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Promoting better quality job
creation for inclusive growth
in Egypt

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Andrea-Rosalinde Hofer**

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ABSTRACT/RÉSUMÉ

Promoting better quality job creation for inclusive growth

Egypt's working age population is set to expand substantially, with a rising education level, making for growth opportunities. However, employment ratios have trended down, while informality has become increasingly prevalent, particularly penalising the youth. Such trends should be reversed by creating more and better-quality jobs, thereby better integrating people into the labour market, in particular the youth. Easing rigid market regulations would boost productivity and promote formal job creation. High labour costs should be reduced, which would also bring a larger share of the working age population into formal employment. At the same time, social protection and worker support should be expanded to address labour market insecurity and obstacles to labour force participation. Education is also key to foster productivity growth and formal jobs. Ongoing reforms, notably the National Structural Reform Programme, aim at developing skills, promoting female labour force participation and expanding social benefit programmes. These important initiatives should be complemented by additional policy measures to ensure sufficient job creation and improve job quality, thereby durably raising living standards for all and improving employment prospects especially for younger generations.

This Working Paper relates to the 2024 Economic Survey of Egypt:

<https://www.oecd.org/economy/egypt-economic-snapshot/>

JEL codes: E24, E26, I20, I30, J30, J60.

Key words: Job creation, job quality, youth employment, female labour force participation, informality, labour market regulation, social security system, social protection, education, skills.

Promouvoir la création d'emplois de meilleure qualité pour une croissance inclusive

La population d'âge actif en Égypte devrait augmenter considérablement, avec un niveau d'éducation en hausse, créant ainsi des opportunités de croissance. Cependant, les taux d'emploi sont orientés à la baisse, tandis que l'informalité est devenue de plus en plus répandue, pénalisant particulièrement les jeunes. Ces tendances devraient être inversées en créant des emplois plus nombreux et de meilleure qualité, permettant ainsi une meilleure intégration des personnes sur le marché du travail, en particulier des jeunes. L'assouplissement des réglementations rigides du marché stimulerait la productivité et favoriserait la création d'emplois formels. Les coûts de la main-d'œuvre devraient être réduits, ce qui permettrait également d'amener une plus grande part de la population d'âge actif vers l'emploi formel. Dans le même temps, la protection sociale et le soutien aux travailleurs devraient être élargis pour lutter contre l'insécurité du marché du travail et les obstacles à la participation au marché du travail. L'éducation est également essentielle pour favoriser la croissance de la productivité et l'emploi formel. Les réformes en cours, notamment le Programme national de réforme structurelle, visent à développer les compétences, à promouvoir la participation des femmes au marché du travail et à élargir les programmes de prestations sociales. Ces initiatives importantes devraient être complétées par des mesures politiques supplémentaires visant à garantir une création d'emplois suffisante et à améliorer la qualité des emplois, augmentant ainsi durablement le niveau de vie de tous et améliorant les perspectives d'emploi, en particulier pour les jeunes générations.

Ce document de travail concerne l'Étude économique de l'Égypte de 2024 :

<https://www.oecd.org/economy/egypte-economic-snapshot/>

Codes JEL : E24, E26, I20, I30, J30, J60.

Mots clés : Création d'emploi, qualité du travail, emploi des jeunes, participation des femmes au marché du travail, informalité, réglementation du marché du travail, système de sécurité sociale, protection sociale, éducation, compétences.

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Promoting better-quality job creation for inclusive growth

By Yosuke Jin and Andrea-Rosalinde Hofer¹

Employment rates in Egypt are low and have trended down over the past decade (Figure 1), while unemployment is high. Youth and women are particularly affected. While the unemployment rate has declined in recent years, this reflects eroding labour force participation. On average, wage earnings are low, reflecting low productivity (OECD, 2024a). Informal activity is widespread, often meaning low-paid jobs with poor working conditions. Income inequality and poverty are high and have drifted up over the past decade (OECD, 2024a). The working-age population is projected to increase significantly over the coming decades. Therefore, youth employment is a prominent issue. Young people need to be better integrated into the labour market by reviving business dynamism to boost job creation as discussed in this Survey. Simultaneously, their skills need to be enhanced and better aligned to labour market needs (OECD 2024b).

