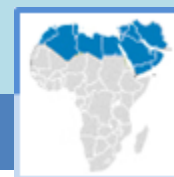




# MNA Knowledge and Learning

## ...Fast Brief

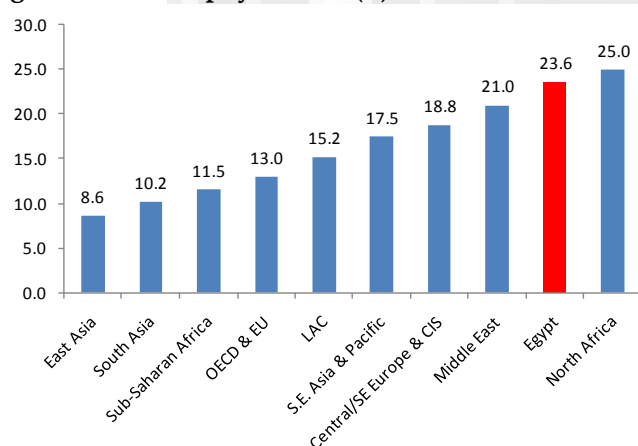


### Labor Markets and School-to-Work Transition in Egypt: Diagnostics, Constraints, and Policy Framework

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**Introduction:** Despite substantial improvements in labor market outcomes in recent years (in raising employment and participation and in lowering unemployment), unemployment rates in Egypt remain exceedingly high among youth<sup>2</sup> entering the labor market for the first time. A slow school-to-work transition remains the main reason behind high unemployment rates. The youth unemployment rate in Egypt, at 24% in year 2006, is high for international standards- though similar to those in North Africa (Figure 1). Moreover, youth entering the labor market for the first time account for about 82% of the country's unemployed workers.

**Figure 1: Youth Unemployment rates (%)**



Source: KILMnet and World Bank using Egypt's 2006 LMPS survey.

<sup>1</sup> Angel Diego Urdinola, MNSHD. This Fast Brief was reviewed and cleared by MNA Education Sector Manager Mourad Ezzine and was prepared for the Egypt High Level Round Table. Quality of Education: The Gateway to Employability. Luxor, March 19 – 20, 2010.

<sup>2</sup> Youth are identified as the population between the ages of 15 and 24 years.

Young entrants to the labor market have become more educated than ever before: the share of the working-age-population with university education in Egypt increased significantly between years 1998 and 2006 (from 14% to 19% among men and from 9% to 14% among women). However, youth are unable to capitalize the time and resources invested in their education as the labor market is not providing enough good-quality jobs for them. Estimates indicate that out of a total of 750 thousand jobs created in urban Egypt for university graduates between years 1998 and 2006, the majority were informal low quality/low pay private-sector jobs (about 67%).

To cope with scarce formal jobs, young-educated workers are opting to work in the informal sector and/or withdraw from the labor force. While the share of young university graduates working in the informal sector roughly doubled between years 1998 and 2006 (from 35 to 55%), labor force participation rates among women with university education decreased from 73 to 61% in the same time period<sup>3</sup>.

Informal sector jobs constitute a way for young/educated workers to enter the labor market, gain experience, and eventually move into formal employment. In Egypt, about half of all new entrants work in the informal sector for many months after having graduated from school. Unfortunately, the longer young workers stay in the informal sector, the less likely they are to find formal jobs. As such, university graduates who stay in the informal sector often suffer an important loss of human capital as returns to higher education in the informal sector are low.<sup>4</sup>

<sup>3</sup> World Bank data using Egypt's 2006 LMPS survey

<sup>4</sup> Ibid

### Main Constraints Preventing New Entrants from Getting Jobs:

There are three key factors that seem to explain why school-to-job transition remains low in Egypt:

1 - *Investments in the Private Sector remain low and capital intensive.* Despite great improvements in recent years, private investment remains low in Egypt (Figure 4). Due to high energy subsidies and negative real interest rates, most private investments in Egypt focus on capital intensive activities. According to the 2008 ICA, there are important barriers to greater private investment such as corruption, unfair competition, and macro-economic uncertainty (e.g. high inflation, rising unemployment, and a contraction of revenues from the Suez Canal, tourism and exports).

2- *Skills Mismatches.* For the first time, results from enterprise surveys in Egypt (ICA 2008) indicate that firms identify worker skills and education among their top five constraints to business climate. Employers not only express their dissatisfaction concerning deficiencies in relevant experience and technical skills but also concerning soft skills such as personality traits, social graces, interpersonal skills, and language and personal habits (Table 1). More than 70% of students in higher education are in humanities and social sciences. This pattern of enrollment is suited for absorbing university graduates in civil services jobs in the public sector, but appears ill suited recent private sector expansion of the manufacturing and service sectors.

