Towards a new balance between labour market flexibility and employment security for Egypt

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Preface

The concept of "labour market flexibility and employment security" was originally used for industrialized countries and applied to them. Since the characteristics of transition economies are not too different from those of advanced countries, the very same notion has been extended to them as well. The interest in this topic has emerged because in the past two or three decades, the remedy for rising unemployment has been sought in an increasing flexibility of the labour market, but this has often been done at the expense of a considerable reduction in workers' protection.

A good balance between labour market flexibility and employment security, acceptable to both parties involved, employers and workers, is achieved when labour input can be easily and quickly adjusted to the needs of labour demand by assuring, at the same time, a reasonable level of protection for workers. This balance is obtained not only through an appropriate legal framework, but also more importantly through sound social dialogue and well-functioning labour market institutions, as well as through the development of effective labour market policies. Such policies should be aimed at improving employability of workers and assisting in their re-employment in either regular or subsidized jobs and assuring a decent income to workers and households in periods of joblessness and earnings loss on the one hand, and at providing labour with the desired skills and adaptability on the other.

In less advanced countries, the notion of "employment security" ought to be broadened to include the household's income security, given the high poverty level which characterises these countries. Labour market policies which are to be considered include public works, training, employment services, labour mobility, and credit for productive activities and job creation. To analyze employment security and household income security, income transfers that compensate earnings loss are to be taken into account as well as anti-poverty programmes.

The present study on Egypt is being undertaken within an ILO project on flexicurity, which has already been implemented in four industrialized countries and five European transition countries and resulted in two monographs (Auer/Cazes, Employment stability in an age of flexibility: Evidence from industrialized countries, ILO Geneva 2003; and Cazes/Nesporova, Labour markets in transition: Balancing flexibility and security in Central and Eastern Europe, ILO Geneva 2003). The project is now being extended to several other countries, including some developing countries, to help formulate sound relationships between flexibility, stability, labour market policy and productivity, draw relevant policy conclusions for better management of economic and social changes and contribute towards promotion of productive employment.

The present paper describes the macroeconomic situation of Egypt, the national labour market, its institutional and legal framework, as well as existing employment and social security programmes aimed at facilitating and increasing decent employment. The study contains an analysis of the links between the economic, institutional and legal aspects of the Egyptian labour market and provides recommendations on how to mitigate the problems and weaknesses of Egyptian labour legislation, labour market institutions and labour market and social policies, in order to facilitate flexibility for employers and improve employment security for workers in all sectors of the Egyptian economy.

Special acknowledgement goes to Professor Mahmoud Mansour Abd el Fattah whose background paper constitutes the basis of this work.

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1. Economic trends and policies and their employment effects

1.1. Macroeconomic developments

Following a period of solid economic growth and stabilization in the second half of the 1990s, Egypt has experienced a fast slowdown in economic growth and a new increase in already high unemployment. Only now are the first signs of economic recovery emerging. The improvement of the Egyptian economy and a reduction of poverty and unemployment have become an absolute priority for the Egyptian Government.

As a response to mounting economic imbalances in the late 1980s, in 1991 the Government, with the support of the World Bank and the IMF, launched a programme called Economic Reform and Structural Adjustment Programme (ERSAP). The principal objective was to introduce a market-based economy and to promote the development of the private sector as the main driving force for sustainable economic growth. The programme consisted of four phases:

1. tightening of fiscal and monetary policy, exchange rate liberalization and price deregulation;
2. further price deregulation, liberalization of foreign trade, investment expansion, financial sector reform, privatization of selected State-owned enterprises;
3. economic recovery stimulated by accelerated structural reforms, and promotion and diversification of exports;
4. continued fiscal reform, strengthening of the monetary policy instruments of the Central Bank of Egypt, and establishing transparency in the institutional and regulatory frameworks. ¹

The programme achieved a significant improvement in economic performance. The average annual growth rate of GDP amounted to 5.6 per cent between 1996 and 2000, fuelled by domestic private investment, public investment in infrastructure and private consumption. Consumer price inflation fell from 8.3 to 2.5 per cent in the same period. Foreign direct investment also increased to US$ 1.7 billion in 2000. Through structural reform, the Government managed to reduce the balance of payments and the State budget deficits, and to accumulate important foreign currency reserves.

The privatization programme as one of the important pillars of the ERSAP earmarked 314 State-owned enterprises for restructuring and privatization through the sale of shares to domestic and foreign investors and liquidation of ineffective enterprises or parts of enterprises. However, employees of the privatized enterprises had the opportunity to buy up to 10 per cent of the shares on preferential terms. Small firms were also offered for sale to employees shareholders’ associations. However, towards the end of the 1990s privatization slowed down considerably and by the end of June 2002 only 132 enterprises were either completely or partially privatized.

Since 1999 economic growth has deteriorated significantly (see Table 1) as a consequence of both external and internal factors. Amongst the former are global financing restrictions following the Asian crisis, a decline in revenue from tourism and in inflows of foreign investment due to the escalation of the Palestine armed Intifadah, the 11 September attack and the Iraqi war, and fluctuations in the prices of oil and natural gas (together with tourism the major earners of foreign currency). Some internal factors determining the deterioration of national economic performance are a slowdown in structural reforms and exchange rate difficulties experienced by the country. ² Constant appreciation of the Egyptian pound due to its being pegged to the strengthening US dollar in the second half of the 1990s had led to export problems and the widening of the current account deficit. Therefore the Government tightened its monetary policy, which reduced issuing of credit to the private sector and undermined domestic business development. Several small depreciations in the national currency between 2000 and 2002 did not manage to remove shortages of foreign exchange and liquidity.

¹ Abd el Fattah, 2004.
problems. Finally the Egyptian pound was allowed to float in January 2003 resulting in a 25 per cent depreciation and leading to a considerable rise in prices and living costs.

Table 1. Selected macroeconomic indicators, 1999 – 2003

<table>
<thead>
<tr>
<th>Macroeconomic indicator</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (billion US$)</td>
<td>90.5</td>
<td>97.9</td>
<td>90.4</td>
<td>84.8</td>
<td>70.0</td>
</tr>
<tr>
<td>Real GDP growth in per cent</td>
<td>6.3</td>
<td>5.1</td>
<td>3.5</td>
<td>3.0</td>
<td>1.8&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Consumer price inflation rate in per cent</td>
<td>3.1</td>
<td>2.7</td>
<td>2.3</td>
<td>2.7</td>
<td>4.3&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Foreign direct investment in million US$&lt;sup&gt;b&lt;/sup&gt;</td>
<td>711</td>
<td>1656</td>
<td>509</td>
<td>428</td>
<td></td>
</tr>
<tr>
<td>Trade balance in million US$</td>
<td>-12,214</td>
<td>-10,508</td>
<td>-8501</td>
<td>-7,459</td>
<td>-6,016</td>
</tr>
<tr>
<td>Current account balance in million US$</td>
<td>-1,596</td>
<td>-821</td>
<td>249</td>
<td>849</td>
<td>3,874</td>
</tr>
<tr>
<td>Exchange rate in US$</td>
<td>3.40</td>
<td>3.47</td>
<td>3.97</td>
<td>4.50</td>
<td>5.85</td>
</tr>
</tbody>
</table>


The devaluation of the Egyptian pound on the one hand and recovery of the world economy on the other are now contributing to the strengthening of exports of goods and services supporting a recovery of the Egyptian economy. According to a semi-annual survey of Egyptian enterprises in the second half of 2003, almost three-quarters of enterprises reported a rise in sales, capacity utilization, investment and employment. Also rising revenue from tourism will contribute significantly. At the same time important price increases are dampening private consumption. In order to partially protect the population from price increases, the Government has extended the range of subsidized products and is expanding the amount of subsidies. This, together with a higher external debt service, is widening the State budget deficit.

The Egyptian economy is dominated by services, the most important being trade, tourism and those provided by the Suez Canal and the Government, as illustrated by Table 2. Industry and mining is the second largest sector and is constantly gaining in importance while the contribution of agriculture, though still considerable, is on the decline. The oil and natural gas sector also contributes significantly to GDP, covering the energy needs of the domestic economy and generating almost one-third of export revenues.<sup>3</sup> Construction, after a period of expansion in the 1990s fed both by private investment in housing and public infrastructure projects, experienced a considerable decline after 1999, painfully felt in particular in employment.

Any growth of agricultural output is severely constrained by the shortage of arable land (currently only 5 per cent of total land) and its intensive use so that yields are already among the highest in the world.<sup>4</sup> Within manufacturing, the three most important industries are food-processing and textiles contributing 27 per cent each and chemicals 23 per cent to total gross industrial production in the fiscal year 2000-2001. Recently also the ceramic, pharmaceutical and machine-building industries as well as the software industry have increased their production. The private sector dominates with 65.5 per cent of total manufacturing output although the vast majority of private enterprises are small with 15 or less employees.<sup>5</sup>

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<sup>3</sup> EIU, May 2004.<br><sup>4</sup> EIU, November 2003.<br><sup>5</sup> Ibid.
Table 2. GDP structure by sector in per cent, fiscal years 1997-1998 and 2001-2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>17.4</td>
<td>16.8</td>
</tr>
<tr>
<td>Industry and mining</td>
<td>18.8</td>
<td>19.2</td>
</tr>
<tr>
<td>Petroleum and products</td>
<td>6.0</td>
<td>7.7</td>
</tr>
<tr>
<td>Electricity</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Construction</td>
<td>5.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Transportation (including revenues</td>
<td>9.4</td>
<td>9.1</td>
</tr>
<tr>
<td>(including revenues from the Suez Canal)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade, finance and insurance</td>
<td>22.4</td>
<td>21.2</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Housing and real estate</td>
<td>1.9</td>
<td>2.1</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Social insurance</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Government services</td>
<td>7.9</td>
<td>8.1</td>
</tr>
<tr>
<td>Social and personal services</td>
<td>7.5</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Source: Adapted from the Ministry of Planning reported in EIU, November 2003.

Slow economic growth and the low investment rate falling to only 17 per cent of GDP in the fiscal year 2001-2002 have further reduced employment absorption of the national economy. This trend goes against the objective stated by the 2002-2007 five-year plan for Egypt to reach a 6 per cent economic growth rate and an investment rate ranging between 27 and 30 per cent of GDP, which would be necessary to meet the employment challenge. To promote employment, it is suggested that private investment be directed to some specific sectors, such as manufacturing, construction and tourism. Moreover, three areas of private economic activity should be prioritized: export-oriented manufacturing by domestic and foreign firms; small-scale enterprise operations in all of non-agricultural sectors; and high growth service activities including information, finance, transport, tourism and personal services. In order to develop exports, Egypt needs to produce goods which can be easily sold on the international market, taking advantage of its cheap labour. The manufacturing sector seems particularly promising in this regard, in particular labour-intensive subsectors such as leather goods, furniture, plastic products, cotton and non-cotton textiles, knitwear and garments, and a wide range of processed food, but also industries with higher value added like household metal equipment, several petrochemicals and chemicals, including pesticides, and pharmaceuticals. Construction materials and ceramic fixtures, glass products, sanitary ware, ceramics and tiles are products with increasing rates of export growth. Research and action aimed at raising efficiency, reducing cost and adapting products to changing taste in external markets could also be fostered.

As a result of WTO commitments and other regional and bilateral agreements, Egypt has been moving towards trade liberalization. Several measures have been adopted, but these reforms have not had any relevant impact on export promotion. The reduction in protection of import-substituting activities generated a reallocation of resources to non-tradables. Industrial protection and low levels of productivity and competitiveness cannot facilitate access to the international market.

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7 Ibid.
9 Ibid, p.31.
1.2. Social situation

Favourable economic performance in Egypt in the second half of the 1990s contributed to a certain improvement in the living standards of the population as illustrated by Table 3. The calculations are based on two poverty lines: the lower poverty line represents the level of per capita expenditure on food to meet minimum caloric requirements while the upper poverty line allows also for some non-food expenditure typical of those individuals, whole expenditure on food is equivalent to the food poverty line. Price differences among regions are controlled as well as consumer price inflation between the two periods.

Table 3. Poverty and inequality in Egypt in the second half of the 1990s

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty rate based on upper poverty line in percentage</td>
<td>n.a.</td>
<td>42.0</td>
</tr>
<tr>
<td>Poverty rate based on lower poverty line in percentage</td>
<td>19.4</td>
<td>16.7</td>
</tr>
<tr>
<td>Gini coefficient</td>
<td>0.345</td>
<td>0.378</td>
</tr>
</tbody>
</table>


Although absolute poverty has improved in the five year period of high economic growth, it remains important and poverty based on the upper poverty line hits almost every second citizen of Egypt. Moreover, income differences among people measured by the Gini coefficient have further deepened. Nevertheless, further calculations show that expenditure distribution improved for the poor but only for those living in the four major cities – Cairo, Alexandria, Port-Said and Suez – and in rural areas of Lower Egypt. Poverty is high in Upper Egypt, in particular in its rural areas, and the poverty rate based on the lower poverty line further increased to 34 per cent of its rural population and 19 per cent of its urban population over the studied period. The most affected groups are not only the unemployed, but also self-employed, usually informal, workers and those with low levels of education and large families, and in addition, women, the young and the elderly. The incidence of poverty is also significantly higher among private sector workers and those working in agriculture and construction.

2. Labour market trends

2.1. Population and migration

The total population of Egypt is increasing. It was 59.3 million in 1996, 63.3 million in 2000 and 67.3 in 2003, of whom nearly 49 per cent are women. Despite a rapid increase of the total population, the population growth rate has decreased from 2.08 per cent per year during the period 1986-1996 to 1.99 per cent at the beginning of 2003.

Some 1.9 million Egyptians were estimated to be living abroad in 2002. Migration to oil producing countries was very common in the late seventies and early eighties, when oil price were very high. In 1985, some 10-15 per cent of the Egyptian labour force is estimated to have migrated to oil producing Arab countries. Nowadays, only about 90,000 Egyptians per year (about 5 per cent of the total national labour force) work in those countries. The decrease in oil prices and the Gulf War lowered demand for foreign labour, which has partly been

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15 Data from the latest census reported by EIU, 2002.
replaced first by cheaper Asian migrant workers and then with national workers. The decline in remittances has deprived Egypt of an important source of income, of savings and therefore of investment to create employment. Moreover, migrant workers now either keep their hard currency offshore or use informal channels to repatriate their savings.¹⁶

2.2. Labour supply

Table 4 provides a global picture of the growth of the Egyptian population and labour force. While labour supply has constantly increased, the participation rate rose until 2001 but declined afterwards reflecting the lowering employment absorption capacity of the national economy in the past two years. The general increase in labour supply is partly attributed to the rising number of women entering the labour market. Men contributed 78.2 per cent and women 21.8 per cent to the total labour force in 2002.¹⁷

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
</tr>
<tr>
<td>Population in millions of persons</td>
</tr>
<tr>
<td>Labour force in millions of persons</td>
</tr>
<tr>
<td>Participation rate in per cent</td>
</tr>
<tr>
<td>Number of employed in millions of persons</td>
</tr>
<tr>
<td>Number of unemployed in millions of persons</td>
</tr>
<tr>
<td>Unemployment rate in per cent</td>
</tr>
</tbody>
</table>

Sources: Central Bank of Egypt, Monthly Statistical Newsletter January 2002, Table 23; Central Authority for General Mobilization & Statistics (CAPMAS), Annual Statistics Record, different volumes.¹⁸

It is estimated that between 1988 and 1998 the labour force increased by 523,000 workers per year.¹⁹ During the same period, employment rose by 435,000 persons annually so that some 88,000 new labour market entrants remained unemployed every year. This trend is not expected to change, since the labour supply is estimated to increase by 2.6 per cent per year between 2001 and 2010. Given that during the next ten years an average of 638,000 people will be in need of a new job each year, it may be concluded that, if the capacity to create employment remains the same as during the past decade, namely 435,000 new jobs per year, some 203,000 people each year will be unsuccessfully looking for a job.

However, according to another source between 1988 and 1998 the Egyptian civilian labour force increased by 2.7 per cent per year, which coincided with the annual population growth rate. This implies that the labour force participation rate remained stable during that decade. According to the same author, the male participation rate declined by 4 percentage points, while the female one increased by the same percentage. The drop in male participation can be explained by the rising number of school enrolments of young males as well as by the increasing number of uneducated males aged over 50 withdrawing from the labour market. As for growing female participation, it may depend on the one hand on the increasing demand for educated workers matching the education level acquired by young women more than by men, and on the other on the rising number of married women who decide to enter the labour market.²⁰

¹⁶ EIU, November 2003.
¹⁸ Ibid.
¹⁹ Radwan, August 2002, p. 4.
The third source reveals that in Egypt the number of jobs increased from 15.7 million in 1996 to around 17.7 million in 2003, which indicates that about 2 million new jobs were created in eight years, mainly in the private and the informal sectors. This corresponds to a 2.5 per cent employment growth per year but is still 0.2 percentage points below the annual labour force increase registered in Egypt.

2.3. Employment and labour demand

Changes in the employment structure by education are presented in Table 5. The highest but rapidly declining demand has been for unskilled workers: in 1997, the share of employed persons with basic schooling or below equalled 60 per cent; five years later this percentage fell significantly to less than 51 per cent. The most radical slump in demand has been experienced by illiterate workers who can now find employment almost exclusively in the informal sector. This shows an increasing preference for employees possessing skills, in particular those with secondary or post-secondary education who reached one-third of total employment in 2002, and for those holding a university degree the share reached almost 16 per cent.