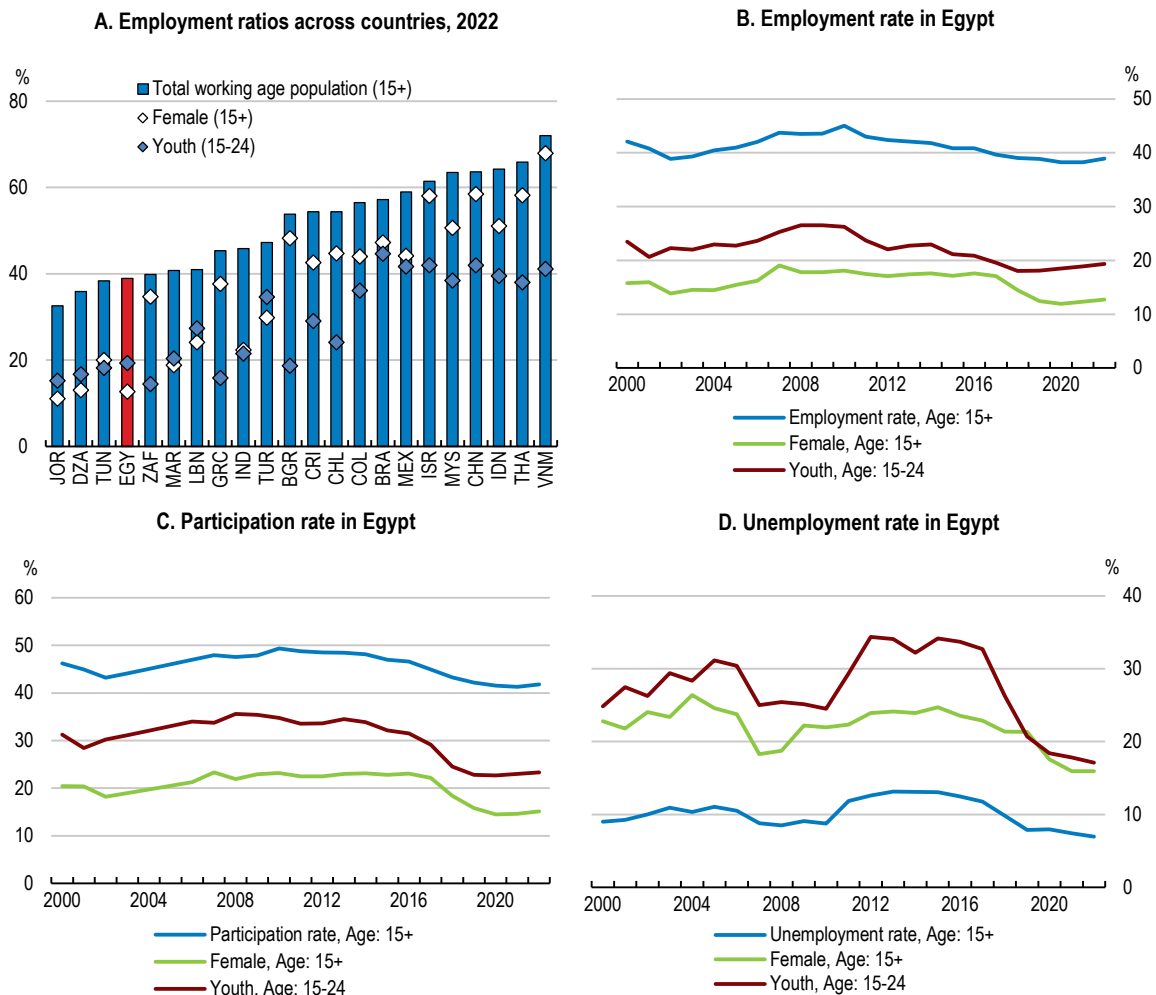
A well-functioning labour market is key to achieve inclusive growth, the benefits of which are widely shared. Drawing on the 2018 OECD Jobs Strategy framework (OECD, 2018), this paper considers three dimensions through which the labour market contributes to inclusive growth and well-being:

- More and better-quality jobs, focusing on earnings and their distribution, labour market security and the quality of the work environment (Box 1);
- Labour market inclusiveness, standing for a fair distribution of opportunities and outcomes across individuals; and
- Resilience and adaptability, indicating the ability to absorb and adapt to economic shocks and make the most of the new opportunities arising from technological change.

