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The challenge of informality for labour market information and outcomes in Egypt

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Structure of presentation

- Brief overview: principles of good data governance
- Challenge of applying these principles in Egypt due to high informality
- Impact of informality (that is, a large informal sector) on labour market information/intelligence, as well as labour market outcomes
- How effective labour market policies can overcome these obstacles through addressing structural issues in the Egyptian labour market

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Labour market information and intelligence (LMI): definitions

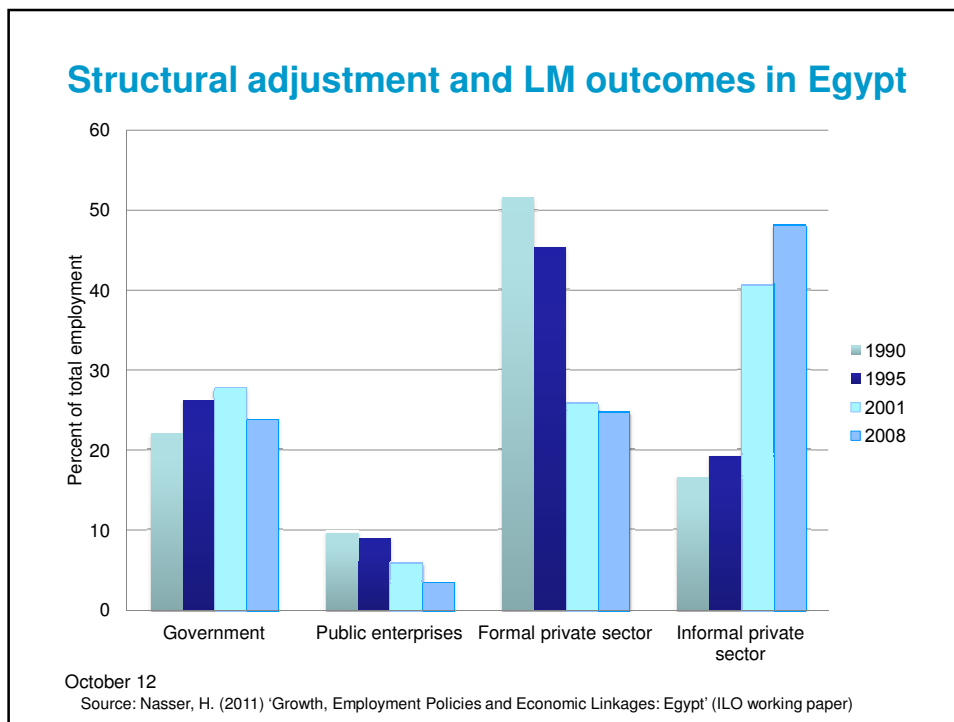
- **Labour market information:** descriptive data, mainly gathered through surveys, about the characteristics of the labour market, covering both demand and supply sides
- **Labour market intelligence:** analysis and interpretation of labour market information to generate conclusions and policy recommendations
- **LMI** provides users with information about:
 - economic and labour market conditions;
 - education, qualifications, training and skills;
 - current and future demand and supply of labour; and
 - vacancies and recruitment

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Main users/uses of LMI and data quality

- Students, first-time jobseekers, experienced workers, potential and current employers, educational and training institutions, public employment services and government policy makers rely on LMI to make decisions about future strategies and investments
- LMI quality determines the quality of strategic decisions, which in turn affects social outcomes
- Principles of good data governance – LMI should be:
 - ◇ Appropriate
 - ◇ Accurate
 - ◇ Reliable
 - ◇ Accessible
 - ◇ Transparent
 - ◇ Complete
 - ◇ Consistent
 - ◇ Up-to-date

