



## EGYPT: ECONOMIC DEVELOPMENT AND POLICIES CONFERENCE

November 7-9, 2024

### Jobs – The Elusive Quest for Quantity and Quality

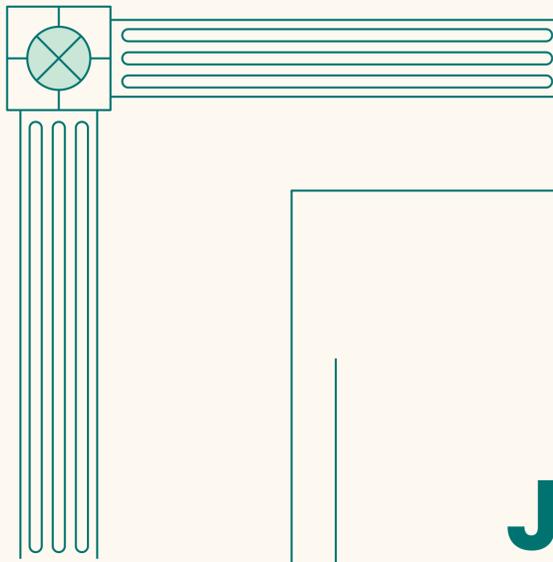
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Part VII

# **Jobs – The Elusive Quest for Quantity and Quality**

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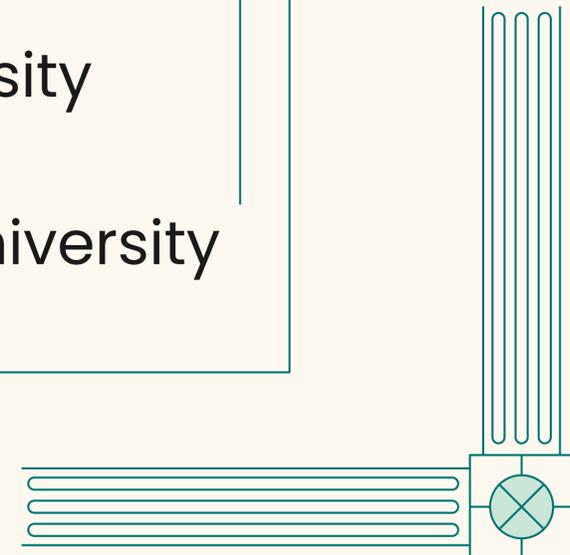
By

**Hanan Nazier**

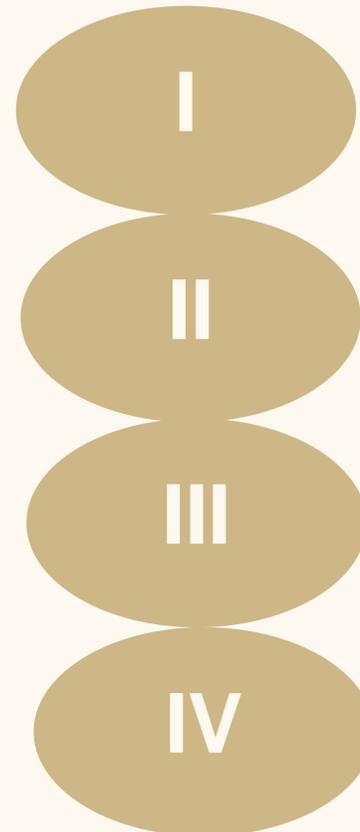
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# Outline