Several of the reforms initiated over the past years aim to facilitate the creation of better-quality jobs. These include, notably, the National Structural Reform Programme (NSRP), which rightly focuses on youth and women. Under the aegis of the NSRP, education and training programmes are being remodelled, as is the qualification accreditation system, and cash transfer programmes such as *Takaful* and *Karama* are being expanded. Such efforts help enhance employability, encourage labour force participation and strengthen social safety nets. In August 2023, the government announced that a National Strategy for Employment would be launched, to cope with labour market challenges and take advantage of new opportunities arising from, among others, the green and digital transformation.

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Figure 1. Employment rates are low and unemployment is high



Note: ILO standards, LFS based, including informal employment.

Source: World Bank, World Development Indicators.

Box 1. The OECD Job Quality Framework

The OECD Job Quality Framework links workers' well-being to specific aspects of their job and identifies the job attributes that are of greatest importance to workers. It highlights three key complementary dimensions of job quality:

- **Earnings quality** captures the extent to which labour earnings contribute to workers' well-being. It is measured by the average earnings, adjusted for earnings inequality as individuals display a certain degree of inequality aversion.
- **Labour market security** captures the aspects of economic security related to the risks of job loss and its economic cost for workers. Labour market insecurity is defined as the probability of becoming and staying unemployed as well as the expected earnings losses taking account of unemployment benefits during the unemployment spell.
- **Quality of the working environment** refers to the nature and content of the work performed, working-time arrangements and workplace relationships. It captures job strains, such as time pressures and health risks, but also work autonomy, learning opportunities and social support at work.

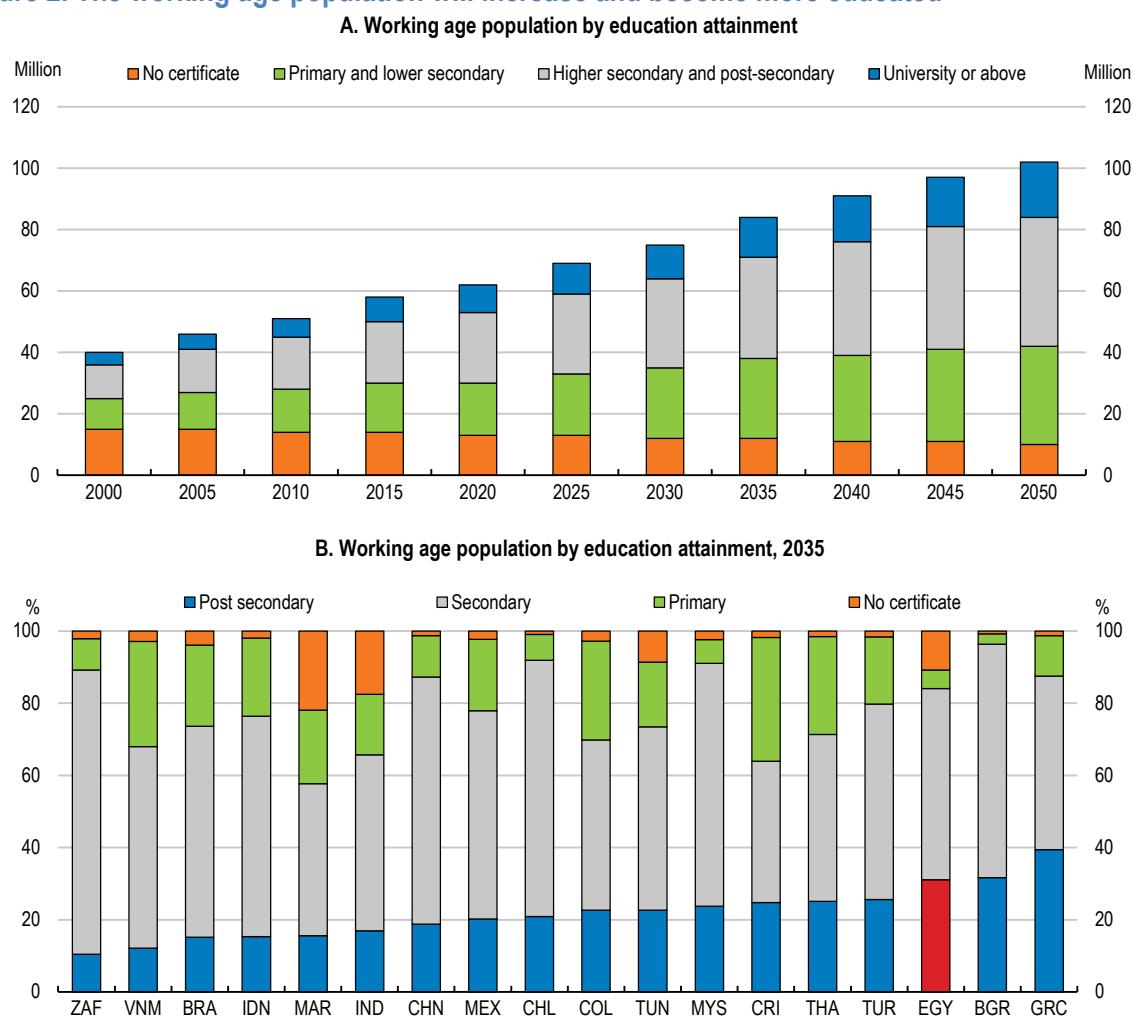
Source: Cazes et al. (2015); OECD (2014); OECD (2016).