As Table 5 also shows, women are increasingly being considered for recruitment if they have a rather high level of education. Men tend to be overrepresented in unskilled jobs while the share of women, though still much lower compared with men, tends to grow in employment requiring higher education, reaching one-fourth to one-third for post-secondary schooling. Alia El Mahdi

Table 5. Employment by level of education and sex (per cent) 1997 – 2002

<table>
<thead>
<tr>
<th>Level of education</th>
<th>1997</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Of whom men</td>
<td>80.9</td>
<td>81.1</td>
<td>81.9</td>
<td>81.5</td>
</tr>
<tr>
<td>The share of employed persons with the following level of education:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illiterate</td>
<td>31.3</td>
<td>28.7</td>
<td>24.3</td>
<td>23.2</td>
</tr>
<tr>
<td>Of whom men</td>
<td>76</td>
<td>75</td>
<td>78</td>
<td>80</td>
</tr>
<tr>
<td>Read &amp; write (6 years of school)</td>
<td>21.6</td>
<td>20.9</td>
<td>21.0</td>
<td>21.2</td>
</tr>
<tr>
<td>Of whom men</td>
<td>95</td>
<td>95</td>
<td>95</td>
<td>95</td>
</tr>
<tr>
<td>Below Intermediate (9 years of school)</td>
<td>6.8</td>
<td>6.5</td>
<td>6.4</td>
<td>6.2</td>
</tr>
<tr>
<td>Of whom men</td>
<td>94</td>
<td>94</td>
<td>94</td>
<td>95</td>
</tr>
<tr>
<td>Intermediate (12 years of school)</td>
<td>23.0</td>
<td>24.2</td>
<td>28.0</td>
<td>28.2</td>
</tr>
<tr>
<td>Of whom men</td>
<td>75</td>
<td>80</td>
<td>77</td>
<td>76</td>
</tr>
<tr>
<td>Above intermediate (14 years of school)</td>
<td>4.6</td>
<td>4.5</td>
<td>4.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Of whom men</td>
<td>72</td>
<td>73</td>
<td>73</td>
<td>67</td>
</tr>
<tr>
<td>University Degree (16 years of school at least)</td>
<td>12.7</td>
<td>15.2</td>
<td>15.4</td>
<td>15.8</td>
</tr>
<tr>
<td>Of whom men</td>
<td>76</td>
<td>77</td>
<td>74</td>
<td>73</td>
</tr>
</tbody>
</table>

Source: Labour Force Sample Survey for selected years, CAPMAS.

explains this phenomenon by indicating that at least until the early nineties, formal employment opportunities for highly educated women tended to keep their public formal jobs even in situations where in the past they would have quit (after marriage or in older age). This author however adds that in the late nineties, highly educated women could no longer find a sufficient number of formal jobs

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21 Abd el Fattah, 2004
22 According to El Mahdi (2002), illiterate workers contributed only 6 per cent to the formal sector employment but represented 30 per cent of the informal sector workers in 1998. In contrast, the share of workers with university education amounted for 29 per cent of formal employment and only 5.4 per cent of informal employment.
23 As reported in Abd el Fattah, 2004.
matching their skills in the government and public sector and are therefore increasingly looking for work in the private and informal sector.\textsuperscript{24}

Table 6 provides data on employment by group of occupations for the period of 1997-2002. It confirms a considerable decline of workers in agricultural professions. A similar trend can be observed for craftsmen, mostly connected with the recent decline in construction. Clerical workers also diminished in number as a result of staff rationalization brought about by information technologies. Occupations on the increase are those which require a higher level of education. The proportion of legal, administrative and managerial workers in total employment rose by 4 percentage points but also professional workers and technicians gained in importance. The share of production workers active mainly in manufacturing remained constant while occupations which are typical of capital-intensive activities have employed an increasing number of people to the detriment of labour-intensive activities.

The Government remains the principal employer and generator of non-agricultural employment. Educators, health professionals, administrative and clerical workers are largely employed by the Government. Teachers have reportedly been the fastest growing occupational group due to demographic developments and progress in the education of the population and contributed more than one third to government employment growth between 1988 and 1998. During the same period, about 50 per cent of newly recruited teachers were women.\textsuperscript{25}

Table 6. Employment structure by group of occupations, 1997–2002 (shares in per cent)

<table>
<thead>
<tr>
<th>Type of occupation</th>
<th>1997</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal, administrative &amp; managerial workers</td>
<td>7.2</td>
<td>9.7</td>
<td>10.2</td>
<td>11.2</td>
</tr>
<tr>
<td>Professional workers</td>
<td>13.6</td>
<td>14.6</td>
<td>14.6</td>
<td>15.1</td>
</tr>
<tr>
<td>Technicians, &amp; assistants</td>
<td>7.1</td>
<td>5.8</td>
<td>5.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Clerical workers, &amp; alike</td>
<td>7</td>
<td>5.8</td>
<td>5.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Sales &amp; services workers</td>
<td>10.4</td>
<td>9.7</td>
<td>10.1</td>
<td>10.0</td>
</tr>
<tr>
<td>Workers in agriculture &amp; fisheries</td>
<td>30.3</td>
<td>28.9</td>
<td>27.6</td>
<td>26.5</td>
</tr>
<tr>
<td>Craftsmen</td>
<td>15.4</td>
<td>14.1</td>
<td>13.8</td>
<td>13.4</td>
</tr>
<tr>
<td>Production Workers &amp; Alike</td>
<td>6.3</td>
<td>6.4</td>
<td>6.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Unskilled Workers</td>
<td>2.4</td>
<td>2.6</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Unclassified</td>
<td>0.3</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Adapted from Labour Force Sample Survey for Selected Years, CAPMAS\textsuperscript{26}

Between 1988 and 2000, employment in the Government kept growing as illustrated by Table 7. The share of State-owned enterprises was decreasing but its decline was more than compensated by a rise in the government share.\textsuperscript{27} Only in recent years has a halt seem to have been brought to a further growth of public employment even though the national Youth Employment Programme, launched by the Government in 2001, envisaged the creation of 170,000 new jobs per year in the Government. When the recruitment procedure started, 4.4 million people applied for the five government training and employment programmes. This implies that, even if people have a job, positions in the public administration are always a very attractive option, because they are perceived as some sort of social insurance\textsuperscript{28}. Government jobs are considered as the best option also because private companies do not always provide benefits related to social protection and offer poor working conditions below legal

\textsuperscript{24} Ibid.
\textsuperscript{26} As reported in Abd el Fattah, 2004.
\textsuperscript{27} Abd el Fattah, 2004.
\textsuperscript{28} Radwan, August 2002, p.3.
standards (minimum wages, insurance, working hours, etc.). As noted above, especially after the introduction of privatization, the share of females in public employment has been increasing.

Table 7. Employment structure by sector of ownership, 1998-2002
(shares in total employment in per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector</td>
<td>8.6</td>
<td>7.6</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>19.0</td>
<td>25.8</td>
<td></td>
</tr>
<tr>
<td>Total share of public</td>
<td>27.6</td>
<td>33.4</td>
<td>30.0</td>
</tr>
<tr>
<td>employment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private sector</td>
<td>72.4</td>
<td>65.8</td>
<td>70.0</td>
</tr>
</tbody>
</table>


It is to be noted that another source reveals that the share of employment generated by the Government and the public sector between 1996-1997 and 2001-2002 declined from 34.5 per cent to 30 per cent while employment created by the private sector rose from 65.5 per cent to 70 per cent.

Table 8 provides more detailed data on employment by sector of ownership from 1995 to 2002. The information reported below is different from the data presented in Table 7 and shows a decreasing trend of employment in the public sector as a whole. Altogether, government and public enterprises employed 35.3 per cent of the national labour force in 1995 and 33.5 per cent in 2002. Also this source confirms a continuous growth in government employment, which was however more than counter-balanced by staff cuts in public enterprises as a result of privatization. Private sector employment as a whole increased but the figures include also the self-employed and non-wage earners, mostly active in the informal sector. The proportion of the self-employed and non-waged earners was more than double that of waged workers in the private sector in 1995 but declined considerably during the five year period while wage employment in the private sector rose by 6 percentage points in the same period both as a result of privatization and new investment.

Table 8. Employment structure by sector of ownership, 1995 – 2002
(shares in total employment in per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>26.3</td>
<td>28</td>
<td>27.1</td>
<td>27.7</td>
<td>27.7</td>
<td>28.2</td>
</tr>
<tr>
<td>Public enterprises</td>
<td>9</td>
<td>8.2</td>
<td>7.3</td>
<td>6.4</td>
<td>5.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Private enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed in a company</td>
<td>19.3</td>
<td>19.9</td>
<td>22.6</td>
<td>22.4</td>
<td>24.5</td>
<td>25.4</td>
</tr>
<tr>
<td>Self-employed and non-wage</td>
<td>44.2</td>
<td>43.1</td>
<td>42.2</td>
<td>42.5</td>
<td>40.6</td>
<td>40</td>
</tr>
<tr>
<td>earners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>0.7</td>
<td>0.5</td>
<td>0.6</td>
<td>0.7</td>
<td>0.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Other including foreign</td>
<td>0.5</td>
<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unclassified</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Adapted from the Labour Force Survey for selected years, CAPMAS.

---

In 1995, wage employment represented 72.1 per cent of urban labour force and 42.9 per cent of jobs in rural areas. In the same year, wage labour reached 55.5 per cent of total employment. In 1998, private wage employment constituted about 10 per cent of total jobs in urban areas and less than 6 per cent in rural areas. Private wage employment corresponded to less than 25 per cent of total wage employment for men and less than 11 per cent of wage employment for women.

The informal sector is a major source of low-productivity and low-income employment, especially for women. It is reported that between 1988 and 1998, the private non-agricultural sector had the highest level of employment growth reaching 38.3 per cent. Most of this increase is estimated to have occurred in the informal sector. Informal employment is supposed to have reached 80.8 per cent of total private non-agricultural wage employment. There are conflicting estimates of the extent of informal employment. One source puts it at 30 per cent of total economic activity. Another source estimates that in 1990 51 per cent of total employment was informal and that in 1998 the percentage rose to 54 per cent. It is also reported that between 1988 and 1998 the share of women working in the informal sector increased from 33 per cent to 39 per cent, while that of men declined from 67 per cent to 61 per cent. It seems nevertheless that the percentage of women working in informal private non-agricultural wage employment does not exceed 10 per cent compared with about 25 per cent of women working in formal private non-agricultural wage employment.

Another indication of the dimension of the informal sector in Egypt is given by the fact that in 1998, one half of all workers had no labour contract and even less were covered by social security. The proportion of workers without labour contract rose by 2.4 per cent and those without social security coverage by 2.9 per cent between 1990 and 1998. Youth seems to be particularly affected by the informalization of labour. In 1990, 52 per cent of non-agricultural workers aged between 18 and 29 had no work contract. In 1998, this percentage rose to 64 per cent. Moreover, the same category of workers was not covered by social security in 47 per cent of cases in 1990 and 62 per cent of cases eight years later.

Studies on the impact of ERSAP reveal that the informal sector has been rising since the beginning of the programme. As Table 9 shows, the share in the informal non-agricultural private sector recorded an estimated 85 per cent increase from 1986 to 1996. The growth is even greater and reaches 109 per cent among the self-employed and non-wage earners. In wage employment, the share is lower, but nonetheless remarkable and corresponds to 66 per cent. Nassar and El-Laithy estimated that 60 per cent of informal workers were poor. They contributed 88.1 per cent to total employment in trade, 66 per cent in construction, 31.7 in the financial sector, 32.2 per cent in transportation, 35.8 per cent in tourism and 36.8 per cent in services. Another study by Al-Ahwany and Metwally estimated that 70 per cent of informal workers were employed in trade, manufacturing and construction while transportation, storage, communications, real estate and business services accounted for 19 per cent of informal labour force. A study by Jackline Wahba reveals that 85 per cent of informal workers are male, while in formal labour the percentage of men is lower - 73 per cent. The explanation is again in the preference of women for employment in the public sector. The same study also confirms that in the informal sector people with an education level above intermediate or with a university degree constitute only 8 per cent, while the corresponding proportion for the formal labour force is 42 per cent. A study conducted by the National Planning Institute indicates that about

32 As reported in Abd el Fattah, March 2004.
35 Radwan, August 2002.
37 According to the Economist Intelligence Unit, this information has been provided by the Ministry of Finance. See EIE, November 2003.
38 Radwan, August 2002.
39 Ibid.
42 Quotation in Radwan, August 2002.
43 Ibid.
44 Ibid.
65 per cent of the informal labour force have an intermediate education level, whereas in formal employment their share is only 25 per cent. The same report also confirms the estimate made earlier that 90 per cent of informal sector workers are men while their share in the formal sector is only 73 per cent.45

Table 9. Employment in the informal sector, 1986-1996

<table>
<thead>
<tr>
<th></th>
<th>1986 in millions</th>
<th>1996 in millions</th>
<th>Change in per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of employees (15 years and more)</td>
<td>11.4</td>
<td>15.6</td>
<td>36.8</td>
</tr>
<tr>
<td>Total number of employees in private sector</td>
<td>7.9</td>
<td>10.3</td>
<td>30</td>
</tr>
<tr>
<td>Total number of employees in non-agricultural private sector</td>
<td>3.4</td>
<td>5.5</td>
<td>62</td>
</tr>
<tr>
<td>Total number of employees in informal non-agricultural private sector</td>
<td>2.6</td>
<td>4.8</td>
<td>85</td>
</tr>
<tr>
<td>• Waged employees</td>
<td>1.5</td>
<td>2.5</td>
<td>66</td>
</tr>
<tr>
<td>• Self-employed and non-waged earners*</td>
<td>1.1</td>
<td>2.3</td>
<td>109</td>
</tr>
</tbody>
</table>

* Including those receiving remuneration in-kind and paid for occasional tasks, such as doctors or legal experts.


Low productivity remains a major problem which requires multiple measures. Several factors account for it, such as capital formation, education, training, technological change and infrastructure. A reform of the educational and training systems seems to be the most urgent task which should be undertaken. Special measures should be adopted in particular to enhance employability of youth as well as to improve productivity and working conditions in the informal sector.47 Table 10 presents the employment structure by economic sector and its changes between 1997 and 2002.

Data in Table 10 confirm a negative trend for employment in agriculture. Despite its great potential for the economic development of Egypt, employment in manufacturing has also declined both in absolute numbers and as a share of total employment. Other economic sectors, such as construction, financial services, community and social services and education increased their levels of employment but maintained rather stable percentages in total employment. Sectors increasing their shares in total employment include trade, hotels and restaurants, transport and communications, housing and business services, public administration and health and social services. In 1998, 10 per cent of workers in manufacturing were women. This low percentage of female participation may be explained by the fact that in Egypt labour-intensive export activities, which mostly employ young female workers in other countries, are underdeveloped.48 It is nevertheless reported that the share of women's participation in the labour force in some specific branches of manufacturing activities, such as food, ready-to-wear industries as well as pharmaceuticals, reached 70 per cent in 1999.49

45 Ibid.
46 As reported in Abd el Fattah, 2004.
49 ICFTU, 1999.
Table 10. Employment structure by economic sector, 1997-2002
(shares in total employment in per cent)

<table>
<thead>
<tr>
<th>Economic sector</th>
<th>1997</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>31.3</td>
<td>29.7</td>
<td>28.5</td>
<td>26.9</td>
</tr>
<tr>
<td>Mining</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>13.5</td>
<td>11.9</td>
<td>12.1</td>
<td>11.6</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Construction</td>
<td>7.3</td>
<td>7.9</td>
<td>7.7</td>
<td>7.4</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>11.1</td>
<td>11.7</td>
<td>12.1</td>
<td>12.9</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>1.4</td>
<td>1.6</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>5.8</td>
<td>6.4</td>
<td>6.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Finance</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Housing and business services</td>
<td>1.3</td>
<td>1.8</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Public administration and defense</td>
<td>9.9</td>
<td>10.6</td>
<td>10.8</td>
<td>10.9</td>
</tr>
<tr>
<td>Education</td>
<td>10.8</td>
<td>10.4</td>
<td>10.4</td>
<td>11.0</td>
</tr>
<tr>
<td>Health and social work</td>
<td>2.6</td>
<td>3.1</td>
<td>3.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Community and social services</td>
<td>1.9</td>
<td>2</td>
<td>2</td>
<td>2.2</td>
</tr>
<tr>
<td>Individual services for households</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Unclassified</td>
<td>0.3</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Adapted from Labour Force Sample Survey for selected years, CAPMAS.50

In terms of demand for new workers, as expected from its declining share in total employment, agriculture contributed only 5 per cent in 200151. On the contrary, industry generated the highest new labour demand, almost one half of the entire search for new workers in the same year, while broad social services including public administration, education, health and social care, and household and community services generated over one-fourth. Trade contributed 7.3 per cent to new labour demand, i.e. well below its employment share, similarly as financial and business services (0.8 and 0.7 per cent respectively) and construction (6.1 per cent).52 If demand is considered according to groups of occupations, the highest was for technicians – 31 per cent, followed by 7.8 for service workers and 7.5 for sales workers. Demand for technicians in mathematics, statistics and computer-science was 0.4 per cent, while demand for specialists in the same areas reached 1.2 per cent.53

Table 11. Sectoral structure of labour demand in 2001 (in per cent)

<table>
<thead>
<tr>
<th>Sector</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>5</td>
</tr>
<tr>
<td>Industry</td>
<td>46.5</td>
</tr>
<tr>
<td>Construction</td>
<td>6.1</td>
</tr>
<tr>
<td>Trade</td>
<td>7.3</td>
</tr>
<tr>
<td>Financial services</td>
<td>0.8</td>
</tr>
<tr>
<td>Business services</td>
<td>0.7</td>
</tr>
<tr>
<td>Other services</td>
<td>28.1</td>
</tr>
</tbody>
</table>

Source: Radwan, August 2002.