Furthermore, despite important efforts in recent years to improve TVET<sup>5</sup>, the system remains largely fragmented (i.e. there are 1,237 vocational training centers in Egypt, affiliated to 27 ministries or authorities, which operate somewhat independently in 29 governorates), training programs are often supply-driven, and the quality of training programs remains low.

Table 1: Young applicants' skills assessment by employers

Skill	Very Good	Fair	Poor
Required technical skills	18.2	50.5	31.3
Practical training at school	10.1	42.4	47.5
Communication skills	38.6	49.4	12.0
Writing skills	39.2	41.0	19.8
Ability to apply knowledge	22.4	37.0	40.6
Commitment and discipline	62.9	28.9	8.2
Overall preparedness	13.5	66.1	20.5

Source: ILO (2007).

3 - *Public Sector still distorts incentives:* Egypt's civil service remains large for its levels of development. Despite the fact that the employment growth of the public sector has slowed dramatically in recent years and that Egypt's former policy to guarantee employment for university graduates has been suspended, public sector employment still accounts for about 65% of all formal sector employment and 45% of all new formal jobs created in the economy between years 1998 and 2006 (approximately 260 thousand jobs). Since public sector jobs are still associated with relatively generous medical and retirement benefits, relatively short work hours, and transportation benefits, many educated individuals (mainly women) still queue for private sector jobs. This phenomenon undermines entrepreneurship among young educated workers and contributes to long unemployment spells.

**Policy Options Facilitating School-to-work Transition:** This section discusses a series of policy options used worldwide to facilitate school-to-work transition. This note, however, does not aim to provide any specific policy recommendations:

(a) *Making Labor Markets more Flexible.* International evidence suggests that more strict employment protection regulation (i.e. requirements/cost of hiring and firing) is associated with higher levels of informality and youth/female unemployment, lower productivity, and slow labor market adjustment after economic shocks. Egypt enacted a new labor law in July 2003 that gave employers more flexibility to adjust the labor force to economic conditions. The law introduced key provisions, including: fixed term contracts (that can be extended indefinitely), relaxed hiring and dismissal laws, the right for workers to strike, and introduced rules for collective bargaining and worker-employer disputes. Yet, the cost of firing a redundant worker in Egypt remains one of the highest in the world.

Although labor regulation is not identified as a leading constraint to business climate according to the 2008 ICA survey, labor regulations and mandatory contributions continue to constrain many enterprises from expanding formal employment. Manufacturing firms, service firms, and hotels report they would hire a net of 21%, 9%, and 15% more workers respectively if there were no restrictions to hiring and firing workers<sup>6</sup>. Reforming unemployment insurance (UI) generally contributes to making labor markets become more

<sup>5</sup> Technical and Vocational Education and Training

<sup>6</sup> Doing Business 2010

flexible, protects workers, and goes hand-in-hand with a reform of the severance system. Egypt has an unemployment insurance scheme. In theory, private sector and public enterprise employees enrolled in the mandatory social insurance scheme have access to unemployment insurance benefits offering 60% of the prior to lay-off wages for a period up to 7 months spent with job search. A 2% payroll tax is imposed on wages in association with the UI scheme. In effect, this mechanism hardly exists; during the period 2001-07 an average of 330 people received benefits. The factors contributing to the low utilization are (i) a lack of public awareness about UI benefits among plan members, (ii) restrictive eligibility conditions, (iii) the difficulty of (and the stigma attached to) documenting a “just-cause” firing decision, and (iv) low overall lay-off risk among covered open-ended contract employees.

Many countries are relying on unemployment insurance savings accounts (UISA). The general operation of UISAs is straightforward, transparent, and less prompt to abuse. With UISAs, employers deposit some specified fraction of each worker’s earnings in a special individual savings account on a regular basis. In Chile, for example, workers are required to make regular contributions to their accounts and, upon separation, can make withdrawals from their savings accounts as they deem fit (some programs allow access before separation for health, education, and housing). Although Brazil has used them since the 1960s, UISAs are a relatively new program for many countries. More recently, several other Latin American countries (Argentina, Chile, Colombia, Ecuador, Panama, Peru, Uruguay, and Venezuela) have introduced UISAs.

(b) *Design Programs Targeted to Youth and Women.* Recent work experiences indicate that subsidies, comprehensive training programs, and early childhood development programs are successful at facilitating school-to-work transition:

**Subsidies:** As part of a broad labor reform package approved by the parliament in Turkey aiming to reduce non-wage labor costs in the labor market, the Government of Turkey designed a subsidy for new youth and women hires between July 2008 and June 2010 consisting of 100% of employers’ social security contributions (at the legal minimum wage) in the first year, with a 20 percentage points decline per year in the subsidy in the following four years. In times of economic expansion, this program could contribute to the net creation of approximately

163,000 to 235,000 new jobs. Subsidies like this, however, could be quite expensive. Estimates from the Turkish Treasury indicate that generating one extra job for those benefiting from the program could cost between 12 and 17 thousand US dollars.