More and better-quality jobs are needed

The working age population and educational attainment will increase

Egypt's population reached 104.5 million in 2022, and is set to approach 205 million in 2100 according to United Nations projections (OECD, 2024a). The increase will be particularly strong over the period up to 2035. The working age population is expected to grow even faster (Figure 2), by 32% between 2020 and 2035, with the number of youth (aged 15 to 24) rising by 36%.

Figure 2. The working age population will increase and become more educated



Source: United Nations, Department of Economic and Social Affairs, Population Division; OECD calculation based on Assaad (2020); Human Capital Data Explorer, Wittgenstein Centre.

The working age population is also expected to become more educated. The proportion of highly educated people (university or above) increased from 10% in 2000 to 14% in 2020, and is on course to rise further (Figure 2). New entrants over the period 2020-35 will be substantially more educated, driving an increase in educational attainment within the overall working age population. According to Assaad (2020), at least half of them will have secondary or post-secondary education, and approximately one third university education or higher.

Employment has not kept pace with the increasing working age population over the past decade. Employment and population grew by 1.5% and 2.4%, respectively, on average over the 10 years through

2021, compared with 3.1% and 2.2% over the preceding 10-year period. This gap is expected to continue widening, resulting in a sizeable share of the youth becoming unemployed or inactive (CAPMAS and IOM, 2017).

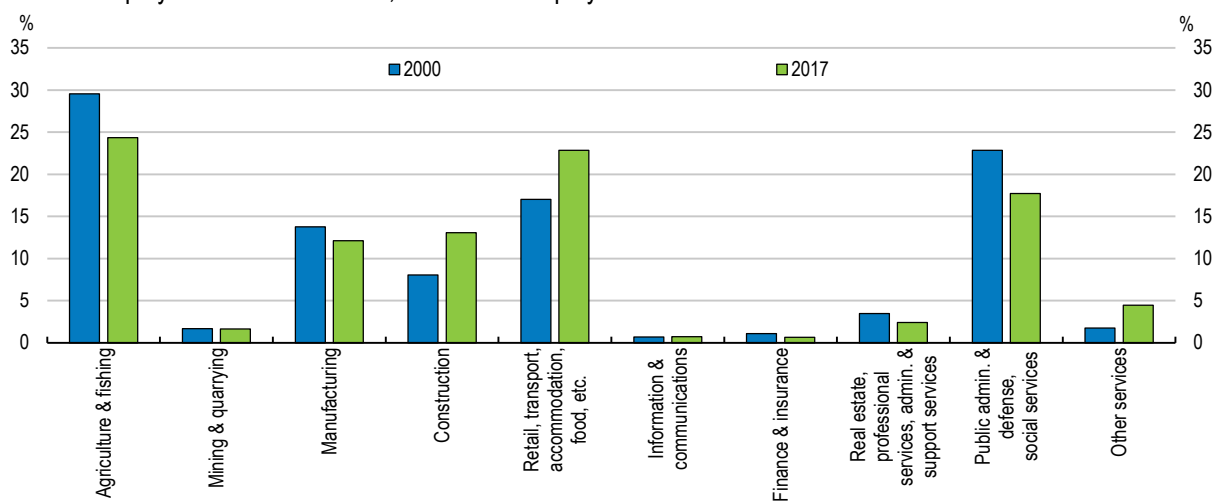
Employment outcomes have worsened over the past decade