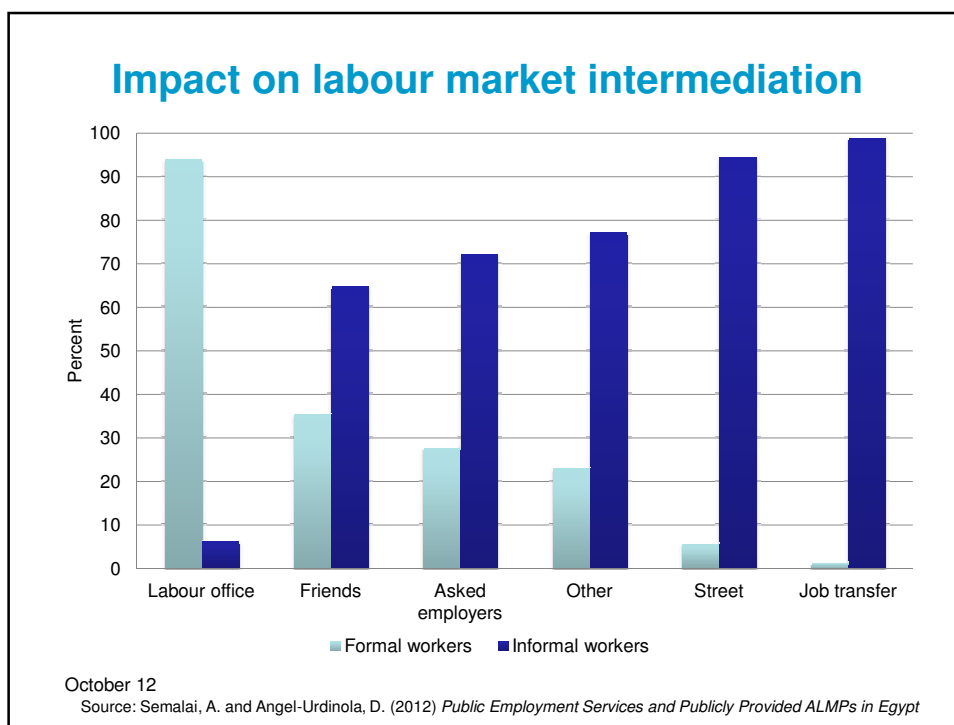
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Impact of high informality on LMI

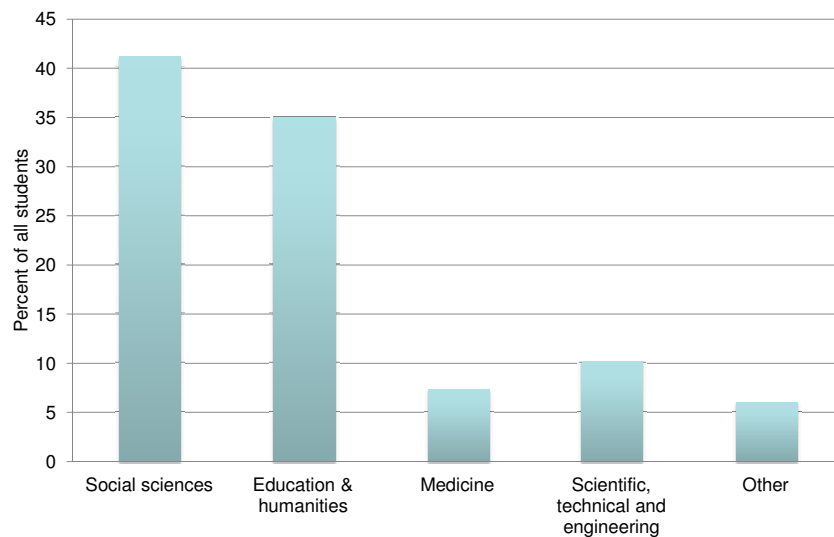
- Existence of large informal sector affects accuracy of labour market information in Egypt
 - Data on informal sector difficult to access since many engaged in the sector seek to escape detection
 - No single definition: proxied by other indicators (number of workers, licence to trade, job contract, social security...)
 - Wide-ranging estimates of sector size, from 30% to 70% of Egypt's workforce (AfDB 2009)
 - Distorts determinations of scale of unemployment – e.g., number of registered jobseekers exceeds LFS data on the number of unemployed by factor of 3.5 (World Bank 2012)
- Also limits effectiveness of labour market intelligence
 - Enormity of informal economy renders conclusions and prescriptions based on official statistics less than accurate