2.4. Unemployment

As of 2001, the reduction of unemployment54 has become a top priority for the Egyptian Government. Despite favourable economic performance in the 1990s economic growth did not create a sufficient number of jobs matching the annual 2.7 per cent labour force increase. The manufacturing

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50 As reported in Abd el Fattah, 2004.
51 Radwan, August 2002 p.5.
52 Ibid, p.5.
53 Ibid, p.3.
54 In Egypt, the international definition of unemployment is usually adopted, according to which an individual is unemployed if he or she did not work at all during a one-week reference period, is desiring to work, is available for work, and is actively searching for work. See Assaad, El-Hamidi and Ahmed, 2000. p.1.
sector, which is an employment-generating sector, was not strengthened, because capital-intensive techniques were adopted.\textsuperscript{55} Even though the unemployment rate declined significantly in the second half of the 1990s, the deteriorating economic situation since 2000 has resulted in a new important growth in the number of unemployed people.

As expected, the privatization programme had negative effects on employment. When the reform process started, slightly over one million workers were employed in over-staffed public enterprises. In order to reduce this overmanning in a socially acceptable way, the Government decided to adopt an early-retirement scheme. As a result, some 300,000 retired workers joined an estimated 1.6 million persons who were already in need of a job. The effects of the early-retirement scheme cannot be neglected since the labour supply it generated consisted of experienced workers who private companies would easily have preferred rather than taking young inexperienced candidates, thus once more putting youth in a disadvantaged situation. It is nevertheless important to say that many privatized companies maintained their level of employees at least in the initial period after privatization and in some cases even created new jobs.\textsuperscript{56}

Another factor which has affected job opportunities in Egypt is the expansion of imports of consumer goods, which created a dumping effect on the domestic market.\textsuperscript{57} In addition, the law introducing a reform in the agricultural sector made many land leasers into job seekers.\textsuperscript{58}

Data on national unemployment vary according to the source and are at times conflicting. Information from CAPMAS is reported in table 12. It shows a fast increase in the aggregate unemployment rate until 1995, followed by a significant decline until 1999 and then again a new rise in unemployment.

### Table 12. Unemployment rates, 1991-2002

<table>
<thead>
<tr>
<th>Years</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>6.6</td>
<td>15.6</td>
<td>8.9</td>
</tr>
<tr>
<td>1992</td>
<td>6.5</td>
<td>17.3</td>
<td>9.1</td>
</tr>
<tr>
<td>1993</td>
<td>7.6</td>
<td>22.7</td>
<td>11.1</td>
</tr>
<tr>
<td>1994</td>
<td>7.5</td>
<td>23.1</td>
<td>11.1</td>
</tr>
<tr>
<td>1995</td>
<td>7.5</td>
<td>24.1</td>
<td>11.3</td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td>8.9</td>
</tr>
<tr>
<td>1997</td>
<td>5.2</td>
<td>19.8</td>
<td>8.4</td>
</tr>
<tr>
<td>1998</td>
<td>5.1</td>
<td>19.9</td>
<td>8.2</td>
</tr>
<tr>
<td>1999</td>
<td>5.1</td>
<td>19.4</td>
<td>8.1</td>
</tr>
<tr>
<td>2000</td>
<td>5.1</td>
<td>22.7</td>
<td>9.0</td>
</tr>
<tr>
<td>2001</td>
<td>5.6</td>
<td>22.6</td>
<td>9.2</td>
</tr>
<tr>
<td>2002</td>
<td>6.3</td>
<td>23.9</td>
<td>10.16</td>
</tr>
</tbody>
</table>

Source: Labour Force Sample Survey 2002, CAPMAS.\textsuperscript{59}

Another source gives slightly lower recent rates of unemployment – 7.4 per cent in 2000 and 9 per cent in 2002.\textsuperscript{60} However, independent sources made much higher estimates of unemployment rates.\textsuperscript{61}

It is to be noted that, besides unemployment, underemployment is another major problem of the Egyptian economy. Poorly paid, low productivity jobs, both in the informal and formal sectors, coupled with bad working conditions and the lack of social protection affect a large portion of the Egyptian labour force. Public employment is a sector where underemployment is widespread.\textsuperscript{62} The Government used to recruit double the number of employees actually needed for its own structure and

\begin{footnotesize}
\textsuperscript{55} El-Ehwany and El-Laithy, 2001. p.3.
\textsuperscript{56} Abd el Fattah, 2004.
\textsuperscript{57} Ibid.
\textsuperscript{58} Ibid.
\textsuperscript{59} As reported in Abd el Fattah, 2004.
\textsuperscript{60} Cited in EIU, November 2003.
\textsuperscript{61} Ibid.
\end{footnotesize}
for public enterprises. The underemployment rate is estimated to have remained stable between 1988 and 1998 reaching 7.5 per cent of the employed population. There are supposedly two kinds of underemployment. Visible underemployment affects casual wage workers who work only occasionally in sectors such as construction and agriculture. Besides the public sector, invisible underemployment is typical among the self-employed, small farmers and persons working in family enterprises at no wage.

Unemployment is particularly high in rural areas, where it reached 52 per cent of total unemployment in 1998. During the decade 1988-1998, unemployment rates had remained rather stable in urban areas, but had considerably increased in rural ones, especially for young educated males.

Young people aged 15-29 contributed 82 per cent to total unemployment in 1988 and 84 per cent ten years later. Most of them are first-job seekers, constituting 58.2 per cent of the unemployment pool in 1988 but reaching 70.3 per cent ten years later. Unemployment is particularly high also for women as illustrated again by Table 12. Data show that if in 1991 the female rate was two and half times higher than the male rate, the difference increased to almost four times in 2002. While unemployment for both sexes has followed the same trend negative impacts for women are much more severe. Also, despite the one-quarter share of women in total employment they represent the majority of the unemployed, amounting to 750,000 out of 1,450,000 persons in the same year.

Table 13 shows that unemployment in Egypt hits almost exclusively skilled workers. Persons with intermediate education contribute more than two-thirds to total unemployment while those having post-secondary and university education add more than one-quarter. Moreover, the situation has recently further deteriorated for skilled workers: if in 1997 their share in total unemployment was 95 per cent, it climbed to almost 99 per cent five years later. If data in Tables 5 and 13 are compared, the worst off are workers with intermediate schooling as their share in unemployment exceeds more than twice their employment share. However, also university educated persons are disproportionately affected by unemployment as their share in unemployment is 50 per cent higher than their share in employment. Moreover, this education group has experienced the most severe deterioration in their

### Table 13. Unemployment by sex and educational level, 1997-2002

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total unemployment</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>The share of unemployed persons with the following level of education in per cent:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illiterate</td>
<td>1.5</td>
<td>0.8</td>
<td>0.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Of whom men</td>
<td>87</td>
<td>100</td>
<td>83</td>
<td>69</td>
</tr>
<tr>
<td>Read &amp; write</td>
<td>1.4</td>
<td>0.9</td>
<td>1.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Of whom men</td>
<td>92</td>
<td>78</td>
<td>56</td>
<td>57</td>
</tr>
<tr>
<td>Below intermediate</td>
<td>2.1</td>
<td>0.9</td>
<td>1.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Of whom men</td>
<td>84</td>
<td>75</td>
<td>67</td>
<td>80</td>
</tr>
<tr>
<td>Intermediate</td>
<td>69.3</td>
<td>66.9</td>
<td>69.2</td>
<td>70.8</td>
</tr>
<tr>
<td>Of whom men</td>
<td>44</td>
<td>42</td>
<td>45</td>
<td>46</td>
</tr>
<tr>
<td>Above intermediate</td>
<td>9.4</td>
<td>8.0</td>
<td>6.1</td>
<td>4.3</td>
</tr>
<tr>
<td>Of whom men</td>
<td>54</td>
<td>41</td>
<td>46</td>
<td>50</td>
</tr>
<tr>
<td>University degree</td>
<td>16.3</td>
<td>22.5</td>
<td>21.5</td>
<td>23.5</td>
</tr>
<tr>
<td>Of whom men</td>
<td>54</td>
<td>47</td>
<td>55</td>
<td>54</td>
</tr>
</tbody>
</table>

Source: CAPMAS

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63 Abd el Fattah, 2004.
64 Assaad, 2002, p. 36.
67 Assaad, 2002. p. 34.
70 As reported in Abd el Fattah, 2004.
labour market position as their proportion in total unemployment increased by more than 7 percentage points while their share in employment grew only by 3 points during the analyzed five years. In contrast, the labour market situation for unskilled workers seems to be much better and their unemployment rate has recently further declined. The probable explanation, however, is that most unskilled workers are poor and simply cannot afford to be unemployed. They have to accept any job in order to acquire some income and feed themselves and their families.

Educated women are much more negatively affected than educated men, among others, as a result of privatization as, unlike in the past, they cannot find new jobs in the public sector, while the private sector gives clear priority to men. The share of women with secondary, post-secondary and tertiary education exceeded one half of total unemployment (50.9 per cent in 2002) although their share in employment was only 12.7 per cent in the same year. Unemployment is particularly high for young women below 25 when the rate is over 50 per cent and then it decreases for older age groups. This could be explained by the fact that young women who were recruited in the public sector until the early nineties kept their jobs, while young females cannot easily find a position due to the diminished employment growth if the public sector.

Two cultural phenomena complicate labour market entry. There is widespread favouritism in recruitment and a lack of geographic and social mobility. Due to the traditional importance attached to the extended family and friends, vacant positions both in the formal and informal sectors are filled by relatives or friends of an employee working for that particular employer. Such a recruitment system obviously creates mismatches between available skills and demanded skills. On the other hand, the favouritism system may do better than other recruitment mechanisms, because it may facilitate a sense of loyalty towards the employer. In any case it means that in general, if one does not have the right connections, finding a first job becomes particularly difficult. In addition, among educated people, status does have an impact on labour entry. Personal and family status is strictly linked to one's type of work. It is sometimes preferable to be unemployed rather than have a low-prestige job. Urban work is deemed to be better than rural employment. Likewise, white-collar jobs are preferable to blue-collar ones.

By summarizing the information presented so far, we can conclude that several factors have contributed to the rising level of national unemployment:

- The labour force has grown at higher rates than labour demand. This may be explained on the one hand, by population growth, the increasing level of education of women in particular who decide to stay in employment even after getting married and on the other hand, by a significant slowdown in economic growth, more widespread use of capital-intensive technologies and privatization associated with a reduction of overstaffing.
- Some serious labour market imbalances are caused by the inadequate educational and training systems, which do not respond to a changing demand for skills.
- The Government remains the principal employer while the private sector does not create enough new jobs. Many educated persons prefer to remain jobless if they cannot find good employment.
- The early-retirement scheme generated a large number of new unemployed people.
- The informal sector is a major source of low-productivity and low-income employment, especially for women.
- Imports of consumer goods led to dumping in the domestic market and diminished employment opportunities for Egyptians.
- Agricultural reform led many land lessees to look for a job.
- Widespread favouritism in recruitment and lack of geographic and social mobility further complicate entry in the labour market.

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73 Ibid.
2.5. Wages

As mentioned in sub-section 2.3, the majority of the Egyptian labour force is engaged in wage employment. Changes in real wages therefore affect a large part of the national population.

During the past decade, real wages declined in almost all sectors. In 1995 they turned out to be two-thirds of what they had been ten years before. The World Bank reports that during the period 1988-1998, real hourly wages declined annually by 3.6 per cent for men and 1.3 per cent for women.74

Gender-related wage differentials were sharper in the private sector than in the public one. Between 1988 and 1998, gender wage gaps remained stable at 25 per cent in the private sector, while they doubled in public enterprises moving from 12 to 24 per cent, i.e. almost reaching the same differential as in private firms.75 The salaries of better paid workers (public sector managers, private sector professionals, technical workers) also declined, thus compressing the wage structure as a whole. In contrast, blue-collar workers including workers in agriculture, casual workers and workers outside establishments had the smallest decline in wages.76

In general, wage conditions in the government sector remained stable during the decade 1988-1998, while salaries in public enterprises followed a trend similar to wages in private firms. Attributes which determined an increase in private sector wages include marriage, union membership, non-regular jobs, work outside establishments, work in large establishments, and employment in the industrial and services sectors.77 The impact of unionization on wages reflects two trends: on the one hand, during the period 1988-1998, there was an increase of union premium in public sector employment, mainly due to the perception of an increased involvement of public sector unions in wage setting; on the other, the union premium fell in the private sector, most probably because of a weakening of bargaining power of workers in wage setting in the private sector.78

It is reported that during the period 1987-1996, nominal wages increased by 160 per cent, while real wages declined by about 25 per cent. The largest decrease was experienced in commerce, hotels, manufacturing, construction and agriculture.79

Absolute real value of labour cost per unit of manufacturing production diminished between 1980 and 1995. This could imply that competitiveness of Egyptian labour in manufacturing increased. Yet, the decrease of labour cost per unit was not only the result of low real wages, but also of declining productivity. The low productivity level in manufacturing and in many other economic sectors as well is a major impediment to competitiveness.80

Nowadays, salaries in the public sector are in general lower than those of the privileged part of the private sector (international companies, enterprises using modern technology). At the same time, they are higher than wages earned in many traditional private sector activities, including agriculture.81 Since the public sector employs a large majority of the labour force, traditionally, it has been the wage setter. At present, due to the low wage level it provides, public employment can no longer be considered as a reference point. But the private sector is still too weak to influence the wage level, which hence remains largely unsatisfactory.82 Nevertheless, public sector employment is perceived as the provider of secure income, pension, medical insurance, comfortable working hours and other decent working conditions and a number of other benefits. These conditions make public sector jobs still attractive for many people, in particular women but also young school leavers.83

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75 Said, 2002.
77 Ibid, p. 76.
78 Ibid, p. 78.
3. **Institutions and legal framework of the labour market**

3.1. **Labour market institutions**

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

1. *The Ministry of Manpower and Migration* (MOMM), which is responsible for facilitating the match between labour supply and demand, helping to increase the employability of the labour force, and monitoring labour market demand. It runs its own training centres, which focus primarily on training of school dropouts and laid-off workers. MOMM is running an Employment Information Programme, which prepares labour market statistics and publishes the Monthly Vacancy Bulletin (see section 3.2). It also organizes an enterprise census once a year, to collect information on training needs from all enterprises with more than ten workers. The Ministry collaborates with employers and workers through the Supreme Council for Human Resources Development and also directly in shaping training policies while it encourages private enterprises to set up their own training centres and provides with them methodological guidance and certification.

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

3. *The Information and Decision Support Centre* (IDSC) is attached to the Cabinet of Ministers. It has formulated the National Youth Employment Programme which is being analyzed in this report. In addition, the IDSC is undertaking a labour demand analysis based on newspaper advertisements.

4. *Employment offices* are part of MOMM and have a territorial structure (see section 3.2).

5. *The Social Fund for Development* (SFD) is a semi-autonomous governmental agency under the direct supervision of the Prime Minister. It was created in 1991, as a joint initiative between the Egyptian Government, the World Bank and UNDP with the task of mitigating the negative effects of the economic reform on the most vulnerable groups of people and promote economic development in backward regions. The SFD is very active in the field of job creation and runs several employment programmes. More detailed information on this institution will be provided in sections 4.2, 4.5 and 4.6.6.

Some new labour market institutions have recently been or will be introduced in the Egyptian system under Labour Law 12/2003 (hereafter referred to as the Labour Law). One of them is the National Council for Wages. It is in charge of setting minimum wages. Presided over by the Ministry of Planning, it is composed of technical experts (half of the total number of members) and of representatives of employers and workers (one-fourth of total membership per category).

Article 11 of the Labour Law describes the establishment of a new body. The article reads: “A higher committee shall be established under the concerned Minister for Planning and employing the

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84 Radwan, October 2002.
86 Ibid.
manpower inland and abroad, comprising representatives of the concerned ministries, as well as representatives of the General Federation of Egyptian Trade Unions and of the employers organizations, to be elected by their organizations equally among them.” This committee is responsible for “drawing up the general policy for employing Egyptian manpower in the Arab Republic of Egypt or abroad, and setting the systems, rules and procedures required for that employment”. So far it is not clear whether it will be a new body or whether this task will be given to an existing body.

The Labour Law also envisages the creation of a Supreme Consultancy Council for Insuring a Healthy Vocational Working Environment. Headed by the Prime Minister, this body should include representatives of concerned ministries, of workers and employers, and some technical experts. The main task of the Council will be to formulate a policy to ensure a healthy working environment for all professions.

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

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

The Council could be inspired by Belgian experience given in Box 1.

Box 1: The National Work Council (Conseil National du Travail) in Belgium

In Belgium there exists a very special body with great power in labour legislation, which no other Western country has. The National Work Council is composed of representatives of workers and employers only. Before introducing any reform or modification in the field of labour law, the Government must always ask for the opinion of this body. The National Work Council has the power to conclude collective agreements (Conventions collectives de travail) on a vast range of labour issues, such as working time, minimum wage and atypical contracts. In addition, the implementation of some labour-related measures is totally entrusted to this body.87

Another innovative institution introduced by the Labour Law is the Training and Rehabilitation Financing Fund. This entity is supposed to finance, develop and modernize training centres and programmes aimed at meeting the needs of the labour market. In addition, this institution is responsible for defining the rules and conditions related to vocational training and skills.