While total employment has not expanded sufficiently, the pattern of job creation has changed over the past decade. According to ILO and ERF (2021), agriculture remains the largest sector in terms of the employment share, followed by the public sector (including state-owned enterprises), and the retail, transport, accommodation and food sectors (Figure 3). The shares of agriculture and the public sector have declined since the early 2000s. Those of construction as well as of retail, transport, accommodation, and food have expanded. As the share of informal jobs is typically high in these sectors, this has likely contributed to a rising share of informal jobs in the economy.

Those sectors requiring high skills such as ICT, finance and professional services remain very small, which limits adequate job opportunities for more educated people. In fact, the share of the highly educated (with post-secondary education) working or living abroad in 2018 was 7.0%, versus 1.4% for those with only pre-secondary education (David et al., 2020), reflecting the incentive for some highly-educated people to look for better job opportunities abroad.

Figure 3. Job creation in highly skilled sectors has remained limited

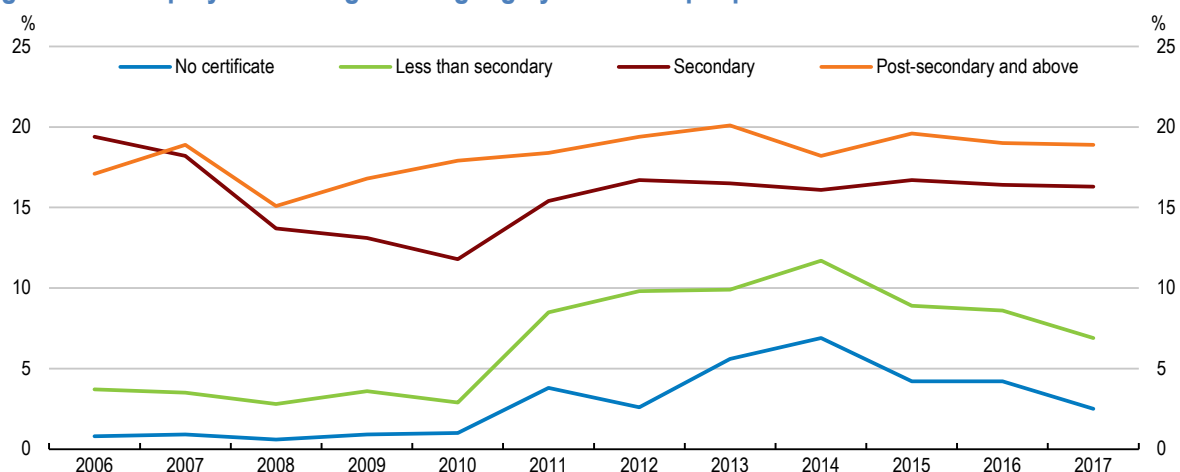
Share of employment for each sector, out of total employment



Source: ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey. The underlying data were provided by Prof. Selwaness, Amer and Zaki, Cairo University.

The lack of adequate jobs tends to push up the unemployment rate of highly-educated people (Figure 4). This is particularly true for highly-educated youth. According to Amer and Attallah (2019), looking at the 15-34 age cohort, the unemployment rate among university graduates is high and edged up from 20.8% in 1998 to 21.6% in 2018. Over the same period, the unemployment rate of highly-educated young women rose from 30.2% to 37.7%, whereas that of highly-educated men declined from 15.7% to 11.2%. The increase in unemployment among highly-educated women can be explained by the decline in new entrants to the public sector due to restrictions on hiring in the public sector introduced in the early 2010s (OECD, 2024a), and their preference for work stability and predictable working hours (Dougherty, 2014; Assaad et al., 2017).