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- ### Impact on labour market outcomes
- Low access to reliable LMI during early stages explains irrational labour market behaviour by educated youth
 - Most university students pursue social science/humanities, rather than scientific, technical and engineering degrees
 - Educated youth continue to queue for public sector jobs
 - Unemployment in Egypt mainly a youth insertion problem
 - 87% of unemployed are first-time jobseekers aged 15-29
 - 95% have intermediate level or higher degrees (LFSS 2010)
 - Skills mismatches and shortage of formal sector jobs force many young people into informal sector employment
 - 50% of firms identify inadequately skilled workforce as a major constraint to growth (Enterprise Survey 2008)
 - 75% of new entrants to the labour market took informal jobs between 2000 and 2005 (Assaad, 2007)
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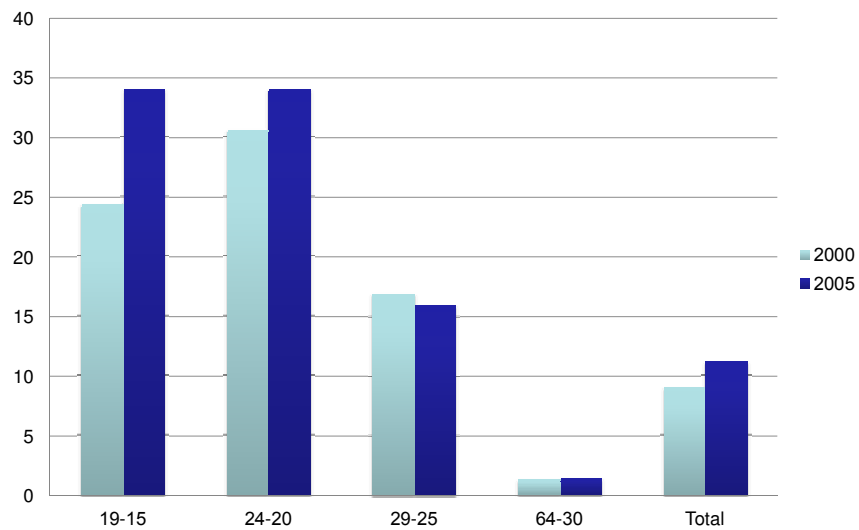
Distribution of university students by field



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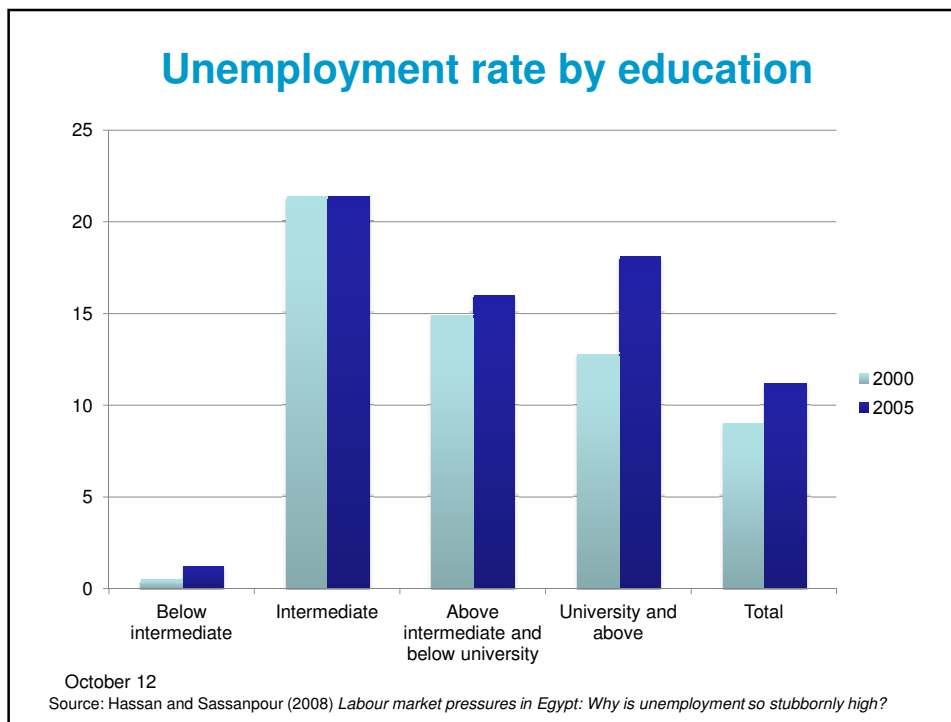
Source: World Bank (2008) *The Road Not Travelled: Education Reform in the Middle East and North Africa*