Besides institutions regulated by Law 12/2003, a national employment agency could have a positive impact on the Egyptian labour market. It is a project which should become part of MOMM and which has not materialized, yet. This agency is supposed to implement policies and programmes for employment, register jobseekers and vacant jobs and provide employment services.

3.2. Employment services

Other labour market institutions, largely debated nowadays in Egypt, are those which provide employment services. Employment services are under discussion because they have proven to be

rather ineffective and disorganized. One of the Government's priorities as stated in its 2001 political programme and in the National Youth Employment Programme is the upgrading and improvement of employment services to reduce youth unemployment.

The institution providing employment services is mainly MOMM, but also other agencies, councils and funds are involved. Article 16 of the Labour Law states that “The concerned minister may issue a decree licensing the associations, institutions and trade union organizations - with regard to their members - to establish offices for recruiting the unemployed.” This new type of employment services should anyway meet the same functioning requirements as existing governmental employment agencies.

MOMM is responsible inter alia for monitoring labour market demand. Local employment offices collect information on job vacancies and MOMM advertises them in order to facilitate the match between labour supply and demand. Vacancies are announced through a monthly bulletin issued by the Ministry. Jobseekers and vacancies are registered in a computerized system. A recent innovation has been introduced allowing enterprises to seek the assistance of local employment offices in finding candidates for vacancies during the month between the publication of subsequent bulletins.

The monthly bulletin has been issued for over 4 years. It advertises both public and private jobs. Most vacancies are blue-collar, low paid positions. Enterprises have an obligation to report all vacancies and all changes in their staff to local employment offices. They are nevertheless free to either accept or refuse the candidate/s proposed to them as officials of local employment offices are reportedly lacking the skills for proper screening of jobseekers. The bulletins are said to be useful, but only partially reflecting labour demand. Private enterprises often advertise available positions, in particular skilled and better paid jobs, also through newspapers. As of March 2003, the placement rate reached through the monthly bulletin was 40 per cent due both to mismatches between required skills for the jobs and available skills of jobseekers and to the low salaries offered. Local employment offices may send jobseekers with low skills on training courses.

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

Box 2: Employment services in Europe
The flexibilization of work in Europe has led governments to put an end to the State monopoly on employment services. Private agencies have emerged and are now partnering with public employment service providers. In addition, newspaper, specialized magazines and internet sites play a complementary role in the provision of information on new available jobs. In particular, Internet databases allow job seekers to be very active in job hunting without the assistance of any either public or private entity.

3.3. Social partners

Because of the centralized economy of Egypt in the past, the Government and employers are very closely connected. The Government has traditionally been the principal employer in the country. In addition, the large number of public enterprises has led to the development of a large group of employers who do not represent the private sector.

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The most representative organization of Egyptian employers is the *Federation of Egyptian Industries* (FEI). Founded in 1921, at present FEI groups 15 industrial sectoral chambers representing a total of about 18,000 enterprises, both from the public and the private sector. The principal functions of this organization are:

- to represent its members’ interests with governmental and other official authorities;
- to share views with and consult the Government on industrial policies and strategies, as well as on any national tripartite socio-economic scheme;
- to render services to its member enterprises either directly or through their respective industrial chambers, including retraining and skills upgrading of the labour force;\(^ {92}\)
- to represent its members in negotiations with trade unions;
- to represent the Egyptian employers and their organizations in regional and international organizations.\(^ {93}\)

In Egypt, there are 23 official trade unions, each representing a different industry or service. Total membership was 4.5 million in 2001, which corresponds to 25 per cent of total labour force. Most unions’ members belong to the services sectors and public agencies. Some 25 per cent of unions' members work in public manufacturing enterprises. Only 25 per cent are private sector workers.\(^ {94}\) On a company level, unions are organized in committees. As of 2000, 1,641 committees had been established. Any trade union must be affiliated to the *Egyptian Trade Union Federation* (ETUF).\(^ {95}\)

ETUF is the only legally recognized trade union federation. The ILO Committee of Experts on the Application of Conventions and Recommendations has repeatedly stated that a law requiring all trade unions to be part of one single federation is not in conformity with the principle of freedom of association.\(^ {96}\) Egypt has nonetheless ratified ILO Convention No. 87 on Freedom of Association and Protection of the Right to Organize.

Collective bargaining is allowed in all enterprises. In companies with 50 workers or more, negotiation occurs between the union committee on an enterprise level, the general union on the industry level, and the employer. However, according to the Labour Law, workers in establishments with less than 50 workers cannot participate directly in negotiations on the improvement of working conditions and settlement of disputes. There collective bargaining there takes place between the general union and the employer's association.\(^ {97}\) This is a considerable limitation, given that in Egypt, the majority of total workers in the non-agricultural private sector are employed in establishments with less than 50 workers.\(^ {98}\)

A study on firms in Egypt reveals that in general, the attitude towards workers has a paternalistic framework. According to the findings of this paper, workers are allegedly treated like family members, which makes it difficult to fire them. At the same time, workers' independent organizations are perceived as unnecessary and undesirable. Only 5 per cent of the firms analyzed had unionized workers. The remaining ones claimed that managers settle disputes personally.\(^ {99}\)

### 3.4. Labour legislation

#### 3.4.1. Wage setting

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

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\(^ {92}\) Information provided by FEI during ILO EMP/STRAT field missions.


\(^ {95}\) Saito, 2003.

\(^ {96}\) ICFTU, 1999.


precisely defined. In addition, a maximum amount to be granted for overtime, allowances and incentives is set by law. In the late seventies, public enterprises were granted a certain degree of freedom in setting rules on incentives and the system applied in public enterprises became more successful in promoting productivity than that adopted in the public sector.

In the formal private sector, wages are determined by labour demand and supply. National law only sets the minimum wage, social insurance, special wage increases, and living-cost allowances. These rules have always been largely ignored by private employers and their application can certainly not be imposed by workers, given their low level of unionization. Wages are set almost on an individual level according to personal skills and degree of specialization. In the agricultural sector and in the informal one, wages are determined by the labour market and are therefore rather flexible.

As already mentioned, the Labour Law establishes the creation of a new body, the National Council for Wages, and assigns to it the task of setting the minimum wage. Article 3 states that workers “shall be entitled to a periodical annual increment of not less than 7 per cent, on its due date, of the basic salary on the basis of which the social insurance contributions are reckoned, until the National Council for Wages issues the decisions regulating the payment of that increment”. Egyptian law assures equal rates of pay to men and women for the same work, but not for work of equal value as required under ILO Convention No. 100.100

3.4.2. Rules on the labour relationship

Until July 2003, when the Labour Law was enforced, existing legislation had been rather stringent, both for workers and for employers. It prohibited employers from terminating the contract of a worker after a probation period. In addition, employers were not allowed to recruit workers directly but through local employment offices. Because of the risk of low productivity of potential workers selected by employment offices, this particular rule was a major problem for entrepreneurs.

The enforcement of labour legislation in Egypt has always been rather weak. To avoid stringent rules, many employers developed a practice according to which workers had to sign a resignation letter before being regularly hired. Moreover, the rules described above did not apply to individuals recruited by a micro-enterprise. National legislation provided no protection to this category of workers.

Under the old Labour Law, workers were not entitled to go on strike when facing hard working conditions. They could not engage in collective bargaining, either. All these unfavourable conditions for workers made job seekers choose public sector work rather than employment in the private sector.101

The new Labour Law introduces some quite important changes. It was drafted by a committee composed of representatives of ETUF, business organizations, MOMM, and the local legal community. The International Labour Organization was in charge of ensuring that the new legislation would not contradict Egypt's participation in international agreements.102

The Labour Law applies to all types of enterprises, except the self-employed. It allows employers to hire workers directly, without having to rely on public employment services. Employers must still notify vacancies to local employment offices, but if the latter do not find suitable candidates within a week, employers are free to recruit workers directly.

An outstanding innovation of the Labour Law is its recognition for workers of the right to strike. This right is nonetheless restricted to specific conditions which may make it difficult to exercise.103

It also introduces a new procedure for dispute settlement. If a dispute on work conditions, terms or employment provisions arises, both the employer and the worker have the right to ask the competent administrative authorities (public employment offices) to start informal negotiations to settle the dispute. This right can be exercised only within seven days of the dispute. If within ten days from the time administrative authorities were requested to intervene a solution is not found, both the

100 ICFTU, 1999.
103 El-Ehwany and Metwally, 2001. p.44.
employer and the worker can resort to a judicial committee within forty-five days of the dispute. This committee is composed of two judges, a representative of MOMM, a representative of the trade union and one of the employers' association. The decision of this committee is provided within sixty days.

If the decision of the judicial committee mentioned above concerns discharging a worker, the sentence is delivered within fifteen days. When the committee sentence is against the employer's request to fire the worker, the former must reintegrate the latter in his/her job and pay all due salaries. If the employer does not respect the sentence, the worker is entitled to receive compensation for unlawful dismissal. Article 122 states that the amount of this compensation cannot be less than two months of salary per year of service and the judicial committee fixes the exact amount. Article 70 states that “The committee shall, in the merits, decide for provisional compensation if the worker requests doing that”. Dismissal for unionist activities of workers as well as for other reasons which are deemed to be discriminatory (colour, sex, social status, family obligations, pregnancy, religion, or political view) is strictly forbidden. Dismissals based on discrimination are subject to the sanction foreseen for unlawful discharges and thus to the compensation mentioned above. According to the Labour Law, the costs for unlawful dismissal to be borne by the employer, as described above, are rather high. However, no information is available on the strictness of application of this norm.

As for collective disputes, the Labour Law states that, if within 30 days negotiations do not lead to a settlement, one or both of the parties can ask for mediation. Mediators are selected by MOMM, which is also responsible for informing mediators of the situation. The Ministry receives the report of the mediators and presents its results and recommendations to the parties. If one or both disputers reject the recommendations, the Ministry is responsible for starting the procedure of arbitration. The results of arbitration are to be provided within a week. They are then presented to the parties by the Ministry.

The Labour Law contains a section (Book V) dealing with occupational safety and the assurance of an adequate working environment protecting good health. These norms are complemented by some ministerial decrees. Inter alia, Book V establishes the responsibility of employers to create a safe and healthy work environment and their obligation to report work accidents and accident-related statistics. It also envisages the creation of an administrative body in charge of occupational safety and health inspection, the establishment of occupational safety and health committees at an enterprise level and the setting up of national and provincial consultative bodies. The law provisions on health and safety at work apply to both private and public enterprises and entities. They do not apply to household servants and family members who are direct dependants of the employer. Book V covers all workers from all branches of production. Special provisions are provided for establishments with over 15 and over 50 workers.

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

3.4.3. Labour contracts

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

104 ILO Cairo Office, National Profile on Occupational Safety and Health, Egypt, forthcoming.
105 Ibid.
The new Labour Law mentions two types of labour contract: contracts for an indefinite period and fixed-term contracts. The latter category includes labour contracts with a fixed term and contracts concluded for the accomplishment of a specific task.

A worker can now be dismissed for a just cause based on a "serious error". The Labour Law lists some nine types of serious errors on the side of the worker, including absence without legitimate justification; false documents submitted by the worker; serious damage to the employer committed by the worker if the employer notifies it to the competent authorities within 24 hours; serious misconduct of the worker, etc. Similarly the worker can terminate the contract if the employer “defaults on any of the substantial obligations ensuing from the law, the individual or collective labour contract, or the articles of association of the establishment, or if the employer or his representative commits a hostile act against the worker or a member or his family”. In such a case the termination is considered as terminated by the employer without lawful justification.

The employer still cannot terminate employment without limit of time of his/her employee(s) in the case of financial problems of the enterprise, entire or partial closure of the enterprise or a change in job description of the employee unless both parties agree to the contract termination. In contrast, the worker can terminate the contract due to “a legitimate and adequate cause related to his health, social, or economic conditions” or upon a lapse of five years. In either case, the other party has to be notified two months before terminating the contract if the worker’s uninterrupted period of service with the employer does not exceed ten years, and three months if that period exceeds ten years or if the employee wishes to terminate the contract after a lapse of five years.

What makes a labour market rigid is thus the difficulty for employers to justify dismissals and the large indemnities that they may have to pay if they want to fire workers due to economic reasons or other unjustified reasons. In Egypt, compensation for unlawful dismissal is rather high, but it seems rather difficult for workers to obtain it, because of the complicated mechanism to submit a claim to the judicial committee mentioned in the previous section. In addition, employers have always managed to avoid the application of law and of compensation for unlawful dismissal by imposing workers to sign a resignation letter before being formally recruited. The law does not seem to help eliminate such an unjust practice. To do so, the law would have, on the one hand, to allow termination of contracts without limit of time for well established economic reasons and guaranteeing compensation for this termination by severance pay, and, on the other hand, by penalizing unjust practices and violation of the law.

The possibility for employers to conclude contracts for a limited duration without having to take the risk of paying relevant costs for compensation to terminate the labour relationship after a certain period may be a good option which may put an end to the practice of having job candidates sign resignation letters before being hired for an indefinite period. In a situation where workers may be dismissed at any time, if the employer decides to use the already-prepared resignation letter, a fixed-term contract becomes a better option than a contract for an unlimited duration also for workers who at least know for sure when the labour relationship comes to an end. It is nevertheless important to note that temporary labour contracts conflict with the principle of job stability and security for workers, unless broader employment security measures are adopted through labour market policies.

ILO Convention No. 158 on the Termination of Employment obliges ratifying States to establish, in conformity with the instrument, the grounds upon which employment can be terminated by the employer. This may happen only if there is a valid reason connected with the capacity or conduct of the worker or based on the operational requirements of the undertaking. The Egyptian law makes it clear that a labour contract for an indefinite period is the rule and a fixed-term contract is more an exception. Article 106 establishes that “If the period of a labour contract concluded with a definite period expires and its two parties continue to execute it, it shall then be considered by them as renewal of the contract for an indefinite period.”

The same ILO Convention also stipulates that fixed-term contracts concluded to evade restrictions on dismissal are unlawful. The Egyptian Labour Law does not mention any condition to prevent fraud consisting of the conclusion of an endless sequence of fixed-term contracts to avoid the costs which employers may have to face when they have to dismiss workers employed with a permanent contract. Article 105 states that “If a labour contract concluded with a definite period

107 Information available on the ILO Standards website (www.ilo.org). Egypt has not ratified this convention.
terminates with the expiry of its period, it may be renewed by expressed agreement between its two parties for one or more other periods.” Neither a maximum number of extensions nor a maximum total duration of fixed-term employment is thus provided.

Other forms of undermining workers’ rights through an unjustified use of fixed-term contracts may derive from the lack of objective reasons according to which such a type of contract may be concluded. The employer may simply decide to recruit an employee for a limited period of time to avoid the norms ruling contracts for an indefinite period of time and the employee may not object to it because national law allows it. In Egypt, most workers in the private sector are employed with fixed-term contracts, while jobs in the government and public sector are normally obtained for an indefinite period. Egyptian legislation grants the right to equal treatment to fixed-term workers and workers hired for an indefinite period of time with regard to access to pension schemes and other social benefits. Yet, doubts may easily be expressed on the actual application of this norm, given that private companies do not always provide benefits related to social protection.

No information on the effectiveness of the provision concerning compensation for unlawful dismissal is available. Nonetheless, the fact that most private sector workers are hired with a fixed-term contract tends to lead to the conclusion that norms on unlawful dismissal are perceived by employers as a real threat. In this case, a norm which is supposed to protect workers from dismissal generates the negative effect of putting them in a very unstable position. Unless case law protecting workers’ rights in Egypt is developed, flexibility in the labour market will be achieved through non-observance of Labour Law provisions and the curtailment of workers’ rights.

It is worthwhile mentioning that the new Labour Law does not mention any other atypical form of labour contract, besides fixed-term contracts, to promote labour market flexibility. Part-time work and temporary agency work are not mentioned in the Labour Law. Probation contracts are admitted for a maximum duration of three months.

Since youth unemployment is a very serious problem, apprenticeship contracts should be highly emphasized and promoted. The new Labour Law announces that a special decree shall be adopted on this matter.

In practice, Egyptian Labour Law does not seem to hinder labour market flexibility. Legal obstacles to the proper development of the labour market may be rather identified in the numerous violations of workers' rights and also in the restrictive legislation on SMEs. In particular, since SMEs lack proper institutional representation, they are unable to influence decision-making and legislation ruling their sector.

3.4.4. Promoting flexibility in the European Union through fixed-term contracts

Within the European Union, social partners can propose to the EU Commission the adoption of some legal instruments which are binding for member states. Social partners have reached a framework agreement on fixed-term contracts and have therefore asked the EU Commission to integrate the content of such an agreement into the text of a directive. A directive is a legal instrument which imposes on EU member states to achieve certain specific objectives by using the means which each state wishes to choose according to its own national system. In 1999, Directive 1999/70 on fixed-term contracts was therefore adopted. In the preamble, it is stated that “The parties to this agreement recognise that contracts of an indefinite duration are, and will continue to be, the general form of employment relationship between employers and workers. They also recognise that fixed-term employment contracts respond, in certain circumstances, to the needs of both employers and workers.”

Clause 5 of Directive 1999/70 is particularly important, because it deals with measures to prevent abuse. It states that:

- To prevent abuse arising from the use of successive fixed-term employment contracts or relationships, Member States, after consultation with the social partners in accordance with national law, collective agreements or practice, and/or the social partners, shall, where there

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are no equivalent legal measures to prevent abuse, introduce in a manner which takes account of the needs of specific sectors and/or categories of workers, one or more of the following measures:

(a) objective reasons justifying the renewal of such contracts or relationships;
(b) the maximum total duration of successive fixed-term employment contracts or relationships;
(c) the number of renewals of such contracts or relationships.