Figure 4. Unemployment is high among highly-educated people

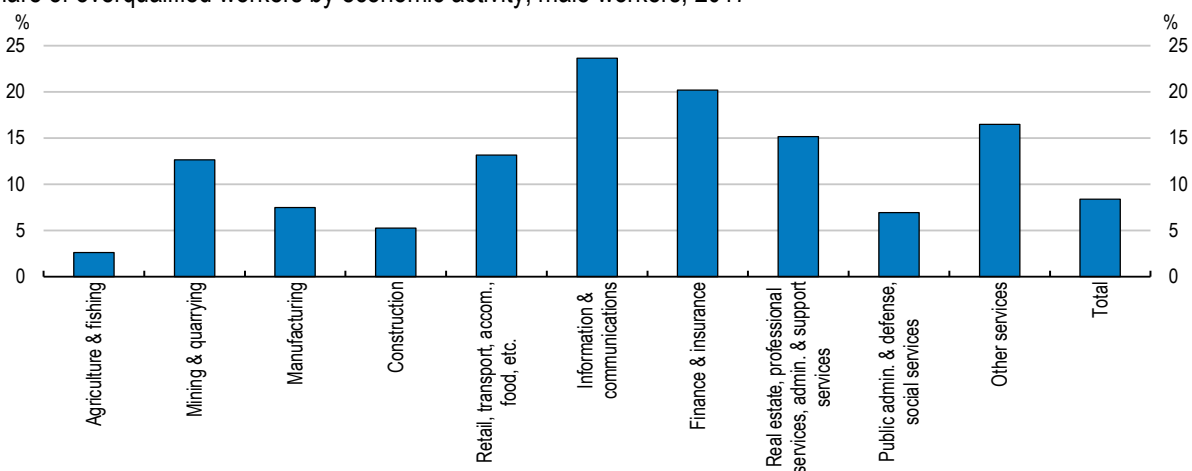


Source: ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey. The underlying data were provided by Prof. Selwaness, Amer and. Zaki, Cairo University.

Not only is unemployment high, but underemployment is also important. Around 10% of male workers are over-qualified, in the sense that their educational attainment exceeds the one required by their occupation (Figure 5). The incidence of overqualification is slightly lower among women. While the overall incidence of overqualification remains lower than the OECD average of 16.5% in 2019, it has increased over the past decade (ILO and ERF, 2021). The fastest-growing occupations among workers with tertiary education are clerks, sales workers, machine/plant operators, each growing at around 10% per year (ILO and ERF, 2021). The incidence of overqualification is higher in sectors where high skills are required such as ICT, finance and professional services, implying that firms in these sectors have a limited capability to use high skills.

Figure 5. The extent of overqualification varies across sectors

Share of overqualified workers by economic activity, male workers, 2017



Note: ILO and Economic Research Forum (2021) compare the level of skill required by each occupation (at the 1-digit level) with the actual educational level of each worker. For further details, see Appendix 2b of ILO and Economic Research Forum (2021).

Source: ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey (LFS). The underlying data were provided by Prof. Selwaness, Prof. Amer, and Prof. Zaki, Cairo University.

Low employment rates are also largely explained by low labour force participation, particularly for women. Labour force participation is positively related to educational attainment. The only exception is men with

no certificates (those who did not achieve primary education) whose employment rate is high, as many of them settle for informal jobs.

Furthermore, the share of youth (15-24 years old) who are not in employment, education or training (NEET) is high. According to the ILO data, the NEET rate was 28.7% among the youth in 2021 (16.8% for men and 42.2% for women). This compares with 22.9% in comparator countries and 12.3% in OECD countries on average. Among those who are NEET, the vast majority of men are unemployed and searching for a job, while the large majority of women are out of the labour force (ILO and ERF, 2021).

Widespread informality is detrimental to job quality

While the overall employment rate is low, the share of informal employment is high, accounting for 67% of total employment (Figure 6). Following ILO (2018), informal employment includes employment in the formal sector that is not covered by social security, employment in the informal sector (unincorporated enterprises not constituted as separate legal entities independent of their owners) or employment in households (Box 2). The incidence of informal employment among youth in Egypt stands out, with 91% of 15-24 year-olds in informal jobs (Figure 6). The incidence of informal employment among women is low, whereas in other countries there is little difference between men and women.