**Background: The Dilemma of Jobless Growth in Egypt**

**The Risk of Informality Norm**

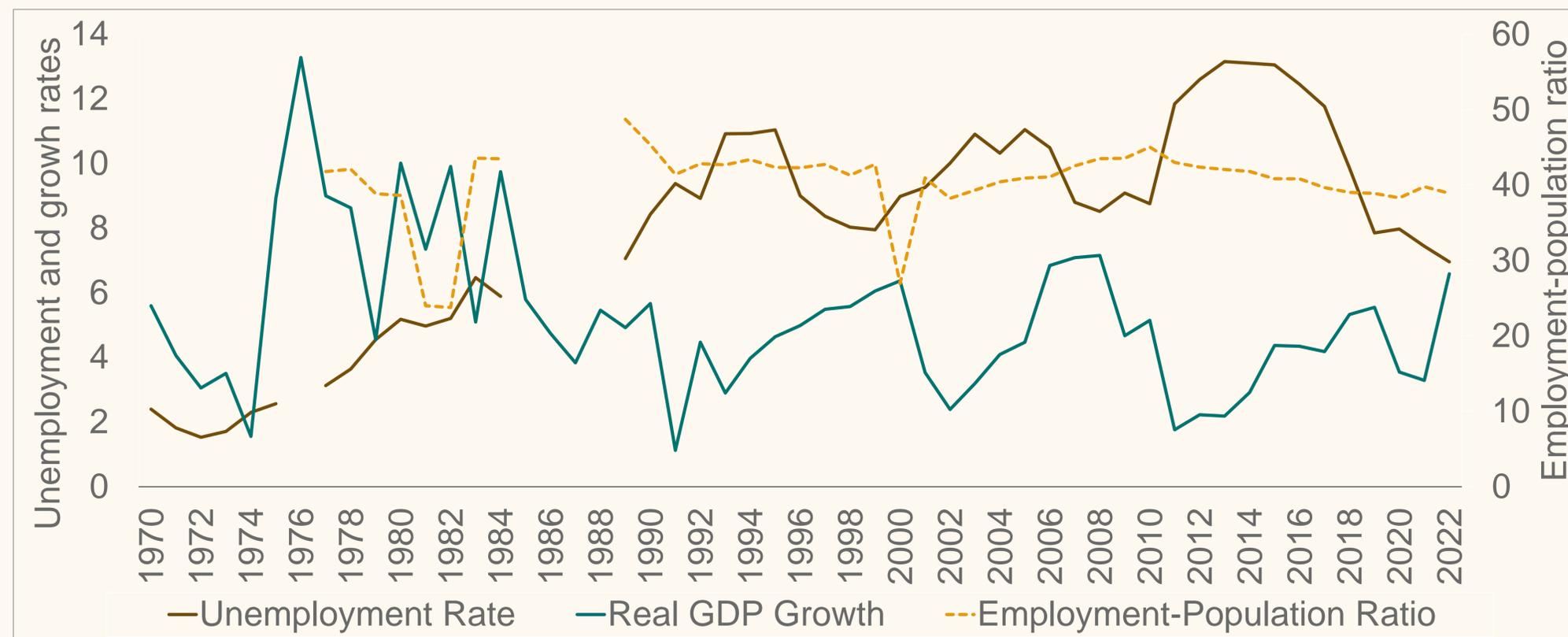
**Structural Factors Behind the Jobless Growth**

**Conclusion and Policy Implications**

# I. Background: The Dilemma of Jobless Growth in Egypt

- Since the 1970s, Egypt has undertaken many economic reforms that have proven to be successful in terms of growth stimulation and, to some extent, managed to contain unemployment, movements of growth and unemployment suggest jobless growth in which several periods of growth were coincident with the high unemployment rate.
- The decline in the unemployment rate does not always mean more individuals are employed among the population.