- Member States after consultation with the social partners and/or the social partners, shall, where appropriate, determine under what conditions fixed-term employment contracts or relationships:

(a) shall be regarded as "successive";
(b) shall be deemed to be contracts or relationships of an indefinite duration.

Box 3: Fixed-term contracts in Germany

After the adoption of Directive 1999/70, most EU countries have passed specific legislation on fixed-term contracts in order to meet the requirements set in the EU new act. Germany passed a law which came into force in January 2001. According to this law a fixed-term contract can be concluded either for a fixed time period or for the accomplishment of a specific task. Article 14 stipulates that a fixed-term contract can be concluded only if it is justified by an objective reason, such as:

1. when the need for work in the enterprise is only temporary;
2. when the term is set in a contract following a period of training or of studies in order to facilitate the entry of a new employee in the labour market;
3. when a worker is hired to replace another worker who is temporarily absent;
4. when the nature of the job requires it;
5. for a probation period;
6. when the person or the worker requires it (special work permit with a limited duration);
7. when the employee is hired on a programme funded with public resources;
8. when the term is linked to a court settlement.

The same article adds temporary limits for the conclusion of fixed-term contracts concluded without one of the above-listed objective reasons. A maximum of three successive fixed-term contracts within a period of two years is allowed.

3.5. How the institutional and legal framework promotes labour market flexibility and provides protection to workers

In general, the Egyptian labour market legislation appears as rather flexible. Despite the lack of specific mention in the new Labour Law of types of labour contracts, such as part-time and temporary agency work, the unlimited and free use of fixed-term contracts grants employers considerable power and freedom in shaping the size and employment modalities of their labour force at different moments, production cycles and economic circumstances. A high degree of flexibility normally requires a decent level of protection for workers whose basic rights risk otherwise to be abused. As noted in the different sections of this chapter, there are numerous instances where the position of workers is extremely weak and unprotected in Egypt.

The existence of well-functioning social dialogue and of strong employers’ and workers’ organizations usually helps conciliate labour market flexibility with workers’ protection and employment security. As observed in section 3.3, in Egypt the effectiveness of social dialogue needs reinforcement. The establishment and proper functioning of social dialogue institutions can help achieve this objective.
A poor protection system for workers should be compensated by the provision of solid technical assistance through training and employment services, as well as through various labour market measures. Employment services in Egypt need to be overhauled. Their efficiency and effectiveness must be substantially upgraded so they can provide workers with quality services both when they enter the labour market for the first time and when they need to find jobs after the termination of previous employment relationships.

As noted earlier, apart from local employment offices, there are other labour market institutions in Egypt. The institutional setting introduced by the new Labour Law, but not yet operational, could radically improve the so far lacking coordination between them and their employment promotion programmes. In particular, the Training and Rehabilitation Financing Fund seems to be a promising innovation, provided that its efficiency is viewed by the Egyptian Government as an absolute priority.

4. Employment and labour market programmes

4.1. Passive employment programmes

To diminish pressure on the labour market and to reduce the labour force supply, the Egyptian Government has adopted several labour market policy measures aimed to provide income support to jobless people and encourage them to withdraw from the labour market. As already mentioned, redundant workers in privatized State-owned enterprises have been offered early retirement and the purchase of a certain proportion of shares of these companies. These and other measures will be presented in details in this section.

1. Early Retirement Scheme. According to the Early Retirement Scheme, in privatized enterprises, workers with at least 20 years of service may voluntarily retire before the age of 60 in return for a bonus ranging between L.E. 12,000 and L.E. 35,000, depending on the number of years of service, the position and the job. An amount equal to 10 months of salary based on the wage workers receive when they reach the age of 60 is also granted. Workers must be registered in the social insurance system through their jobs to be able to benefit from this scheme. Given that male workers may apply for early retirement if their age is between 50 and 58 and women workers may do the same if they are 45 to 58 years old, we may observe a gender-biased treatment towards women. Already before privatization, female workers were present in a lesser proportion than men in the employed population and seem to have suffered more than their male colleagues from the negative consequences.

<table>
<thead>
<tr>
<th>Type of company</th>
<th>Number of workers (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holding company for weaving textiles and ready made garments</td>
<td>66,055   83</td>
</tr>
<tr>
<td>Holding company for textiles and trade</td>
<td>68,067   85</td>
</tr>
<tr>
<td>Holding company for cotton and foreign trade</td>
<td>32,273   85</td>
</tr>
<tr>
<td>Holding company for food industries</td>
<td>56,537   89</td>
</tr>
<tr>
<td>Holding company for mills and grindings</td>
<td>38,663   85</td>
</tr>
<tr>
<td>Holding company for agricultural development</td>
<td>10,720   84</td>
</tr>
<tr>
<td>Holding company for military production</td>
<td>12,000   100</td>
</tr>
</tbody>
</table>


of privatization resulting in the loss of their jobs or in early retirement. Interestingly, though, the following table shows that in seven holding companies where the Early Retirement Scheme was adopted and where female workers were about 15 per cent of the labour force, women and men were equally affected in a proportional way.

The Early Retirement Scheme within an enterprise is jointly adopted by the enterprise and the employers' association and by workers and the union. Through a special agreement which can be concluded between the enterprise and the union's committee, different age limits may be established for male and female workers.

2. **Workers Shareholders Associations.** These entities are regulated by Law 95/1992. Shares of enterprises undergoing privatization may be purchased by workers through Workers Shareholders Associations which, according to the above-mentioned law, can own, buy, sell or exchange shares of a given enterprise in the stock market on behalf of workers. In some cases, the Associations bought up to 95 per cent of the shares of a privatized company while for some engineering enterprises this rate reached 40 per cent. The creation of Workers Shareholders Associations was supposed to increase general interest in privatization and to improve productivity at the same time. Empirical evidence shows that indeed this measure led to greater efficiency. In 7 out of the 10 enterprises sold to ESAs in 1994 profits increased by over 60 per cent on average.

Workers Shareholders Associations can benefit from a 20 per cent reduction in the value of shares. In addition, part of the cost of the purchase can be paid through instalments within a period of ten years, during which shares are kept by the enterprise. The Associations also receive training and technical assistance in the field of management provided by different entities under the Ministry of the Business Sector.

3. **Labour Social Protection Programme.** It includes several components as described below:

### Social Security and Social Assistance:
Some vulnerable groups of persons benefit from a monthly pension to cover living expenses. Individuals who are entitled to receive this type of financial support do not need to have paid up any prior contribution and to have been previously employed. Table 15 shows the number of people who have received a pension of this type and the progression in the financial allocations from 1994-1995 to 2001-2002. The annual financial support per person increased from L.E. 141.5 in 1994-1995 to L.E. 594.7 in 2001-2002. Moreover, the number of beneficiaries rose more than three times from 247,900 in 1994-1995 to 794,500 in 2001-2002. By redistributing part of the State budget through small pensions, this measure has the dual beneficial effect of empowering vulnerable people on the one hand and of strengthening domestic demand and promoting employment creation on the other. Schemes like this one are very important for providing income security and, at the same time, new jobs in an indirect way.

<table>
<thead>
<tr>
<th></th>
<th>No. of beneficiaries (in 1000)</th>
<th>Spent amounts (in 1000)</th>
<th>Annual amount per person (in L.E.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994/95</td>
<td>247.9</td>
<td>35094.6</td>
<td>141.5</td>
</tr>
<tr>
<td>1995/96</td>
<td>259.8</td>
<td>46815</td>
<td>180.2</td>
</tr>
<tr>
<td>1996/97</td>
<td>297.7</td>
<td>57760</td>
<td>194.0</td>
</tr>
<tr>
<td>1997/98</td>
<td>343.9</td>
<td>82946.7</td>
<td>241.2</td>
</tr>
<tr>
<td>1998/98</td>
<td>422.4</td>
<td>102845.3</td>
<td>243.5</td>
</tr>
<tr>
<td>1999/2000</td>
<td>334.0</td>
<td>106025.3</td>
<td>317.4</td>
</tr>
<tr>
<td>2000/01</td>
<td>448.9</td>
<td>175891</td>
<td>391.7</td>
</tr>
<tr>
<td>2001/02</td>
<td>794.5</td>
<td>472182</td>
<td>594.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Insurance and Social Affairs as quoted in Abd el Fattah, 2004.

Social security is provided also to former workers through a specific type of financial support, as presented in Table 16. In this case the number of beneficiaries declined to less than one half - from 5,065 in 1994-1995 to 2,415 in 2001-2002. The total annual financial allocation per person rose from
L.E. 60.7 in 1994-1995 to L.E. 196.7 in 2001-2002. However, it is to be noted that none of the two types of benefits provides sufficient amounts to cover living costs.

Table 16. Data on social security for former workers of privatized enterprises from 1994-1995 to 2001-2002

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of beneficiaries</th>
<th>Spent amounts (in 1000)</th>
<th>Annual amount per person (in L.E.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994/95</td>
<td>5065</td>
<td>307.6</td>
<td>60.7</td>
</tr>
<tr>
<td>1995/96</td>
<td>10913</td>
<td>453.3</td>
<td>41.6</td>
</tr>
<tr>
<td>1996/97</td>
<td>4125</td>
<td>723.2</td>
<td>175.3</td>
</tr>
<tr>
<td>1997/98</td>
<td>3322</td>
<td>372.8</td>
<td>112.2</td>
</tr>
<tr>
<td>1998/98</td>
<td>3379</td>
<td>367.3</td>
<td>108.7</td>
</tr>
<tr>
<td>1999/2000</td>
<td>2673</td>
<td>359</td>
<td>134.3</td>
</tr>
<tr>
<td>2000/01</td>
<td>2455</td>
<td>352.9</td>
<td>143.7</td>
</tr>
<tr>
<td>2001/02</td>
<td>2415</td>
<td>475.1</td>
<td>196.7</td>
</tr>
</tbody>
</table>

Source: Ministry of Insurance and Social Affairs as quoted in Abd el Fattah, 2004.

Unemployment benefits: Regulated by Law 79/1975, unemployment benefits correspond to 60 per cent of the last salary received by the dismissed worker and are granted for a maximum period of 28 weeks from dismissal. Unemployment benefits are financed through a contribution of employers equal to 2 per cent of their workers' wages, and through the revenues made from the investment of such contributions.

Requirements to qualify for unemployment benefits are as follows:

- the employee must not have resigned or lost his/her job as a result of a judicial sentence compromising his/her honour, honesty and moral attitude;
- the employee must have been part of the official insurance system for at least six months, the last three of which with no interruption;
- the name of the employee who is officially part of the insurance system must appear in the unemployment register of the labour office.

The conditions under which a dismissed worker is not entitled to receive unemployment benefits are rather numerous:

- the dismissed employee has refused a suitable job assigned to him/her by the labour office (a job is deemed suitable when the corresponding salary is at least 75 per cent of the last salary received, when it matches the experience and qualifications of the former employee, and when the job is within the governorate where he/she has been working before);
- the dismissed employee is self-employed;
- the unemployed person is a waged employee receiving a salary which is equal to or higher than the unemployment benefits;
- the unemployed person benefits from a social pension which is equal to or higher than the unemployment benefits;
- the former employee has left the country for an indefinite period;
- the former employee is 60 years old or above.

Unemployment benefits are no longer granted when the cases listed below occur and are provided again as soon as the situations described cease to exist:

- when the unemployed person does not visit the labour office regularly, unless serious reasons account for it;
- when the dismissed worker refuses to participate in the training indicated by the labour office;
- when the unemployed person joins the army;
- when the dismissed worker receives a wage or a pension which are lower than the unemployment benefits (in this case, the individual is granted only the difference between what he/she earns and the unemployment benefits).

Workers Emergency Aid Fund: It was created to alleviate the effects of economic liberalization, privatization and adoption of the new Labour Law which gives employers more flexibility to dismiss, to adopt fixed-term contracts and to change the conditions of the labour relationship. Regulated by Law 156/2002, this fund provides some financial support to those workers who stopped receiving their salaries because of the partial or total closure of the enterprise where they were employed or because of dismissal due to a reduction in staff. To have access to the financial allocations from this fund, workers must be part of the official insurance system and must not be receiving unemployment benefits. In addition, he/she must have been employed in the same enterprise for at least one year. The financial support offered can be enjoyed for a maximum period of six months. The financial contribution received by the former worker corresponds to 75 per cent of his/her highest salary and ranges between L.E. 150 and L.E. 1,000 per month. The fund is financed through a fee of about 1 per cent of basic workers' wages.

The financial contribution ceases to be granted in the following cases:
- when the former employee finds another job;
- when the enterprise where he/she was working restarts activities;
- when the labour relationship is terminated according to law provisions;
- when it is found that the financial support is being received through fraud.

4. Social insurance. Workers may benefit from pensions and compensations thanks to contributions paid up by both employers and workers throughout the entire period of service. As Table 17 indicates, the percentage of workers covered by social insurance decreased from 96.3 per cent of the formally employed population in year 1994-1995 to 93.5 per cent in 2002-2003. The annual amount received per person has constantly increased from L.E. 1,000 in 1994-1995 to L.E. 2,351 in 2002-2003. Although data on social insurance beneficiaries may look encouraging, in Egypt several people benefiting from pensions of the type under consideration still live below the poverty line.\(^{116}\)

| Table 17. Data on social insurance from 1994-1995 to 2002-2003 |
|--------------------|--------------------|--------------------|
|                    | Number of insured   | Number of          | Pension and | Annual      | Coverage   |
|                    | workers in million  | beneficiaries in    | compensation for | amount per |           |
|                    | 117                 | million             | insured workers | person in   |           |
|                    |                    |                    | in billion L.E. | L.E.        |           |
| Years              | 1                  | 2                  | 3              | 4           | 5          | 6         |
| 1994/95            | 15.9               | 5.8                | 5.8            | 1000        | 96.3       |
| 1995/96            | 15.9               | 6                  | 6.8            | 1130        | 94         |
| 1996/97            | 16.9               | 6.3                | 8.6            | 1317        | 97.1       |
| 1997/98            | 17.2               | 6.6                | 9.5            | 1439        | 96         |
| 1998/99            | 17.3               | 6.8                | 12.6           | 1852        | 94         |
| 1999/2000          | 17.4               | 6.9                | 14.3           | 2362        | 92         |
| 2000/01            | 17.6               | 7.1                | 15.8           | 2225        | 91.2       |
| 2001/02            | 18.1               | 7.3                | 15             | 2054        | 91.8       |
| 2002/03            | 18.6               | 7.4                | 17.4           | 2351        | 93.5       |


4.2. Active employment programmes

Several employment and training programmes have been set up in Egypt to promote job creation through active labour market policies. Such programmes are organized by MOMM, SFD, IDSC, other ministries as well as by various NGOs. Results often do not meet the set targets. There are

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\(^{116}\) Abd el Fattah, 2004

\(^{117}\) The rise in the number of insured workers compared to the number of the workers is due to the fact that part of the labour force is not working now but they are enjoying social insurance from their previous jobs.
skill mismatches, obstacles in job placements and the bad performance of credit schemes for self-employment. There are nevertheless interesting cases which are worth mentioning.

1. Programmes organized by the Social Fund for Development. The SFD started its activities two years after its creation, namely in 1993. Target groups of the SFD are the poor and the unemployed. Among the latter are university graduates, craftsmen, etc. The SFD has five main programmes:

- Public Works Programme (PWP),
- Community Development Programme (CDP),
- Enterprise Development Programme (EDP) now replaced by the Small Enterprise Development Organisation (SEDO),
- Human Resources Development Programme (HRDP),
- Institutional Development Programme (IDP).

Four of the five programmes (PWP, CDP, SEDO and HRDP) create job opportunities. Information on SEDO, the largest programme for enterprise development, will be provided in section 4.6.6.

As for public works programmes in general, it is reported that in Egypt, activities are usually capital-intensive and include water supply and sewerage. The wage share in these programmes is only 30 per cent of total cost.

The Public Works Programme of the SFD provides funding for small projects to improve infrastructure in rural and deprived urban areas. Better local infrastructure should attract investment in local communities and lead to a favourable work environment. PWP projects are labour intensive. They consist of activities, such as repaving roads, supplying remote villages and deprived areas with water and drainage, fortifying the walls of ditches and water canals, repairing public buildings, garnishing urban areas, etc. During the period 1994-2000, the PWP has created some 6,316 permanent jobs and 111,013 temporary ones.

The Community Development Programme and the Human Resources Development Programme focus on social and human development by supporting activities in the field of education, health, training, environment, etc. Projects are implemented by NGOs and a few governmental entities. Between 1994 and 2000, the two programmes generated about 25,857 permanent jobs and a similar number of temporary ones.

2. The Skorouk or Sunrise Programme. In Egypt, there are other employment programmes launched by the Government directly. One of them is the Skorouk or Sunrise Programme which tries to create employment in rural areas. During the same period, about 59,000 permanent jobs and about 123,000 temporary ones have been created.

3. Temporary jobs promoted by different ministries. Other temporary jobs were created between 2001 and 2002 in specific programmes run by different ministries, such as the Tree Planting Programme of the Ministry of Agriculture.

4.3. The National Youth Employment Programme

For detailed information on this programme, see the ILO report *Egypt: Evaluation of two Components of the National Youth Employment Programme*.