Unemployment rate by age



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Source: Hassan and Sassanpour (2008) *Labour market pressures in Egypt: Why is unemployment so stubbornly high?*

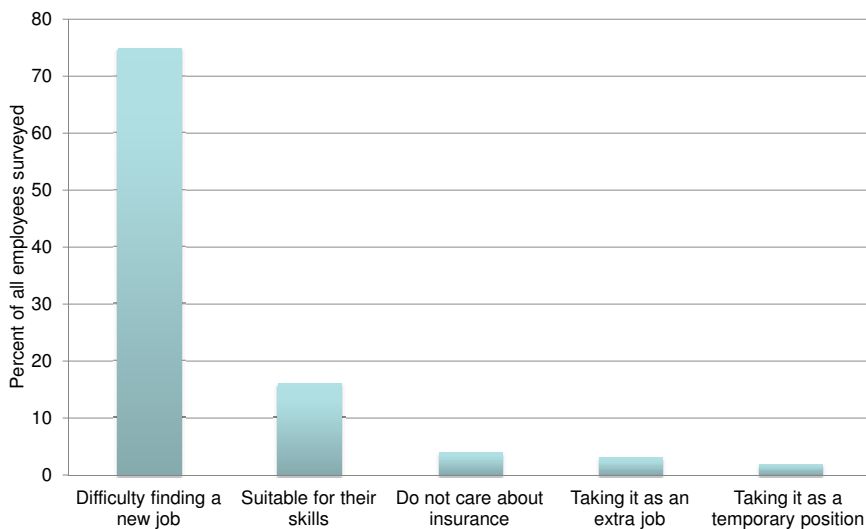


Size and characteristics of the informal sector

- Mainly micro and small enterprises (MSEs)
 - Informality correlates with firm size: 98% of firms in Egypt are MSEs (<10 workers), and 85% of MSEs hire workers informally, without a contract
 - Informal sector includes 82% of Egypt's entrepreneurs
 - Informal sector = 70% of private sector wage employment and around 50% of total employment
- Informal sector associated with non-decent jobs
 - Often no contract, no social security, low wages and low productivity work with little scope for wage increases
- Partly a constraint of small size, high costs of doing business in the formal sector and low access to funding
 - MSEs account for over 82% of total economic units in Egypt, but only 6% of Egyptian banks' total loan portfolio

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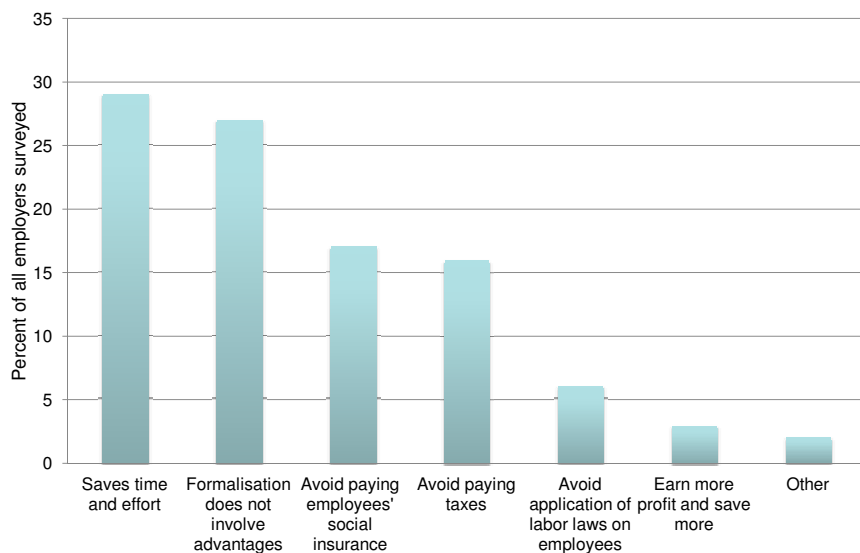
Reasons for being informal: employees' view