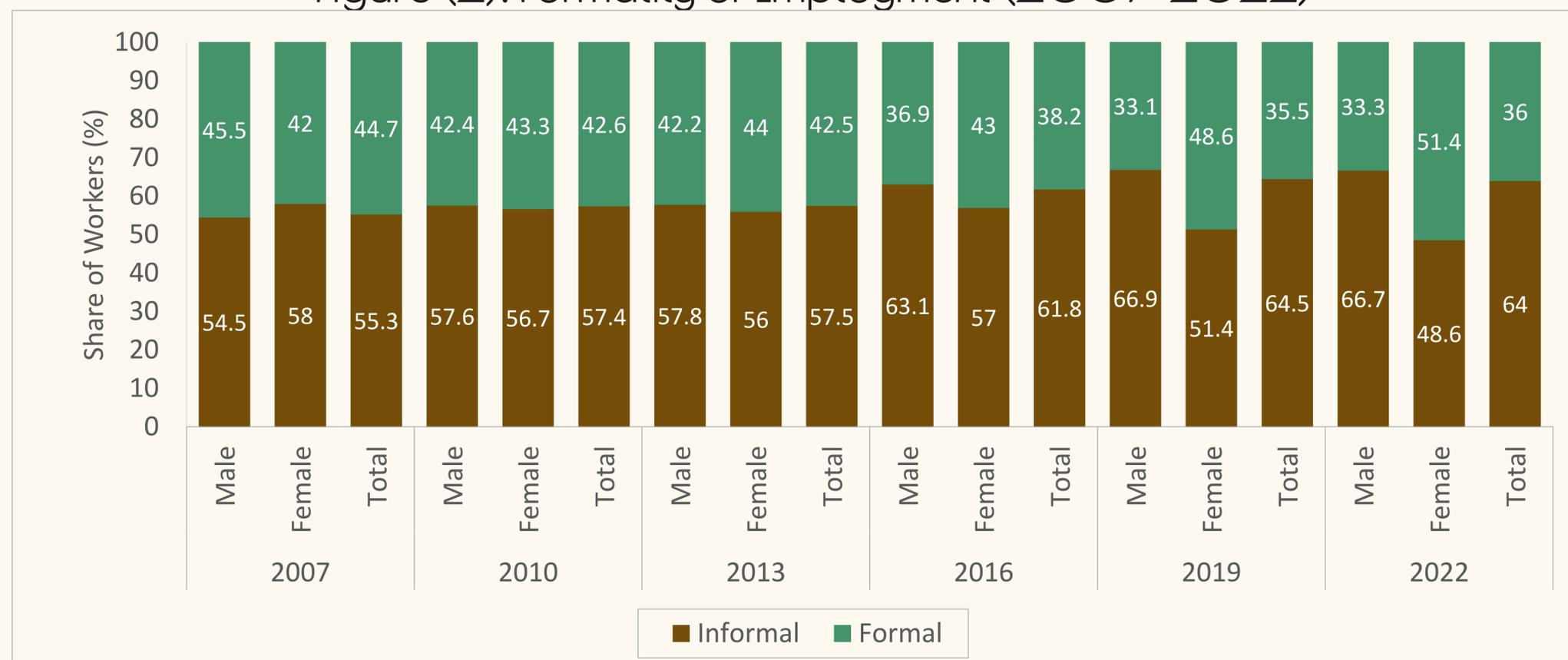
Figure (1): Growth and Unemployment Rates Movements (1970-2022)



## II. The Risk of Informality Norm

- the share of informal workers has increased considerably over time from 55.3% in 2007 to 64% in 2022, which indicates that informal employment has become the current employment norm.
- Informal workers are more likely to receive low wages and more prone to occupational hazards.
- Informal employment is typically involuntary in Egypt
- While informal employment is found to be countercyclical, its behavior shows some rigidities when the economy recovers.

Figure (2): Formality of Employment (2007-2022)



# III. Structural Factors Behind The Jobless Growth

## a) Demographic Pressures and Labor Supply

Throughout (1970-2022), Egypt witnessed two baby booms that impacted its labour supply in the past and its impact is expected to continue in the future.

### First Baby Boom

- An increase in the average annual growth rate of children aged (0-14) happened during the 1980s from 2.1% and 2.3% during the first and second half of the 1970s to 2.7% and 2.8% during the first and second half of the 1980s.
- A youth bulge (15-64) occurred as a result and the average annual growth of this population segment peaked at 3.0% during (1995-1999).
- This was coincident with an increase in the overall unemployment rate. By 2005, it reached 11% overall and 31.1% among early entrants (15-24).

### Second Baby boom

- The average annual growth rate of the child population was fostered again and increased from 0.57 during (2000-2004) to 2.2% during (2010-2014) (the echo generation).
- Although the average annual growth rate of the working-age population has been declining since its peak during (1995-1999), it is expected to increase again once the children of the second baby boom reach their child-bearing age.



around 800 thousand job opportunities will be needed annually by 2030-35 to maintain unemployment

# III. Structural Factors Behind The Jobless Growth

## b) Biasness of Educational Reform Towards Quantity



### Quantity

- Gross enrollments increased over the period in all educational levels (from 68.9% to 91.59% for primary; 30.84% to 85.59% for secondary; and 7.18% to 37.82% for tertiary education).
- The Share of Illiterate and reads & writes decreased from 86.7% to 22.7% out of the total labour force between 1970 and 2022, while intermediate and university & above increased from 13.1% to 77.3%.