4.4. Education and other training programmes

As for vocational education and training, despite the efforts of the Egyptian Government, obstacles in enhancing labour productivity and in meeting the requirements of labour demand still exist. In general, the Egyptian training system does not provide skills that are in demand. Training

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120 Abd el Fattah, 2004.
121 Ibid.
122 Ibid.
123 Ibid.
centres are under-equipped and outdated also because enterprises are not involved in their management. Teachers are under-qualified, poorly remunerated and unmotivated. Curricula are not up to date with technological developments and labour market requirements. Teaching is based on memorization and repetition of teachers’ statements rather than on analysis and thinking. The entire system is geared to public administration employment and not to jobs where critical and/or creative thinking is required.124

Many training programmes organized by various institutions exist, which are not coordinated.125 Training curricula are not standardized, which implies remarkable differences in the level of qualification and skills of graduates from similar programmes of different training institutes. This makes employers reluctant to hire fresh graduates. Despite the great importance that enterprises seem to place on human resources, investments in training staff are very limited. This is true in particular for informal workers who, after being trained, may decide to move to a better paid job or to start their own businesses.126

Students or trainees usually receive no information on job opportunities available to them after graduation. In general, choices on education and training are made on the basis of prestigious jobs, family traditions and proximity of schools. Because training is not linked to the needs of the labour market, most graduates end up working in the fields which have nothing to do with their educational background. Training and education usually do not facilitate recruitment. Moreover, a higher level of education does not correspond to higher earnings, except for post-university degrees.127

The best employment option for students is still public employment. This is not only due to the past centralized economic system of Egypt which conceived the State as the principal employer and to the better working conditions offered in public jobs, but also to the expectations created by the employment guarantee scheme launched in the early sixties. According to this scheme which is no longer effective, public jobs were automatically granted to university graduates, graduates from vocational secondary schools and technical institutes and demobilized military servants.128 It is interesting to observe that in 1998, 40 per cent of those who had been full-time students in 1990 obtained a job in the public sector, 23 per cent ended up working informally, and 13 per cent had a formal private job.129

4.5. Vocational training programmes

Since the fifties, many training programmes have been launched in Egypt. Most of them took the form of technical cooperation projects. Their main objective was to establish links between training centres and future employers. Although these programmes have had an impact locally, none of them managed to generate effects at a national level.130 Vocational training in ministries had also proliferated. Besides MOMM and the Ministry of Education, other ministries, such as the Ministry for Military Production or Ministry of Industry, organize training activities.

Training policy is supposed to be the primary task of the Supreme Council for Human Resources Development. The new Labour Law provides an innovative legal framework for training and envisages the creation of a special fund to finance training programmes as described in section 2.1. As the different cases described below show, training centres have traditionally not been concerned with placement, since jobs for graduates were guaranteed by public enterprises.131 Only few training programmes have managed to take demand for skills into account and to build partnerships with private firms.

The main training providers are the following:

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125 Abd el Fattah, 2004.
130 Ibid, p.28.
1. The Mubarak-Kohl Initiative is a training provider which was established in the early nineties and is said to offer the most successful training programme in Egypt. It originated from a visit of President Mubarak to Chancellor Kohl in 1991 and was supposed to reform the secondary technical education system in Egypt. The programme tried to introduce the so-called "dual training system" in Egypt based on the collaboration of both the public and the private sector. In particular, the Ministry of Education and enterprise associations are responsible for training, managing and financing training courses. The primary goal of this programme is for training and internships to match the needs of the labour market.

The initiative makes use of existing training centres, but develops new curricula and introduces a different distribution of responsibilities. The State provides land, school buildings and teachers' salaries. Through their business associations, companies select and pay students, arrange and monitor the quality of internships, prepare curricula and exams in collaboration with the Ministry of Education and pay and manage part of the training. Enterprises also contribute to technical equipment for workshops and laboratories.

The first pilot projects of this programme started in 1995 with the support of German technical cooperation. Courses have a three-year duration. Classes include two days of theory and four days of practical work each week. After graduation, whenever possible, students are to be integrated into the regular staff of the enterprises where they did their internships.

Table 18 provides some data on the results achieved by the pilot phase of the Mubarak-Kohl Initiative.


<table>
<thead>
<tr>
<th>Number of students trained</th>
<th>Number of curricula activated</th>
<th>Sectors covered by training courses</th>
<th>Jobs taught</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,500</td>
<td>11</td>
<td>Production, service, construction, building, health.</td>
<td>Industrial mechanics, industrial electronics, construction mechanics, electric installation, automotive mechanics, ready made garments, weaving, shoe making, heavy machinery, spinning, textile dyeing, textile printing, nurse, office management assistant, brick layer, locksmith, carpenter</td>
</tr>
</tbody>
</table>


The Mubarak-Kohl Initiative was evaluated in 1999. The programme was deemed very successful and was therefore extended. The dual training system is nonetheless still rather new in Egypt and has not yet developed its full potential. Some impediments to the development of the dual training system have been identified as follows:

- the industry is often not sophisticated enough for training courses of long duration;
- the private sector lacks the necessary organizations to jointly manage training courses;
- private enterprises should play a more active role in jointly managing training activities rather than maintaining the traditional passive role;
- private businesses should fully accept their responsibility in co-financing training activities;
- a clear and transparent share of responsibilities between the public and the private sector is difficult to achieve;
- the dual training system may supply some modern segments of the economy with skilled labour, but has a limited impact at a national level;
- the programme should be adapted also to the needs and features of local industries and small enterprises which are typical in the poorest region of Egypt;
- the programme is relatively expensive;

• the programme is gender unbalanced mainly because companies tend to select more boys than girls as trainees;
• staff is composed of teachers and not of practitioners;
• graduates pursue university studies rather than fill skilled-labour jobs, because university studies are associated with a better social status;
• enterprises sometimes use students as cheap labour and do not offer proper jobs to them after graduation;
• enterprises fear that students may move over to competitors after graduation and after having been trained.

2. The Ministry of Manpower and Migration runs short training programmes for the unemployed. These courses target graduates from industrial, commercial and agricultural secondary schools in particular. The Ministry estimates that less than 5 per cent of unemployed people apply for these programmes. Training courses are oriented either to school dropouts or young jobless people between 20 and 40 and last 8-9 months. MOMM training centers also supervise trainees trained in public sector enterprises.

3. The Ministry of Industry has gained a reputation as one of the best training providers. It is also one of the oldest training bodies in Egypt, established in 1956 and so far 300,000 persons have completed training there. It organizes vocational training through its Productivity and Vocational Training Department (PVTDP). PVTDP is currently running 52 training centres in 14 governorates, with 40,000 trainees in 34 vocations. It offers three types of programmes: (a) apprenticeship usually for 3 years; (b) training of technicians with secondary schooling lasting 1-2 years; and (c) retraining of (employed) workers or jobseekers with work experience or unemployed graduates from secondary schools or universities lasting 6-9 months.

The apprenticeship programmes (a) use a dual system, where both the ministry and enterprises are involved. Only about 25-30 per cent of participating enterprises are private firms, others are public sector enterprises. Classes are 20 per cent theoretical and 80 per cent practical. During the first two years, classes take place in training centres, while 80 per cent of training in the third year occurs in participating enterprises. Private employers prefer by far graduates from the PVTDP training programmes to candidates trained in schools run by the Ministry of Education. According to the information collected, some 85 per cent of trainees get a job after completion of training although only 25 per cent of them are placed in private firms. One big challenge of these training courses is that they now have to re-orient the skills taught in order to meet the demand of the private sector rather than that of declining public employment. The training programme of the Ministry of Industry has been criticized because of the low requirements that applicants must meet to be selected. It is sometimes sufficient to be able to read and write as most candidates are from poor families, which limits the extent and quality of training.

4. The Ministry of Reconstruction and Housing organizes training programmes which are mainly targeted to the needs of the public construction and housing sector. Because the construction sector in Egypt is largely private and informal, they are said to be ineffective in supplying skills to the construction and housing sector as a whole. The Ministry currently runs 53 training centres with some 70,000 trainees enrolled. In the programme under consideration, trainees are attracted by several rewards, such as a meal. Eligible candidates are supposed to be able to read and write. Training courses last on average nine months and provide also a bag of tools to each trainee to help them start their profession. It is estimated that in the mid-nineties, 83 per cent of the Egyptian labour force working in the construction sector had acquired skills through the traditional apprenticeship system. Social networks are often very important in order to enter this system.

136 Ibid.
5. The Ministry of Social Affairs runs several training programmes. The Productive Family Programme aimed to increase productivity of individuals and families through training and small business development provides initial training through some 1,000 units all over the country. More information on this programme is provided in section 4.6.

The Ministry also organizes vocational training in some 196 training centres, offering short courses to low-skilled persons. Some of these training centres are well equipped and use efficient and qualified trainers.\textsuperscript{140}

The third type of training is provided to low-income families and school drop-outs by the Ministry of Social Affairs in close collaboration with some NGOs. A total of 3,468 training units are involved in this training programme but these units are poorly equipped, suffer from insufficient financial resources and use trainers who are not very qualified.\textsuperscript{141}

Finally the Ministry in collaboration with the UN Population Activities Fund has developed a programme for the advancement of rural women. Launched in 1987, this programme trains rural women aged between 18 and 50 in skills for productive activities, such as cattle and chicken raising, food processing or production of hand-made products such as blankets, baskets, souvenirs, etc. Between 1988 and 1997, training activities expanded from 3 to 22 rural villages and beneficiaries increased from 146 to 4,372.\textsuperscript{142}

6. The Ministry of Youth in collaboration with SFD is training some 200,000 school graduates in its 106 training centres. The Ministry also runs training activities with the Future Generation Institution, an NGO organizing teaching of foreign languages and computer skills for graduates. The Ministry of Youth contributes some 2 per cent of the total budget of this programme.\textsuperscript{143}

7. The Ministry of Military Production is considered as the most competent and best performing training body concentrating mainly on persons with an intermediate level of education. Its training programmes are directed towards retraining workers in the military sector to help them acquire new skills applicable in the civil sector. In addition, upon the request of private companies, its training centres train workers of the private sector.\textsuperscript{144}

8. The Social Fund for Development is one of the few institutions financing retraining of adult workers, especially public sector workers. The SFD also finances training institutions running training courses for unemployed graduates. It is however reported that only 1.6 per cent of SFD's planned training and retraining activities have been implemented so far.\textsuperscript{145}

In sum, as it is extensively described in the ILO report \textit{Egypt: Evaluation of Two Components of the National Youth Employment Programme}, training in Egypt presents several negative elements. Targets set at the beginning of a training programme are very high in terms of the number of trainees, while priority is rarely given to the quality of the training provided. Even though training certificates are valid all over the country, what matters is where the job candidate was trained as the differences in quality among various training providers are vast. Moreover, links with private companies which would facilitate employment after training are rarely sought.

4.6. Programmes promoting micro and small enterprise development

I In general, micro and small enterprises are considered as the principal new employment generators at present. It is estimated that 70 per cent of new jobs in Egypt are created in SMEs and in the informal sector both in urban areas and in the non-farm rural economy.\textsuperscript{146} It is reported that SMEs constitute over 90 per cent of private non-agricultural enterprises in Egypt. In addition, they employ three quarters of the total labour force working in such enterprises.\textsuperscript{147}

\textsuperscript{140} Abd el Fattah, 2004.
\textsuperscript{141} Ibid.
\textsuperscript{142} Ibid.
\textsuperscript{143} Ibid.
\textsuperscript{144} Ibid.
\textsuperscript{145} Ibid.
\textsuperscript{147} El-Laithy, 1999, p.31.
Micro enterprises usually employ less than five people, while small businesses can have from 5 to 50 workers. Enterprises employing less than five workers amounted to 88 per cent of the total small businesses in 1998. They represented 95 per cent of informal small enterprises and 75 per cent of formal businesses.\(^{148}\) Egyptian SMEs are reported to be characterised by low productivity, low incomes and unsafe and hazardous working conditions.\(^{149}\) As opposed to large firms, small enterprises tend to hire workers informally. In 1998, businesses with up to four workers covered only 2.1 per cent of total formal workers and 60 per cent of total informal labour while enterprises with 50 and more workers employed 60 per cent of formal workers. In addition, Egyptian small enterprises themselves are increasingly becoming informal. In 1988, informal SMEs contributed 17.4 per cent to the total number of SMEs and rose to 31.7 per cent ten years later.

In 1998, 80.9 per cent of SMEs were owned by male entrepreneurs and the remaining ones had a female owner. Women entrepreneurs in the informal sector with a university degree were 14.5 per cent of total female informal entrepreneurs in 1998. The corresponding figure for men was 12 per cent.\(^{150}\) This proves that highly educated women who cannot find a job in the Government or public sector try to start a business in the informal sector.

In Egypt, programmes in support of SMEs are often not very successful also due to the lack of support services. The death rate of SMEs is estimated to be as high as 80 per cent.\(^{151}\) The share of employers and self-employed in total employment decreased from 24.2 per cent in 1988 to 15.7 per cent in 1998. This decline indicates that it is increasingly difficult to be an entrepreneur in an open and competitive market.\(^{152}\) A recent survey reveals that the main obstacles that firms encounter at present are imports because of the depreciation of the Egyptian pound, followed by market demand, access to credit, access to capital and lack of a skilled workforce.\(^{153}\) In particular for micro-enterprises, the main constraints are credit availability and regulation.\(^{154}\) Other major problems for micro and small enterprises are reported to be low effective demand, lack of marketing and high taxes.\(^{155}\)

As far as credit is concerned, it is to be noted that in Egypt the level of non-performing loans in the formal banking sector is quite high and increasingly negative. It rose from 12 per cent in June 1999 to 15 per cent in September 2000. Non-performing loans are reported to be a consequence of the lack of clear financial boundaries between Government-owned banks and other State institutions (ministries, public enterprises).\(^{156}\) In addition, bad loans are the result of lending based on social and political connections rather than on financial viability. Non-performing loans have made the process of privatization of the financial sector more difficult to achieve.\(^{157}\) Although data on the negative situation of the Egyptian banking sector refer to loans disbursed to rather large enterprises, the consequences of this situation fall on SMEs which are perceived as involving higher risks for banks and are therefore granted limited financial resources.

Interestingly, the results of a survey covering both formal and informal micro and small entrepreneurs reveal that the main sources for funding are self-finance (personal savings, inheritance, resources coming from family members) and joining other individuals in partnerships (especially for formal enterprises). It appears clear that the contribution of formal institutions and even NGOs and special programmes is almost invisible.\(^{158}\)

In this section and in the following sub-sections, we will consider which financial and other services exist for small entrepreneurs in Egypt. We will try to describe both the financial institutions to


\(^{157}\) Ibid, p.199.

which small entrepreneurs can address their requests for funding and the types of financial and other services which are offered to them.

In general, programmes promoting SMEs reportedly encounter difficulties related to sustainability and accessibility. Few programmes have been able to achieve financial self-sufficiency and continue to heavily depend on external funding. As for accessibility, the outreach of existing financial programmes remains limited. Banks providing financial services to micro-enterprises have been persuaded not to ask for collateral. Nonetheless, the requirements these institutions impose to secure loans are quite stringent. For example, a typical requirement is that a public sector employee or a land-owner acts as a guarantor of a loan. Most financial institutions also require the existence of a formal establishment, which implies commercial registration and a tax card. Formalities and bureaucracy are major obstacles for small and micro-entrepreneurs who try to obtain credit.\textsuperscript{159}

The principal providers of financial services to SMEs in Egypt are:

1. Non-governmental organizations (NGOs)
2. Alexandria Business Association
3. Commercial banks
4. The National Bank of Egypt
5. The Credit Guarantee Company
6. The Social Fund for Development

Before examining each one of them in detail, let us mention a few governmental activities which include the provision of financial and other services. The Government has a long tradition of managing and developing anti-poverty programmes through the Ministry of Social Affairs in collaboration with several governmental and non-governmental bodies. The main programmes with a credit component are:

- \textit{Mubarak Solidarity Programme}, launched in 1996 and targeted at people with very low incomes, such as the disabled, those with chronic diseases and unemployed youth. It tries to mobilize the production capabilities of beneficiaries and to provide aid in money and in kind. Banking and investment activities also take place (investments for L.E. one billion). New small projects are supported through loans, on condition that the project yields social returns (investments for L.E. 700 million per year). The gross number of programme beneficiaries has reached 2.6 million. In total L.E. 65.3 million has been allocated to this programme, half of which for financing income-generating activities, with the interest rate at 3-4 per cent.\textsuperscript{161}

- \textit{Productive Family Programme} was launched in 1964, through the Ministry of Social Affairs. It provides training, micro-credit and production and marketing support. SFD has been largely funding this programme. Loans are small and only allow sustaining of income-generating activities.\textsuperscript{162} From 1992 to 1996, beneficiaries of this programme were about one million families. Marketing services are offered through temporary, seasonal and permanent exhibitions. Activities supported by the PFP include: sewing, embroidery, silk and woollen carpet manufacturing, agro-industries (drying fruits, drying and pickling vegetables, palm trees products), wool, bamboo, plastic and copper manufacturing, food security projects (cattle and sheep raising, poultry, bees), and various services projects (plumbing, electricity).\textsuperscript{163} The following Table provides an illustration of the financial services offered by the Sharkya branch of the PFP. This programme has one branch per governorate. The economic impact of these loans hardly extends beyond the loan duration. In general, manufacturing projects in urban areas seem to be more sustainable than agricultural ones. Few projects tend to grow and would need additional credit. Loans disbursed by the PFP are small and cannot create employment opportunities outside the family.\textsuperscript{164}

\begin{thebibliography}{9}
\bibitem{159} El-Laithy, 1999, p.32.
\bibitem{160} Abd el Kader, 2001.
\bibitem{162} Ibid, p. 25.
\bibitem{163} El-Laithy, 1999. p.35.
\bibitem{164} Ibid, p.36.
\end{thebibliography}

35
Table 19. Data on the Sharkya branch of the Productive Family Programme, 1992-1995

<table>
<thead>
<tr>
<th>Number of loans received by the Sharkya branch from SFD</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amount of resources received by the Sharkya branch from SFD</td>
<td>L.E. 3.91 million</td>
</tr>
<tr>
<td>Interest rate on SFD loans</td>
<td>7-14 per cent</td>
</tr>
<tr>
<td>Repayment modalities for PFP to SFD</td>
<td>2 years grace period and repayment period from 2.5 and 3.5 years</td>
</tr>
<tr>
<td>Families benefiting from credit</td>
<td>5,494</td>
</tr>
<tr>
<td>Loan size</td>
<td>L.E. 500 - 5,000</td>
</tr>
<tr>
<td>Agricultural projects financed</td>
<td>4,313</td>
</tr>
<tr>
<td>Manufacturing projects financed</td>
<td>994</td>
</tr>
<tr>
<td>Service activities financed</td>
<td>187</td>
</tr>
</tbody>
</table>


- **Bank Nasser** was created in 1971 and its main objective is to establish social equity among citizens. It extends loans and grants to persons with a limited income and to disabled individuals. The financial resources of the bank come from banking activities, investments, Zakah money, donations and wills. This institution is the only one in Egypt which is allowed by law to receive Zakah money and disburse it. Zakah is a tax on capital used to fund welfare projects.\(^{165}\) The following table provides some information concerning the financial services offered by Bank Nasser.\(^ {166}\)

Other programmes providing financial services in Egypt will be described in the following subsections.