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Source: El-Fattah, M. (2012) 'A Survey-Based Exploration of Satisfaction and Profitability in Egypt's Informal Sector'

Reasons for being informal: employers' view



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Source: El-Fattah, M. (2012) 'A Survey-Based Exploration of Satisfaction and Profitability in Egypt's Informal Sector'

Growth and employment potential of MSEs

- MSEs (and medium-sized enterprises) account for over 80% of GDP and 75% of total employment in Egypt
- Therefore effective programmes to support their growth could generate more and better jobs for educated youth
- This could also
 - Re-orient educated youths' career aspirations away from the public sector
 - Remove a main rationale for informal sector growth: that is, that formalism offers no advantages
- Before 2004, MSEs received little government attention
- Since then, there have been some public and non-public active labour market programmes (ALMPs) targeting youth entrepreneurship and providing dedicated support to MSEs – but some important gaps in provision

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Publicly-provided ALMPs targeting youth entrepreneurship and MSE development

- Comprehensive support: offering financial assistance and business support (technology transfer centres, innovation funds, start-up and growth services, etc)
- Elaborate: involves coordination across five departments as well as a range of other agencies and stakeholders
- Expensive: high costs mainly borne by government
- MSEs not main beneficiaries
 - Policies have tended to favour medium-sized, established industrial enterprises over younger, smaller enterprises in the services sector (EU 2010 Assessment)
- Not specifically youth-focused (although a priority group)
- No specific policies to address issue of MSE informality

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Non-public ALMPs targeting youth entrepreneurship and MSE development

- Youth-focused but concentrated in urban areas
- Offer microfinance but not comprehensive support
- Support and guidance in the form of in-class training and only during company start-up phase
- No external evaluations to assess effectiveness of interventions

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Gaps in MSE/youth entrepreneurship support

NEED FOR PROGRAMMES:

- Targeting unemployed educated youth
- Generating decent jobs in the formal sector
- Supporting growth in the services sector
- Providing access to markets as well as finance
- Offering comprehensive support, including practical skills development (and not just in-class learning)
- Involving established businesses and other strategic partners for wide pool of knowledge and experience
- Affordable, with sustainable outcomes

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BEST PRACTICE EXAMPLE

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Bharatiya Yuva Shakti Trust (BYST) in India

- Indian NGO launched by Prince Charles in 1992 and member of his Youth Business International Network
- Main aim: to create employment through helping young people to start their own businesses
- Key design features
 - Target group: Youth aged 18-35 with sound business idea but without resources to launch it
 - Support for ventures in services or manufacturing
 - Access to low-cost funding and high-level business networks
 - One-to-one training, monitoring and mentoring by a larger, successful firm

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BYST India - case relevance

- Mid-1990s India: high youth unemployment (more than double the overall unemployment rate) and high underemployment
- ALSO high educated unemployment
 - 60% of unemployed had secondary or higher degrees
- Self-employment acknowledged as best route for reducing educated youth unemployment
- But many young entrepreneurs face financial and other barriers to starting and growing a business
- BYST was designed to help overcome these barriers

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BYST India – key features 1

- Beneficiaries selected on merits of proposal, not need
 - Entrepreneur Selection Panels comprise both lenders and BYST staff
- Including lenders in selection process increases chances of project success
 - 95% of loans made to BYST projects have been repaid
 - 95% of businesses continue to operate after 3 years
- Integrated package of support
 - Start-up funds without need for guarantees or collateral
 - Volunteer mentor guiding personal development and providing business advice
 - Entrepreneur support services, from drafting a business plan, to training, to expanding a growing enterprise

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BYST India – key features 2

- Multiple stakeholders spread programme costs
 - 80% of programme costs drawn from corporate partners, international organisations and state governments
 - 20% from interest on BYST core funds, as well as nominal service charges paid by successful BYST enterprises
 - Self funding component of BYST contributes to programme growth and sustainability
- BYST maintains strong relationships with range of Indian businesses, both multinational corporations and SMEs
 - These links provide young entrepreneurs with access to labour markets and supply chains
 - Enables BYST firms to get established quickly and offer higher-quality goods and services

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BYST India – success indicators

- Between 1992 and 2009, BYST supported 2,100 new ventures and generated 17,700 decent, high-productivity jobs in the formal sector
- 95% of BYST businesses have lasted more than 3 years
- Between 1993 and 2008, educated youth unemployment and joblessness decreased in India
 - Unemployment reduced from 16% to 12.6% for secondary educated youth and from 36% to 27.2% for post-secondary
 - Joblessness reduced from 19.2% to 18.6% for secondary educated youth and from 35% to 29.1% for post-secondary
- During the same period, overall youth unemployment in India increased from 5.6% to 7.6% and overall youth joblessness remained unchanged

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BYST India – replicability in Egypt?

