firms below a certain size (50 workers, for example) must abide by, thus substantially reducing the costs of formality. Such an approach would allow small firms to avail themselves of the benefits of formality and would also promote job creation and enhance job quality.

2.3 Creating Safe and Accessible Working Spaces for Young Women

The group that struggles the most in making transitions to employment in Egypt is young women. Just 18% of young women ages 25-34 work. Women face substantial barriers in finding work, but also in remaining employed, especially after marriage. Once married, women must undertake many hours of domestic work, equivalent to almost a full time job (Assaad & Krafft, 2014). The number of hours women spend in domestic work is the same whether a woman is employed in market work or not. It is therefore particularly difficult for married women to combine domestic responsibilities with the large number of hours of work that are standard in the private sector in Egypt (Assaad & Krafft, 2015). Part-time jobs, flexible work options, job-sharing, and work-from-home arrangements could substantially increase women's employment in the private sector.

As well as hours of work, conditions of work — especially the risk of sexual harassment and other reputational risks — represent a substantial barrier to women’s employment. Akin to a reservation wage (the minimum wage for which an individual agrees to work), a key concept for women in Egypt is ‘reservation working conditions’ (Dougherty, 2014) i.e. the minimum working conditions that a woman (or her family) will accept in a job. These working conditions primarily relate to social norms as to what is acceptable for women, based on concerns about sexual and reputational safety (Assaad & Arntz, 2005) — concerns that are grounded in problems with maltreatment and harassment (Nassar, 2003). Work that involves manual labor, that is outside a fixed establishment, or in a workplace with few or no other female employees, is generally socially unacceptable, which rules out most jobs in Egypt (Assaad, 2003).

The difficulty of finding safe and reliable transport is also a barrier to women’s employment (Nassar, 2003). In part because of difficulties with transport, where employment is located matters more for women; women often will work only in the area where they live and women have lower commuting rates than men. Incentives and regulations to separate workplaces and residences and to locate industries outside of residential areas have increased the difficulties women face in working (Assaad & Arntz, 2005).

What can be done to create safe, accessible, and acceptable working places for young women? A key element of long-term improvements in working conditions is to provide women with both legal and practical recourses to realize the protections against maltreatment and harassment that are assured to them under existing laws (World Bank, 2013b). Encouraging woman-friendly employment opportunities and businesses in residential areas, rather than incentivizing the opposite is also important. This

may require changing rules and incentives guiding the locations of certain types of businesses.

An additional option is to create women-only spaces in both public transit systems and workplaces. Cairo’s women-only metro cars are one example of addressing the need for transport as well as women’s safety in a problematic environment. Extending this model to other forms of transport, such as buses and minibuses, as well as incentivizing employers to provide safe transport for female workers, could prove effective (Assaad & Arntz, 2005). The women-only concept could be extended to gender-segregated workplaces, such as women-owned (and operated) enterprises. Women-only workplaces, as well as allowing women to work from home, are increasingly common in Saudi Arabia (Hamdan, 2012).

3. Conclusions

A number of policy levers could potentially facilitate youth entry into employment. Active labor market policies are not likely to create additional employment opportunities, substantially upgrade skills or facilitate job matching in Egypt. A more promising avenue for employment creation is to improve the business climate for small firms, including altering the benefit-cost ratio of formalization. For young women, creating woman-friendly workplaces and transport systems and locating businesses closer to where women live can promote their transition to employment.

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