Table 20. Data on the financial services provided by Bank Nasser

<table>
<thead>
<tr>
<th>Types of loans</th>
<th>Productive loans, social loans at no interest for weddings and other social events, emergency loans repayable in three years for sickness, earthquake, etc., housing loans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan size</td>
<td>L.E. 1,000 to 10,000</td>
</tr>
<tr>
<td>Average loan size</td>
<td>L.E. 5,000</td>
</tr>
<tr>
<td>Loan duration</td>
<td>3 to 5 years</td>
</tr>
<tr>
<td>Repayment modalities</td>
<td>Monthly installments</td>
</tr>
<tr>
<td>Interest rate</td>
<td>6 per cent</td>
</tr>
<tr>
<td>Total resources available for loans</td>
<td>L.E. 3.5 million per year</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>300,000</td>
</tr>
</tbody>
</table>


4.6.1. Non-governmental organizations

Some 14,000 NGOs are reported to be registered under Law 32 of 1964. This law stipulates that organizations registered under this law can either be welfare organizations, which can operate in a very limited number of areas, or community development associations, which can be involved in several different activities. It is estimated that 74 per cent of all registered NGOs are welfare organizations, providing training and small and micro financial services. Most organizations benefit from governmental subsidies and from contributions of international donors.

\(^{165}\) “Zakah” is an Islamic religious requirement according to which Moslems are required to pay annually a certain percentage of their wealth to the poor and needy. It is not a tax imposed by law and it is not a matter in which the State interferes. Some people have taken to depositing the Zakah in funds that can later be deposited in the Nasser Bank or to depositing the Zakah directly in the Nasser Bank.

NGOs are reported to be key players in the field of micro-credit. They have not only been active in starting micro-credit programmes, but have also developed useful monitoring tools. They are more common as financial intermediaries than other forms of institutions.\textsuperscript{167} Despite the impressive performance of some NGOs, their legal status makes it difficult to instigate legal proceedings against them. Banks have therefore been discouraged from leveraging these institutions’ financial resources.\textsuperscript{168}

### 4.6.2. Alexandria Business Association

Information on the successful financial activities of this NGO created in 1988 according to Law 32 of 1964 can be found in the ILO paper \textit{Egypt: Evaluation of Two Components of the National Youth Employment Programme}.

### 4.6.3 Commercial banks

In Egypt, like in any other country, commercial banks are reluctant to lend money to SMEs. A major obstacle is collateral. Several factors suggest that the real problem is not the physical absence of collateral, but rather its official invisibility, i.e. its legal absence. Due to the complexity and high cost of property registration procedures, most SMEs prefer not to register their property. Studies show that informal (unregistered) urban real estate holdings constitute 92 per cent of all urban real estate, with an estimated value of US$195.2 billion. Unregistered agricultural land holdings constitute most of the total agricultural land in Egypt, with a value of US$ 46.2 billion. In other words, the current legal-regulatory framework could not fully integrate some US$240 billion in the national economy.

The reluctance of banks to provide credit to SMEs is also due to the fact that the core competence of banks (especially commercial banks) is corporate banking rather than retail banking. Moreover, the latest banking trends are oriented towards having few branches rather than an extensive network of branches to maximize outreach. Also large numbers of SME clients would constitute a burden for bank staff to the detriment of corporate clients.

It is estimated that the share of micro, small and medium enterprises in the total loan portfolio of the banking sector in Egypt does not exceed 6 per cent.\textsuperscript{169} About 92 per cent of small enterprises have never obtained a loan from a bank, 78 per cent of which have not even attempted to secure one. These figures would be more dramatic when looking at micro-enterprises. SMEs thus rely almost entirely on private informal credit sources, advances from customers and suppliers’ credit. While the interest rate is reported to reach 100 per cent or higher the informal credit market is seen as more reliable by SMEs as it is more accessible, offers more flexible loan terms, requires little documentation, if any, and has low transaction costs for the entrepreneur. It nevertheless remains a very expensive option, limited in resources and inaccessible for most SMEs.

Although reluctant to lend to SMEs, some banks do provide financial services through specific credit lines which often involve the intervention of external donors. Table 21 provides a thorough picture of this type of financial service. It is to be noted that the National Bank of Egypt and the United Bank of Egypt provide amounts of resources to SMEs which cannot be neglected.


\textsuperscript{168} Abd el Kader, 2001.

\textsuperscript{169} Ibid.
Table 21. The Role of Egyptian Banks in providing facilities to SMEs

<table>
<thead>
<tr>
<th>Bank name</th>
<th>Credit source (Agency)</th>
<th>Lending limits</th>
<th>Interest rate</th>
<th>Repayment period</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Alexandria</td>
<td>Artisan enterprises loan requests are dealt with by one special bank credit department located in Cairo</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Development</td>
<td>Credit Programme:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Egypt</td>
<td>1-The Social Fund For Development</td>
<td>L.E. 50-500,000</td>
<td>7- 13 per cent</td>
<td></td>
<td>Technical Assistance Programme: Direct technical advisory service concerning raw materials and technology; Feasibility studies for industrial projects; Marketing products through local and international exhibitions</td>
</tr>
<tr>
<td></td>
<td>2-The Saudi Arab Monetary Association</td>
<td>Max. credit limit</td>
<td>9 per cent</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3-The Islamic Development Bank at Jeddah</td>
<td>Min. 250,000 Dinar and max. 3,500 million Dinar</td>
<td>5.5 per cent</td>
<td>4 - 7 per cent</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4-The Italian Soft Credit</td>
<td>US$ 70,000 - 2 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5-USAID Program</td>
<td>US$ 10,000 - 8 million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing &amp; Development Bank</td>
<td>Ready to finance artisan projects after examining separately each client credit possibility and feasibility study of the project.</td>
<td>Ranging from 15 to 16 per cent annually</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Al Watany Bank of Egypt</td>
<td>Cooperates with youth through UNDP. Ready to finance eligible SMEs which conform with credit conditions of SFD</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faisal Islamic Bank of Egypt</td>
<td>The Faisal Islamic Bank of Egypt applies diversified financing criteria for investment and job creation according to the Islamic Sharia, which comprise the following: Almurabahah ( Profit sharing ), Almusharakah ( Equity sharing or participation), Almudarabah ( Sharing in business management ), and Almutagarahh (Joint trading ).</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

170 Ibid.
<table>
<thead>
<tr>
<th>National Bank of Egypt</th>
<th>Loans to SME according to the following credit programme:</th>
<th>Max. credit for working capital L.E 100,000 Max. credit for fixed assets L.E 100,000. Both credits mustn't exceed L.E 100,000. 40 per cent are the contribution of the borrower entrepreneur, could decrease to 25 per cent</th>
<th>Less than the original interest rate of the bank by 2 per cent per 6 months</th>
<th>For working capital depends on the cash flow, max. 2 years including 6 months grace period For fixed assets max. 7 years including grace period max. 2 years.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Credit for Small Scale Enterprises</td>
<td>2- Credit for SME</td>
<td>Max. credit for working capital L.E 1 million Max. credit for fixed assets L.E 1 million Both credits must not exceed L.E 1 million</td>
<td>9 per cent per annum paid each 6 months</td>
<td>For working capital 2 years including grace period max. 6 months. For fixed assets max. 7 years including grace period max. 2 years.</td>
</tr>
<tr>
<td>3- Credit of SFD</td>
<td>To L.E 50,000 Possible entrepreneur contribution up to 10 per cent</td>
<td>7 - 9 per cent</td>
<td>Both repayment and grace period depend on the nature of the project, the cash flow, max. 6 years including grace period.</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>contribution up to 25 per cent</td>
<td>9 - 11 per cent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Egypt</td>
<td>Provides different credit programmes to export industries in general, small- or large-scale enterprises.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arab Investment Bank</td>
<td>Examines each artisan project proposed for the provision of credit.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal Bank for</td>
<td>Finance small-scale enterprises: productive or service or agricultural.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development &amp; Agrt.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Bank of Egypt</td>
<td>Provide credit in Cairo &amp; Dakahliah</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Max. credit for each borrower L.E 500,000.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Depends on the credit amount and the kind of project (new or ongoing)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Mohammed Roshdy Abdel Kader, February 2001
4.6.4 Credit Guarantee Company

The Credit Guarantee Company (CGC) is an Egyptian joint stock company established in December 1989 under the provisions of Law 159/1981. The CGC founding shareholders include nine Egyptian Banks and one insurance company.171 Thirty-three banks, including the share-holders, have since signed contracts with CGC. The CGC was created to guarantee bank loans to SMEs which lack sufficient collateral to gain loans for, among other reasons, establishing new ventures, expanding existing activities, or enhancing their export potential. The CGC provides guarantees to banks of up to 50 per cent of their SME loans. The fee which the CGC requires amounts to 1 per cent per year on the outstanding balance of the guarantee. As of 1997, payment of claims was equal to 0.46 per cent of issued guarantees.172 The interest rate applied to bank loans guaranteed by the CGC is equal to the regular commercial rate.

The CGC Guarantee issuance started in 1991 with 117 projects. This number increased almost ten-fold the following year, and by nearly twenty times since 1998. The total number of guaranteed loans between 1991 to January 2001 reached 16,889, for a total amount of credit of L.E. 1.8 billion, 50 per cent of which (L.E. 936 million) was covered by CGC guarantees.173 As of February 2001, the CGC was supporting the following programmes:

- **Small and Medium-Sized Enterprise Programme.** Entrepreneurs engaged in any economic activity, except the trade sector, are eligible for this programme if their total investment ranges from between L.E. 40,000 and 7,000,000, excluding the value of land and buildings. To participate, a SME must be a registered entity. Beneficiaries are entrepreneurs intending to start a business or expand their activities. The CGC guarantees up to 50 per cent of the bank loan, which may finance fixed assets and/or working capital. The minimum guarantee offered to a bank loan for any entrepreneur is L.E. 10,000, the maximum L.E. 700,000. This means that a small enterprise can obtain a bank loan ranging from L.E. 20,000 to L.E. 1,400,000. The company collects an annual guarantee commission amounting to 1 per cent of the outstanding loan per year.

- **Small Emerging Business Programme.** This programme is funded by USAID. It aims to establish 45 new credit units through NGOs, to guarantee bank loans to micro entrepreneurs without any collateral requirement. It is estimated that the total value of loans disbursed has been L.E. 220 million. Each unit targets 1,500 clients per year. All economic activities – except agricultural – are eligible. In the case of micro-enterprises, the total investments should not exceed L.E. 25,000 excluding the value of land and building, and the number of workers varies between 1 and 5. For small enterprises, the number of workers is 6 – 15 and the size of loans offered to these clients ranges from between L.E. 1,000 to L.E. 25,000. This fund is for financing working capital needs while financing for fixed assets will be considered in the future.

- **Poverty Alleviation Programme.** This programme, funded by the Italian Government, is implemented by an NGO in Giza Governorate under the supervision of the CGC. It aims at financing micro-enterprises through a selected bank that has signed a contract with CGC in order to obtain a guarantee. The amount allocated per year for the beneficiaries is L.E. 7.5 million. The intention is to reach 1,400 clients during the first three years. All economic activities, except for agricultural and livestock activities, are eligible for funding from this programme. The programme requires the total investment to be between L.E. 2,500 and 40,000, excluding the value of land and building, and the number of workers of a micro-enterprise 1 - 5. The loan size for micro-entrepreneurs averages between L.E. 5,000 and

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171 The ten shareholders are: National Bank of Egypt, Banque du Caire, Bank of Alexandria, Credit Internationale d’Egypte (CIE), Mïr Iran Development Bank, Arab Investment Bank, Suez Canal Bank (SCB), Societe Arabe Internationale des Banques (SAIB), Industrial Development Bank of Egypt and El Sherouk Insurance Company.

172 El-Laithy, 1999. p.34.

40,000 and can be used for financing the working capital and/or fixed assets. Results achieved so far by this programme were deemed very positive and encouraging as for 2001.174

- **Micro-Enterprise Development Programme**175 is part of the SME programme mentioned above. The objective of this programme is to reinforce economic growth and to create new job opportunities by supporting micro-enterprises through a network of Egyptian NGOs. Selected NGOs provide the entrepreneurs with the needed funds to expand their businesses as well as with the required training and technical assistance. The CGC provides the guarantee to the NGOs for obtaining funding from banks. The beneficiaries are micro-entrepreneurs from various economic activities. The programme applies the consecutive up-grading loan scheme: the loans can be renewed if the previous loans are repaid on time and if the enterprise has expanded and created new jobs. In general, the interest rate changes from time to time according to the commercial interest rate. Consequently, the NGO must constantly examine the interest rates on loans to ensure the coverage of the actual costs. It also negotiates with the banks in collaboration with the CGC on the overdraft interest rates and other bank charges.

**Table 22. Overview of principal characteristics of SME programmes of the CGC**

<table>
<thead>
<tr>
<th>Characteristics of CGC programme</th>
<th>SME Programme</th>
<th>Small Emerging Business Programme</th>
<th>Poverty Alleviation Programme</th>
<th>Micro-Enterprise Development Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible economic activities</td>
<td>All but trade</td>
<td>All but agriculture</td>
<td>All but agriculture and livestock activities</td>
<td>All entrepreneurial activities</td>
</tr>
<tr>
<td>Items to be financed</td>
<td>Fixed assets or working capital</td>
<td>Working capital</td>
<td>Fixed-assets or working capital</td>
<td>Working capital</td>
</tr>
<tr>
<td>Investment required to be eligible</td>
<td>Between L.E. 40,000 and 7,000,000 excluding the value of land and buildings</td>
<td>Not exceeding L.E. 25,000 excluding the value of land and building</td>
<td>Between L.E. 2,500 and 40,000 excluding the value of land and building</td>
<td>n.a.</td>
</tr>
<tr>
<td>Minimum loan size</td>
<td>EP 10,000</td>
<td>EP 1,000</td>
<td>EP 5,000</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

**4.6.5. The National Bank of Egypt**

The National Bank of Egypt deserves special attention because it has developed specific financial services for small and micro enterprises. It grants credit to rural SMEs in four branches in Damietta and Sharkiya. In 1992, the Bank launched its Small Enterprise Credit Programme, financed by USAID. Later on, the Bank also entered into agreements with UNICEF, CIDA and the Ford Foundation. According to its 1997 figures, the Bank disbursed 171,629 loans for a total amount of L.E. 380,277,933 to 64,251 clients. The repayment rate is 94.4 per cent.176 As of February 2001, the Bank was running its SME lending programme through 30 branches, 13 of which were in Greater Cairo. The Bank maintains constant interaction with SMEs through its credit extension officers. Its SME lending operations are conducted separately from the Bank’s traditional operations. While the managerial positions of the programme are occupied by the Bank’s own staff, most of the rest of the staff were specifically recruited and trained on SME lending.

**4.6.6. The Social Fund for Development**

The SFD is Egypt’s largest institutional actor in terms of the amount of funds it channels to SMEs. Its Small Enterprise Development Organisation (SEDO) focuses specifically on SMEs. Its aim

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175 CGC literature.
176 El-Laithy, 1999, p.34.
is to assist in the creation of jobs for low-income groups by supporting both new and existing small enterprises by providing credit and business support services. A key feature is the loan approval based on the proper assessment of feasibility studies instead of collateral and guarantees. The SEDO is a successful and cost-effective programme where industrial projects have been found to be the most employment-generating ones. Subsidized credit assistance is provided through financial intermediaries (primarily banks), while business support services are provided directly by SFD staff and indirectly through NGOs. SMEs which benefit from the financial services offered by the SFD are exempted from taxation for ten years.