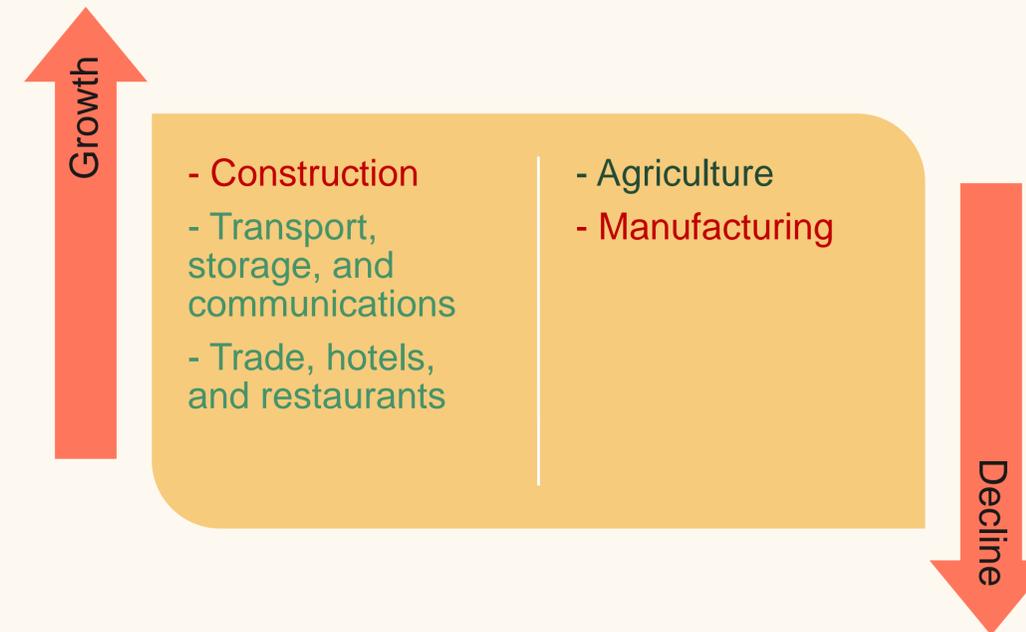
### Quality

- Disproportional funds to existing demand (gov. expenditure on education is only 4.4% of GDP & most of it is directed to current expenditure rather than investments).
- Skewness towards higher education (1/3 of the total educational expenditure).
- Mismatch between supplied qualifications and actual needs of the labor market.
- Lack of technological qualifications highly needed in light of the acceleration of technological developments (e.g., only 16.9% of tertiary graduates are STEM graduates).