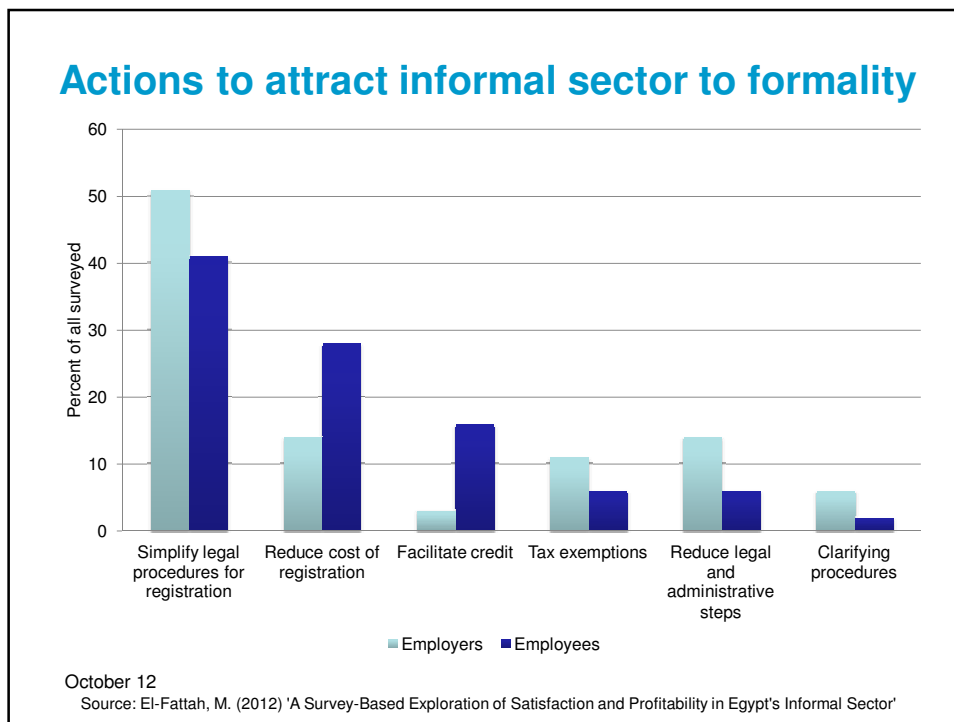
- BYST's high-level business links are partly owing to its top ranks' personal networks
 - BYST was part-founded by JRD Tata of Tata Group
 - Current Executive Vice President Lakshmi Venkatesan is daughter of former President of India
- However, involving multinational corporations and international organisations as programme partners may facilitate a similar pool of high-level contacts
- For assistance in launching a programme like BYST, Egypt could join Youth Business International Network
 - South Africa's National Youth Development Agency, launched in 2009, is a national public entity owned and funded by government but part of the YBI Network
- Programme design may be replicated without joining YBI

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Informality: threat to programme success

- Programmes like BYST provide incentives for beneficiary firms to operate within the formal sector
- However, high informality outside these firms poses a threat to their success and sustainability
- High levels of informality can distort competition and block formal private sector growth and employment by forcing formal sector firms to compete on tax or labour charge avoidance, rather than innovation
- Need for specific policies to address informality and induce non-BYST firms to join the formal sector

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Effective labour market policies and LMI

- Success in reducing informality and reorienting youth expectations away from public sector jobs would remove two major distortions in the labour market
- This in turn would lead to more accurate and complete LMI – thereby improving the quality of strategic decision making and leading to better, more sustainable labour market outcomes

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**THANK YOU FOR YOUR
ATTENTION!**

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