**Youth Programs:** Many OECD and Latin American countries have moved from an in-classroom model to a more comprehensive training model which includes the provision of in-classroom and workplace training, plus supplementary services such as counseling and mentoring, job search and placement assistance, and soft and life skills training. Youth unemployment rates soared in many Latin American economies during the late 1990s as a consequence of the Tequila and Argentina crisis. To address this issue, the Chilean government designed the so-called “*Chile Joven*” program. The program basically offered comprehensive “demand-driven” training programs to unemployed youth between 16 and 29 years of age. The program was so successful at increasing employment and earnings among participants that similar models were customized throughout the region in countries like Argentina, Colombia, Dominican Republic, Panama, Peru, and Paraguay (Table 2).

**Table 2 Cost and impact of youth training programs**

	Argentina	Chile	DR
Coverage (people)	116,000	165,000	-
Cost per trainee (US\$)	2,000	730 to 930	-
<b>Program’s Impact</b>			
(% point increase)			
Employment	10	21	6 to 8
Earnings	12	26	10

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

These youth programs are based on five guiding principles: (i) Public-Private partnerships: training programs are directly linked to an internship with a private employer previously identified by the training institution; (ii) Training provides hard and soft skills: the program provides youth not only with technical skills, but also with life skills; (iii) Training provides practical experience; (iv) Flexibility: classes are held during nights/weekends and offer different schedule alternatives; (v) Monitoring and Evaluation: most of the programs rely of experimental techniques to monitor the impact of the training program on participant labor market outcomes.

**Early Childhood Development:** Many young women could be encouraged to work by having access to affordable care for their children. This could be achieved by promoting early childhood development programs (ECD), such as preschool education and public/subsidized childcare programs. Although the Egyptian Kindergarten program (targeting 4-5 year olds) has grown rapidly in the past decade, it covers only a fraction of the eligible population and poor children display very low enrollment rates. ECD programs targeting 0-3 year olds (through e.g. mother at-home training) remains next to non-existent.

Subsidizing childcare and preschool education has several externalities that positively affect the welfare of future generations. International evidence suggests that high-quality early childhood education and care helps prepare young children to succeed in school and eventually in life. This translates into economic returns because they are associated with lower repetition and dropout rates throughout a student's lifetime. A developed child care education industry could be economically important because it creates jobs and allows parents (mainly young mothers) to be economically active, benefits the overall economic competitiveness, and creates new job opportunities.

In Colombia, the program "*community mothers*", a network of women who are employed by the state to look after their neighborhood children between eight in the morning and four in the afternoon (Monday through Friday), has managed to create more than 82 thousand jobs. As a rule, *mothers* are trained by the *Colombian Institute for Family Welfare* to teach children basic values such as solidarity, friendship, and respect for differences. In the United States, a publicly financed network of childcare centers (*Minnesota Childcare*) is generating more than 28,000 full-time jobs and is contributing to annual gross receipts similar to those of other major recognized industries in the state.

(c) *Reform of the TVET system:* To address common problems such as segmentation, low quality, and low impact of vocational training programs, modern TVET systems need to be built upon three main pillars:

**Coordination among stakeholders:** Clear mechanisms and institutional settings to coordinate between the public and private sector and between training providers and beneficiaries constitutes a key factor of success for the delivery of TVET services and programs. In Latin America, "*Entra 1*" provides a model whereby coordination is

conducted through a central institution (The International Youth Foundation, IYF) whose main role is to assure communication between the public and private sectors (firms as well as training providers). OECD countries have introduced the National Qualifications Framework (NQF) as a tool in order set to out the levels against which qualifications can be recognized. By having a NQF, vocationally-related occupational qualifications are linked to national occupational standards which set out real-world job skills defined by employers. A well designed NQF could help designing training programs that are more responsive to the needs of individuals and employers.

**Orientation towards job search assistance and intermediation:** Together with demand-driven training, job-search and recruitment services are important to bridge inefficiencies in the labor market related to frictional unemployment. There are several tools available for achieving this goal. One is to increase the capacity of public employment offices to offer job-search assistance, such as information about various opportunities in education and continued education, specialized job counseling, job placement, and professional orientation services. Indeed, job-search assistance programs are found to be the most cost-effective option for youth in OECD countries.

**Performance monitoring:** Information provides directives for adjustments and change. A critical need for a well functioning TVET system is to have a good Labor Market Information System used for performance monitoring (i.e. to assess program's effectiveness against predetermined objectives). This would provide youth with the job market needs to encourage enrollment in vocations on the rise and vice versa. The value of performance management information is to help organizations and programs to clearly identify its objectives and best use its resources to achieve those objectives.

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