# III. Structural Factors Behind The Jobless Growth

## c) Growth Composition and Employment-Elasticity of Growth

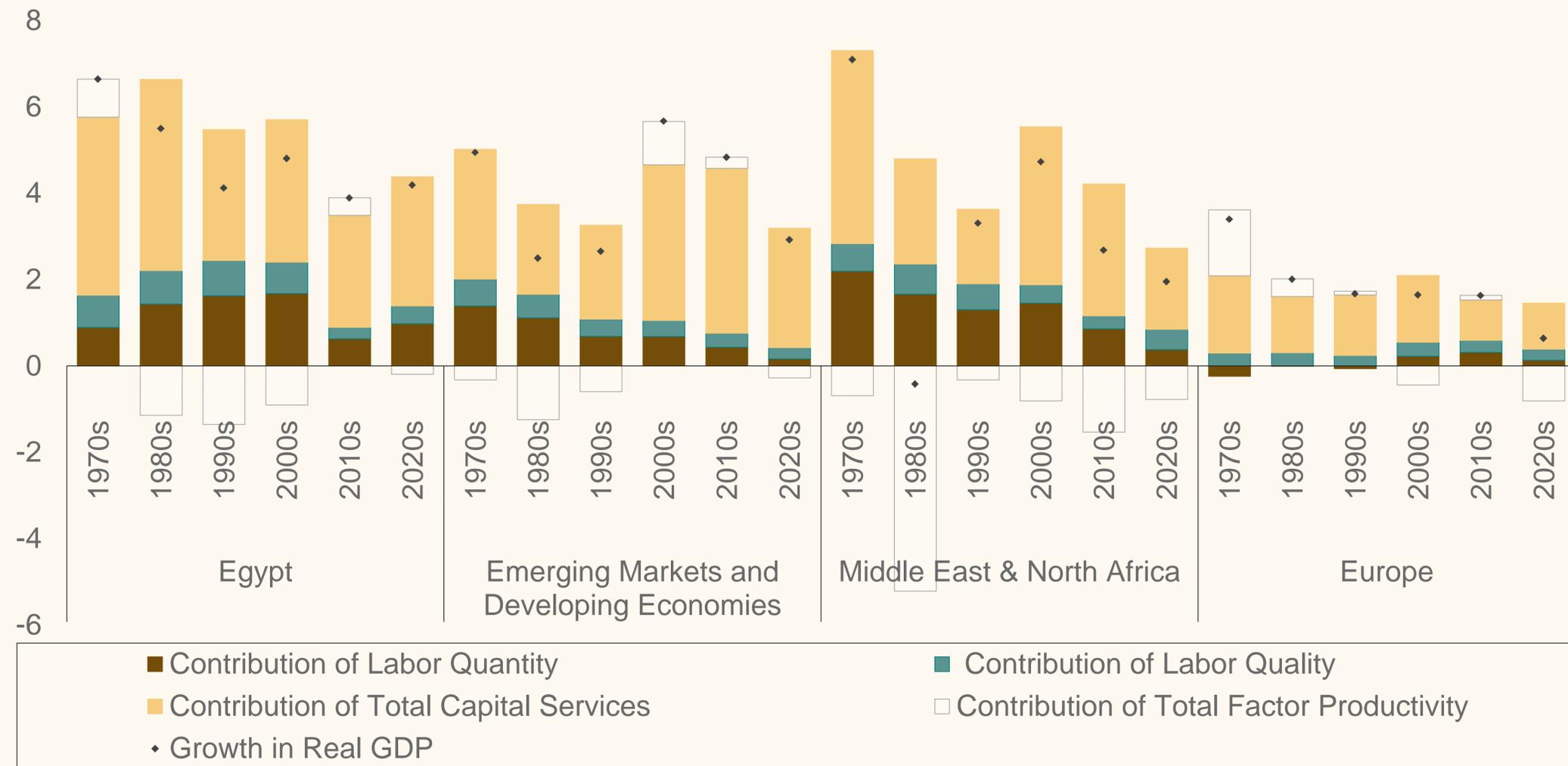
- The large inflow of foreign resources directs investments and growth towards non-tradable and low-quality services sectors (the Dutch Disease) in terms of both output and employment.
- While many of the growing activities have relatively high employment elasticity of sectoral output, they are low-quality jobs (dominantly informal or characterized by outside-establishment work).
- Many policy distortions (e.g., overvalued exchange rates, huge energy subsidies, low real interest rates induced by the high inflation rate, differentiated investment policies, etc.) have raised the relative cost of labor to capital and created a general bias toward capital-intensive modes of production (capital contribution to growth reached 71% during the 2020s).



# III. Structural Factors Behind The Jobless Growth

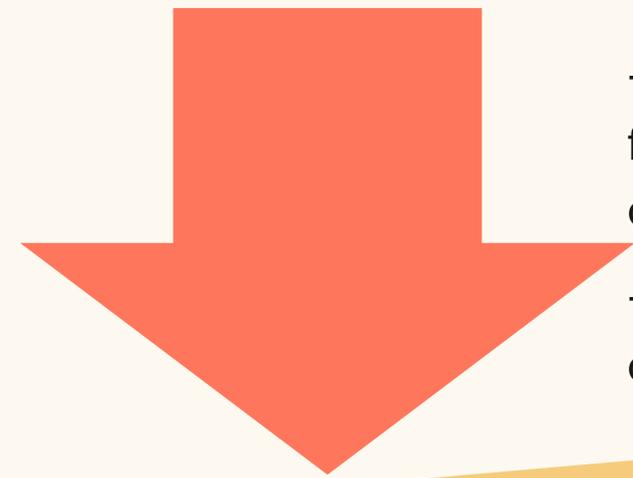
## c) Growth Composition and Employment-Elasticity of Growth

Figure (3): Real Growth Rate and Its Decomposition (1970s-2020s)