By 1996, the SEDO had managed to grant loans to 59,150 entrepreneurs, 26 per cent of whom had been female. About 53,250 SMEs had been created benefiting from loans ranging from between L.E. 10,000 and 50,000. The interest rate applied was 7 per cent for initial loans and 9 per cent for subsequent loans. Apart from SEDO, the SFD had disbursed loans to about 37,000 people with an average loan size of L.E. 1,230 through other enterprise promotion programmes. Up to 1996 in total, especially through SEDO and the Community Development Programme, the SFD had generated 251,065 permanent jobs and 109,616 temporary jobs until 1996. The cost for each job created was estimated at around L.E. 5,856. The SEDO itself generated over 60 per cent of total permanent jobs and almost 55 per cent of temporary employment.

The second phase of the SFD activities started in 1996. As of June 1998, 3,350 beneficiaries had received loans of an average amount of L.E. 1,620. About 9,500 new enterprises had been established thanks to the provision of credit to some 10,284 entrepreneurs, 30 per cent of whom were women. By February 2001, the SEDO had disbursed US$ 411 million (L.E. 1.4 billion) for working and investment capital in this second phase. It had reportedly assisted over 70,000 enterprises (with an average loan size of L.E. 17,000), which had led to the creation of an additional estimated 210,000 permanent jobs and 70,000 temporary jobs.

The principal selection criteria in order to benefit from SEDO's credit programme are as follows:

- the applicant cannot be an employee in the Government, private or public sectors;
- the applicant must have finished military service;
- the applicant must have a permanent residence in the governorate where his/her project is going to be implemented;
- the applicant must have a location for the implementation of his/her project; the application must be submitted together with a feasibility study.

The SFD and the Bank decide on the acceptance of the loan request. Beneficiaries receive loans within 7 to 30 days. If necessary, SMEs may receive additional support in marketing, accounting, sales promotion, technology transfer, etc. Loans are normally used to purchase tools, equipment, raw materials, or to cover costs for a production cycle. Between 1991 to June 2003, 192,000 enterprises have benefited from this programme.

It is important to observe that while government hiring was frozen until mid-2001, the SFD was the only body to run State employment-creation schemes. It has created between 50,000 to 70,000 jobs per year, which corresponds to almost one-quarter of all non-agricultural jobs. By 2000, the total amount of credit disbursed by the SFD had been 2,185 million pounds. Another source reports that between 1994 and 2000, the SFD managed through its enterprise promotion programmes to create altogether about 465,000 permanent jobs and about 59,000 temporary jobs with total funds amounting

181 Ibid.
183 Ibid.
185 EIU, 2002.
to L.E. 2.5 billion and an average cost per permanent job equal to L.E. 5,376. One relevant feature of SFD's programmes is that they allow beneficiary enterprises to have a ten-year tax exemption.

As already mentioned credit is mainly provided through public banks that borrow financial resources from SFD. The SEDO provides banks with training and information on procedures for lending to small businesses. SFD sources report that general performance is “satisfactory” and that intermediary banks are starting to repay their loans. However, despite the financial and training support provided, banks dealing with the SFD are still reluctant to lend to SMEs. A study showed that bankers indicated their loan losses experienced with the SFD as exceptionally high. As of January 1998, a new interest rate structure was adopted. The SFD charges higher rates (7-13 per cent), compared to the old interest rate structure (7-9 per cent). Nevertheless, the new rates are still significantly below the levels estimated to be needed for sustainability, especially since the interest rates charged will only exceed 11 per cent for loans above L.E. 200,000 (which constitute roughly 10 per cent of the total fund).

5. Conclusions and recommendations on how to reach a balance between labour market flexibility and employment security

This final chapter provides recommendations on how to mitigate the problems and weaknesses of Egyptian labour legislation, labour market institutions and labour market and social policies that were identified in this paper, in order to facilitate flexibility for employers and improve employment security for workers in all sectors of the Egyptian economy. This new balance between labour market flexibility and employment security should contribute towards higher competitiveness of Egyptian enterprises and increase their ability and readiness to create new jobs and recruit more workers. At the same time, it should moderate unjustified severe segregation among workers based on the type of contract they hold and improve their access to institutions and programmes raising their employability and providing re-employment assistance. At the societal level this approach will moderate tensions rising from sharp diversities in workers’ opportunities and treatment in different economic sectors, reduce opposition of workers against a job change, ameliorate labour allocation in the economy and thus improve the functioning of the labour market with a positive impact on economic and employment developments.

The recommendations are as follows:

1. Removing a sharp dichotomy in employment protection between permanent and temporary labour contracts. The analysis presented so far has proven that the Egyptian labour legislation is rigid in terms of employment protection of workers holding contracts without limit of time but liberal in terms of the use of fixed-term contracts. Already this fact boosts serious segregation in the labour market between the public sector based on contracts without limit of time providing very high employment protection and the private sector increasingly based on fixed-term contracts providing much lower employment protection, and inside the private sector between core workers holding contracts without limit of time and other workers holding fixed-term contracts. This unfair dichotomy should be abolished by giving employers the right to terminate labour contracts without limit of time for justified economic reasons but obliging them to compensate displaced workers with severance pay differentiated according to the length of employment with this employer. In contrast, the application of fixed-term contracts should be regulated by limiting the reasons for their use to cases justified by the temporary nature of work and by limiting the number of consecutive fixed-term contracts after which the contract becomes without limit of time automatically.

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188 Abd el Kader, 2001.
189 More on this for former command economies of Central and Eastern Europe see Cazes and Nesporova, 2003 and for Western industrialized countries Auer and Cazes, 2003.
190 With regard to severance pay the two extremes should be avoided: it should not be too high to discourage new recruitment and stimulate enterprises to avoid them through practices such as pushing workers to leave quasi-voluntarily when severance pay is not provided, or too low to have no economic value for displaced workers.
2. **Improve observance of the law and make clear abuses of the law illegal.** Chapters 1 and 2 have shown that the economic reform has stimulated an increase in private sector employment and in informal employment. In Egypt, private sector jobs are often those offering poor salaries, bad working conditions and inadequate social benefits. It is usually this sector which avoids labour regulation by forcing workers to sign a resignation letter prior to recruitment, does not pay indemnity in case of unfair dismissal or any other case of violation of workers’ rights or uses repeatedly fixed-term contracts for work of a long-term nature. It is needless to say that informal employment presents even worse conditions and terms, giving no protection to workers against dismissal, non-payment of wages, occupational injury, etc. These unlawful practices should be stopped by their explicit prohibition in labour legislation accompanied by higher penalization in case of their occurrence, much stronger labour inspection to identify legal abuses among employers of all types and to rectify them, and strong and independent labour courts to which workers could turn in case of injustice. There is also a need for policies encouraging gradual formalization of employment, which will improve workers’ protection. Strong and independent trade unions would also play a positive role in this respect as will be presented below.

3. **Strengthening social dialogue.** As described in section 3.3, in Egypt the social partners are in great need of reinforcement. In particular, workers would gain a great deal from reinforcing the effectiveness of unions. If unions could increase the effectiveness of their representation of workers and improve the articulation of their views, needs and interests, a higher degree of employment security would be achieved.

   Two concrete actions could help strengthen workers' organizations. At an enterprise level, workers should be invited to effectively discuss with their employer those issues that, according to the new Labour Law, a ministerial decree should list as subject to regulation through collective bargaining. This can improve working conditions at the particular enterprise. The Labour Law delegates the regulation of quite a few topics to ministerial decrees. Taking advantage of the fact that decrees can be more easily modified than a law passed in Parliament, effective engagement of the trade unions in social dialogue at the national level can significantly improve employment security of workers through amendments to existing legislation. A more active role of workers’ organizations can bring institutional improvements and also contribute towards launching employment promotion measures in enterprises such as the provision of regular training for upgrading the skills of workers, provision of retraining for redeployment of workers with obsolete skills within the enterprise or facilitating their re-employment outside the enterprise, etc.

   As mentioned in section 3.4.3, employers' associations also need to be strengthened, in particular those representing the interests of small enterprises whose development seems to be hindered by many sorts of restrictions.

4. **Improving employment services.** The possibility for employers to terminate labour contracts without limit of time for economic reasons as suggested above would reduce employment protection in current jobs. Therefore workers would need better access to high quality assistance in re-employment to help them find a new job as soon as possible. This assistance is usually provided by public employment services and complemented by services of private employment agencies in countries at a high or medium economic level.\(^{191}\) As this report has shown, the Egyptian employment offices do not provide the desired extent and quality of employment services to their clients, both workers and employers. Staffs of employment offices do not have the necessary skills for these tasks, are not properly equipped with the technical facilities and are demotivated due to low salaries. They cannot use any policy measures and labour market programmes as these are not available to them. In economically more advanced countries it is the public employment service which designs and implements labour market programmes promoting employability and subsidizing job creation for vulnerable social groups. The human resource and technical capacity of the local employment offices thus has to be built up considerably. The Canadian International Development Agency (CIDA) is already active in this area as briefly described in section 3.2.\(^{192}\) Therefore it would be useful to

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\(^{191}\) Ibid.

\(^{192}\) For more on this see the Terms of Reference of the CIDA employment services project, to be obtained from CIDA.
coordinate any further efforts to support Egyptian employment services with this CIDA project and its outcomes.

5. **Improving coordination between labour market institutions.** As mentioned in section 3.5, quite a large number of institutions intervene in the Egyptian labour market without much coordination. While employment offices register both the school leavers seeking jobs for the first time and the unemployed adult workers in the case of lack of suitable vacant jobs, they can report them only to training programmes organized by MOMM. There is in general no cooperation between employment offices and organizers of active labour market programmes – training, public works or small business promotion – so that the programmes may not reach those groups of the population which are most in need of (re-)employment assistance. Discussions have shown that the reason is the lack of confidence of these organizers in the technical capacity of the employment offices’ staff and the lack of any provisions establishing and regulating such cooperation. Each labour market institution thus accepts its own rules (usually imposed by fund providers) for eligibility to participate in its programmes and selection of participants, who are often not clients of the employment office. There is thus a need for regulation committing different labour market institutions to cooperate on the implementation of labour market programmes and ensuring access of jobless persons to these programmes. With the strengthening of the local employment offices as recommended above an appropriate institutional framework can be established to achieve good coordination of all labour market programmes.

6. **Improving coordination between training providers.** In the field of initial vocational training, coordination between training programmes organized by different ministries is the responsibility of the Supreme Council for Human Resources Development as stipulated by the Labour Law. Discussions with different training providers have, however, revealed that there is no coordination of training policy, standards and curricula even between ministerial training programmes, among others, because the Supreme Council lacks a technical operational body. This is even truer for training programmes provided by NGOs or other entities. While according to the Labour Law vocational training providers in a certain trade have to obtain licence from the respective ministry, which should help maintain the training standards, the lack of clearly set nationwide standards and curricula for vocational training supports an unequal quality of provided training and generates mistrust among employers. This weakness has to be rectified. The Supreme Council for Human Resources Development needs to be stronger in formulating vocational training policy, which should be binding on all the institutions engaged in organizing training. The Council should be equipped with a technical secretariat, which would set training standards and coordinate the elaboration of training curricula in cooperation with the relevant ministries and training institutions, with a nationwide validity.

In the case of adult training and retraining of workers with obsolete skills the situation is even worse as only very few training institutions provide this. In this latter case the organization of labour market training and supervision of training providers should be mainly the responsibility of a new national agency for employment due to its knowledge of actual and foreseen labour market needs. Employment offices would then have the possibility to report jobseekers with no or obsolete skills for appropriate training.

7. **Identifying skills needed by the labour market.** Surveys on labour market demand should be carried out periodically in order to update training activities and curricula and improve recruitment assistance to enterprises. Due to its territorial structure and the close contacts of employment offices with enterprises, the MOMM seems to be best placed to undertake this task as is the case at present. However, the quality of the survey needs to be much improved and the survey expanded to also reach the small private and the informal sectors as they are the main source of information for the policy formulation of the Supreme Council for Human Resources Development. The results would be equally important for training providers to assist them in adjusting their curricula to the changing demand for skills in the market and for employment offices to orient their vocational guidance and reporting of jobseekers to those training courses which would increase their re-employment chances.

8. **Improving quality of training.** A higher level of employment security would certainly be reached with better training programmes increasing the employability of jobseekers. The success of the Mubarak-Kohl Initiative is largely due to the dual system applied, namely to a combination of theoretical education with quality practical training organized directly in enterprises with up-to-date
technical equipment. Partnering with private enterprises would be of great help to guarantee the good quality and relevance of training. First of all, some trainers could be practitioners working in firms. Their preparation and knowledge on the skills to be taught would be the best and most up-to-date. In addition, if private enterprises were directly involved in training, including cost-sharing, and provide their equipment for the practical part of training they would get young workers with the skills tailored to their particular requirements. Agreements between private companies and training programmes could be concluded in order to facilitate employment in the private sector as well as the marketing of products which self-employed people could deliver through their individual entrepreneurial projects.

The new Labour Law envisages the establishment of a national training fund created with contributions from private enterprises. This would generate more funds for training to improve access to training and the quality of training activities. It should also encourage firms to become more involved in the formulation of training policies and in the financing of training. The result of this initiative should lead to a higher rate of employability and placement of trainees. Business associations and organizations representing private enterprises need to be strengthened, in order for private firms to be actively involved in training programmes. Companies must be aware of the benefits of running training programmes jointly with the Government. National enterprises need to be sensitized in this regard. This could be done through business associations. An inspiring idea could also be that of organizing training activities in collaboration with multinational companies or foreign enterprises as elsewhere in the world.

9. **Improving micro-credit schemes.** Although in Egypt self-employment is often said to generate underemployment, micro-credit can certainly contribute to employment creation and upgrading of already existing jobs if properly delivered. Nevertheless, good quality services are not provided, results may be quite negative both for beneficiaries and for delivery institutions or programmes. The over-indebtedness of clients borrowing money from more than one institution at a time, or receiving more than one loan from the same entity, and the failure of programmes and microfinance institutions with the subsequent unavailability of micro-credit for micro and small entrepreneurs are only two examples of the aforementioned negative consequences. Many features must be considered for the correct performance of a micro-credit scheme. The principal ones, which are often neglected in Egypt, are as follows:

- providing good quality financial services, meeting the needs of entrepreneurs: easy access, speedy services, certainty, not too stringent collateral requirements, simple procedures with no paper work, flexible conditions and no maximum ceiling for the amount of the loan are all characteristics that entrepreneurs are ready to pay for through commercial interest rates and more. Most employment programmes and financial schemes described in Chapter 4 offer loans at low interest rates most probably following the argument that poor people cannot afford to repay a loan at commercial interest rates. Subsidized interest alone is not enough to make a credit programme successful. Many other features of loan provision must be taken into account;
- applying rigorous institutional management and maintaining a high repayment rate in order to assure institutional sustainability: loans are never to be considered as grants. Their repayment must be assured through the legal machinery available in the country. Moreover, staff of employment programmes with a credit component and of micro-credit schemes must have a solid technical background;
- offering subsidized support services to small entrepreneurs such as business management training, vocational training for the entrepreneur and his/her staff, inexpensive premises, legal advice, support in access to markets, etc.

10. **Making public works more labour intensive and leading to regular employment.** Public works programmes in Egypt are directed mainly towards improving infrastructure in rural and deprived urban areas, ecological projects and to activities promoting social and human development of communities. While there is no doubt about the usefulness of such projects, which are to be selected in line with the priorities and needs of the communities, more attention should be paid to the applied technologies. Priority needs to be given to labour-intensive technologies creating more employment.

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193 More detailed information can be found in the ILO report *Egypt: Evaluation of Two Components of the National Youth Employment Report.*
but without compromising the quality of delivered products. The schemes should also offer adequate training to participants allowing not only good work performance on tasks within the project, but also providing skills for regular employment after the public works scheme is over. Public works could be organized not only for activities requiring low skills but also for activities performed by more skilled workers.

11. **Providing decent income support to unemployed jobseekers.** As described in section 4.1, in Egypt there are several types of social assistance (passive labour market policies) for persons who lose their jobs. However, the number of people benefiting from these programmes is very low as the eligibility rules exclude the majority of those in need of income support during unemployment and the level of benefits is almost negligible.

The only programme providing higher amounts is the early retirement scheme, which stimulates also relatively well skilled, prime aged workers to withdraw from the labour market. It is to be noted that this scheme is applied only in privatized enterprises. The early retirement scheme should be reformulated and “activated” to encourage younger displaced workers to look for new wage employment. If their skills are not on demand, vocational counselling and suitable training should be offered to them. For those wishing to start their own business a loan could be offered and accompanied by support services while others seeking wage employment can receive intensive job search assistance and decent unemployment benefits.

The existing unemployment benefit scheme needs to be expanded to gradually cover all those who lost their jobs in the formal sector, which also means, according to the insurance principle, that gradually all the employers and workers would have to contribute to the system. If this were so the level of benefits could be better provided that their payment duration would be limited and made conditional upon active job search (supported by the effective assistance of employment office staff), acceptance of a suitable vacant job or participation in one of the active labour market programmes.

In the case of informal sector workers (assuming that the long-term goal is to formalize informal activities) lacking access to any public social assistance the communities or NGOs could stimulate the establishment of mutual social insurance schemes, community social schemes or similar arrangements\(^{194}\), which would provide them with certain temporary income support to bridge the most difficult period of inactivity before starting new employment.

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

\(^{194}\) An interesting example could be the so-called informal employment organizations in Shanghai set up by laid-off workers and other unemployed persons. With support from the Shanghai municipality these organizations are engaged in mediating regular or temporary jobs in enterprises for its members, accept and perform public contracts, organize self-employment and family businesses of its members and ensure access to community social insurance schemes for all members.
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