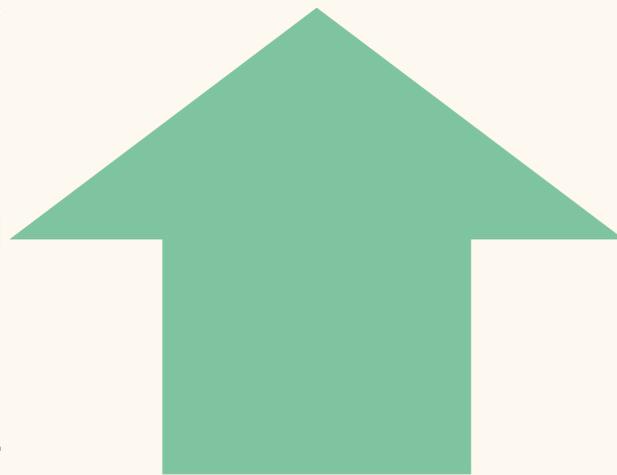
### III. Structural Factors Behind The Jobless Growth

#### d) Public Sector Employment-Guaranteeing Policy



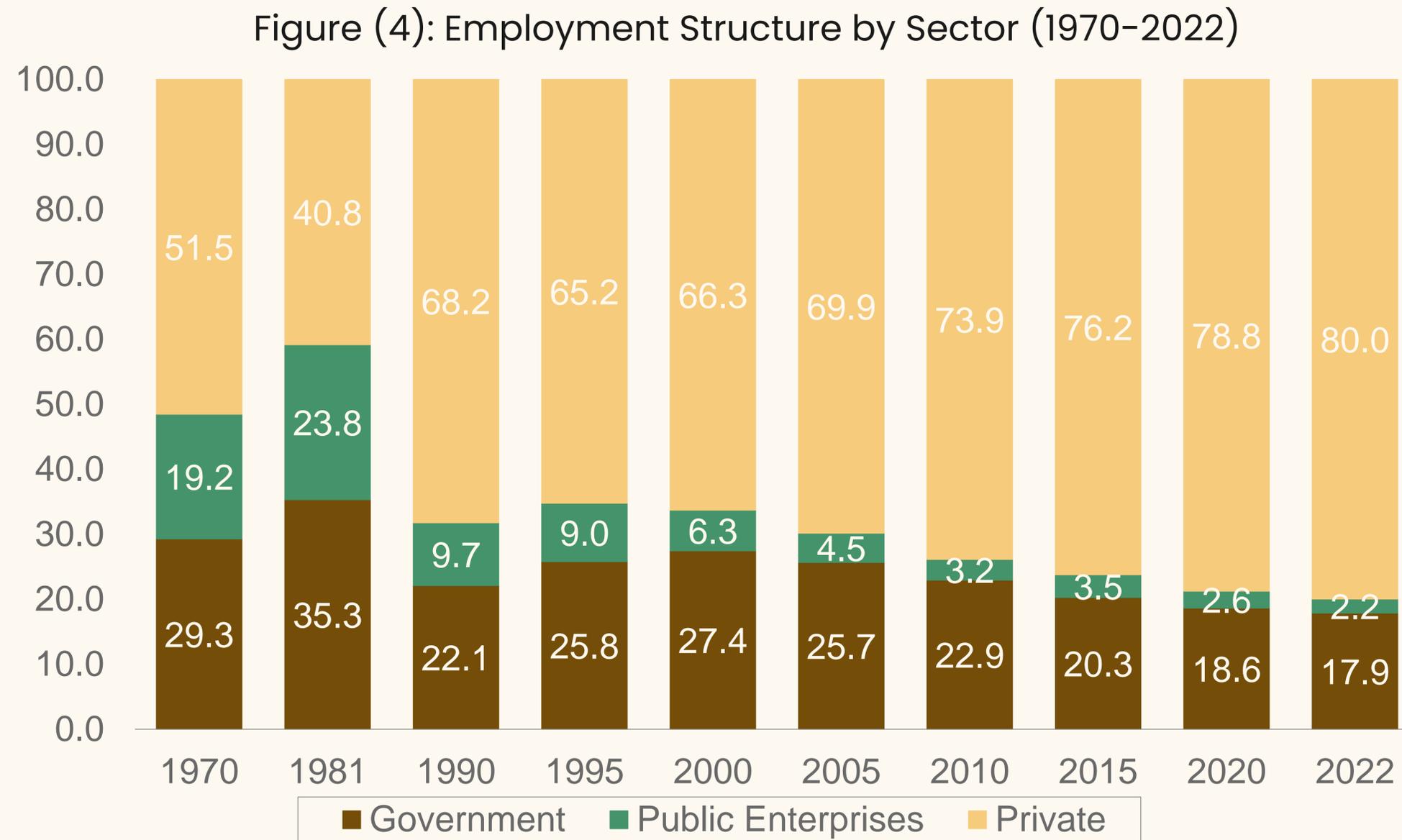
- They initially helped to meet the growing demand for workers amid the expansion of the public sector during 1960s.
- They contributed to upgrading the educational qualification of the labour force.

- They lacked a strategic vision on how to increase the employment absorption capacity of the public sector.
- They strained government budget and impacted public sector's efficiency negatively because of its overly crowded workers.
- They created bias towards public sector employment, leading to high unemployment rate.



### III. Structural Factors Behind The Jobless Growth

#### d) Public Sector Employment-Guaranteeing Policy



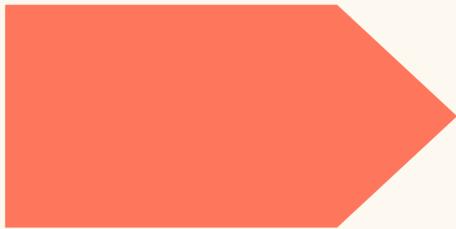
# III. Structural Factors Behind The Jobless Growth

## e) Weak Private Sector Role as Growth and Employment Catalyst

While growth and employment in Egypt are dominated by the private sector's participation (70.0 % of GDP and 80.0% of total employment in 2022), it has faced many obstacles that hindered the capitalization of its full potential as a catalyst for growth and employment, especially the formal segment of the sector.



Industrial policies have not been oriented towards exports. Egypt's exports largely lag behind the MENA region, of which exports' share has consistently ranged between 30-45% since the 1990s.



The sector lacks dynamism in terms of having a relatively lower entry rate and limited room for growth and development (only three limited liability companies are created on average for every 10,000 working-age individuals compared to an average of 20 in developing countries)



The sector is also dominated by small and micro enterprises with limited access to finance (97% of total firms and two-thirds of total employment).



Egypt's ease of doing business rank for 2020 is (114) versus the United Arab Emirates (16), Morocco (53), Saudi Arabia (62), Jordan (75), Tunisia (78), and Kuwait (83) out of 190 countries.

### III. Structural Factors Behind The Jobless Growth

#### f) Labor Market Regulations: Employment Flexibility Vs. Protection

- In terms of wage flexibility, although minimum wage are implemented in both public and private sector, wage setting mechanisms differ considerable between sectors.
- In terms of employment flexibility, since 1970s, Egypt has moved towards more flexible labour market regulations, and this flexibility has been exaggerated by the surge in the informal employment :
  - ✓ For working hours, the law does not ban night work, holiday work or over time work provided that workers are compensated.
  - ✓ For hiring rules, the law also allows fixed-term contracts
  - ✓ For termination of work, it is allowed for valid reasons in the current law but is also associated with redundancy costs which are relatively higher compared to many MENA region countries.

### III. Structural Factors Behind The Jobless Growth

#### f) Labor Market Regulations: Employment Flexibility Vs. Protection

- However, this high flexibility could be associated with high risk if it results in high unemployment among vulnerable groups
- Recently, Egypt introduced the new social protection law No. 148 of 2019, which basically covers free health care, sickness and maternity pay, unemployment benefits, and pensions.
- This new law targets to include those not covered previously by any social protection scheme. However, many challenges to the effective inclusion of those workers do exist (e.g., the frequent increases to the minimum insurable wage (from EGP 400 per month in 2016 to EGP 1000 in 2020), it requires many documents that are typically difficult to meet by those workers, etc.).

## IV. Conclusion and Policy Implications

Reform programs undertaken since the 1970s ensured high growth rates and economic stability; however, the trickle-down effect of growth has not been reflected sufficiently in employment creation. While demographic factors have exerted pressures on the labor market, many other factors have also played a major role in limiting the ability of the economy to create jobs of high quality. Trusting the fact that better performance of the labor market cannot be achieved without sound economic policies along with employment policies, the chapter concludes with the following policy recommendations:

- Increasing competencies of Egyptian youth by matching educational credentials to labor market needs
- Transforming TVET education from a second-tier educational track to a demand-driven one
- Directing investments towards employment-intensive sectors that can create high-quality jobs
- Removing obstacles to private sector growth and development to be a key driver for high-quality employment opportunities
- Improving working conditions and expanding social protection coverage for informal workers

Thank you