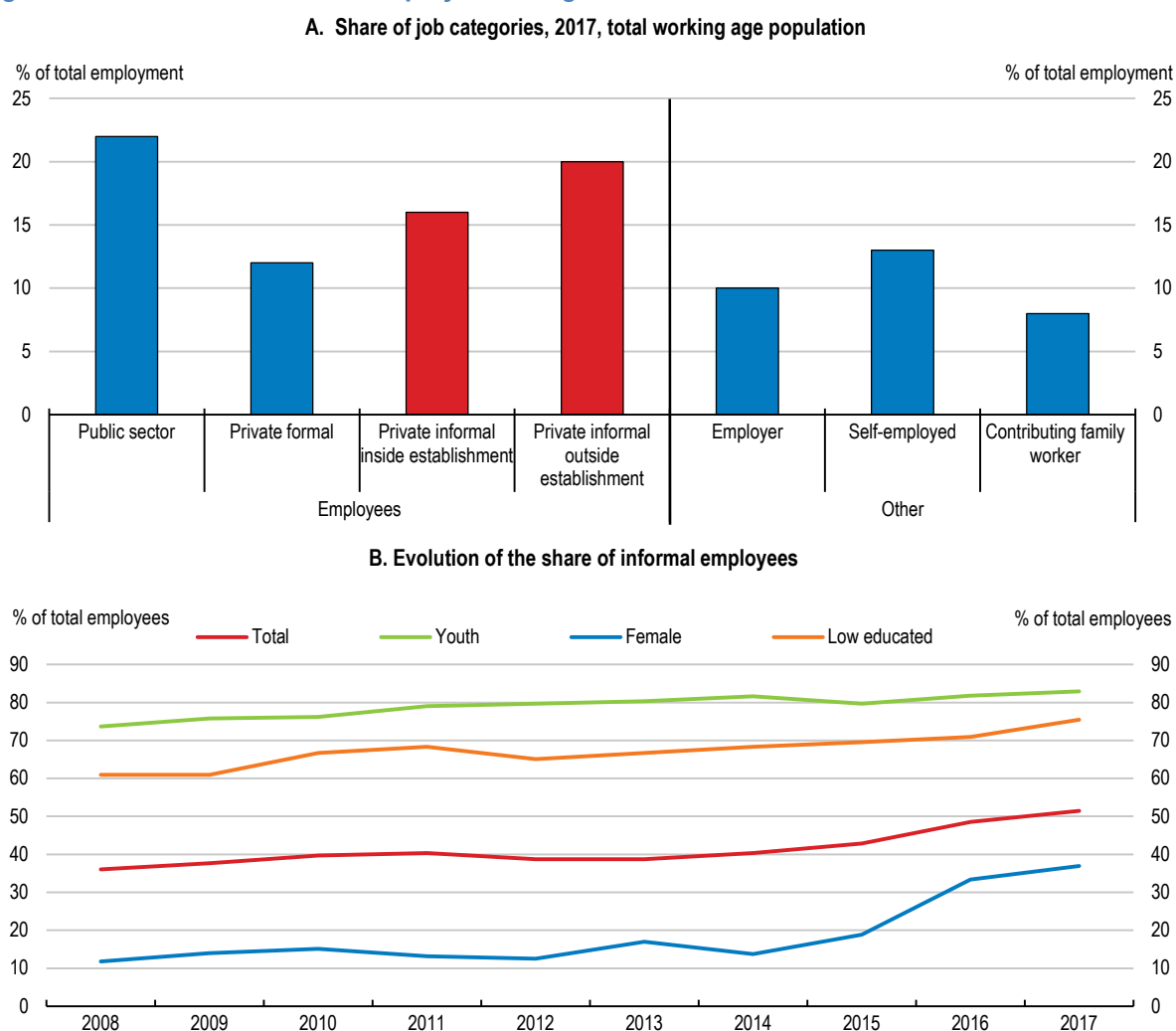
Figure 6. Informal jobs are prevalent, particularly among youth



Source: ILO, Labour Force Statistics.

The share of informal jobs among employees is also high, accounting for 51% of the total (Figure 7). This share is much higher among youth, after having increased significantly over the past decade (Figure 7). Informal employees work either within an establishment or outside, notably on construction sites, operating vehicles or in the street (ILO and ERF, 2021). A forthcoming report by the OECD, ILO and UNDP will provide an overview of the informal economy in Egypt, not limited to informal jobs, and discuss the recent developments (OECD, ILO and UNDP, 2024).

Figure 7. The share of informal employees is high



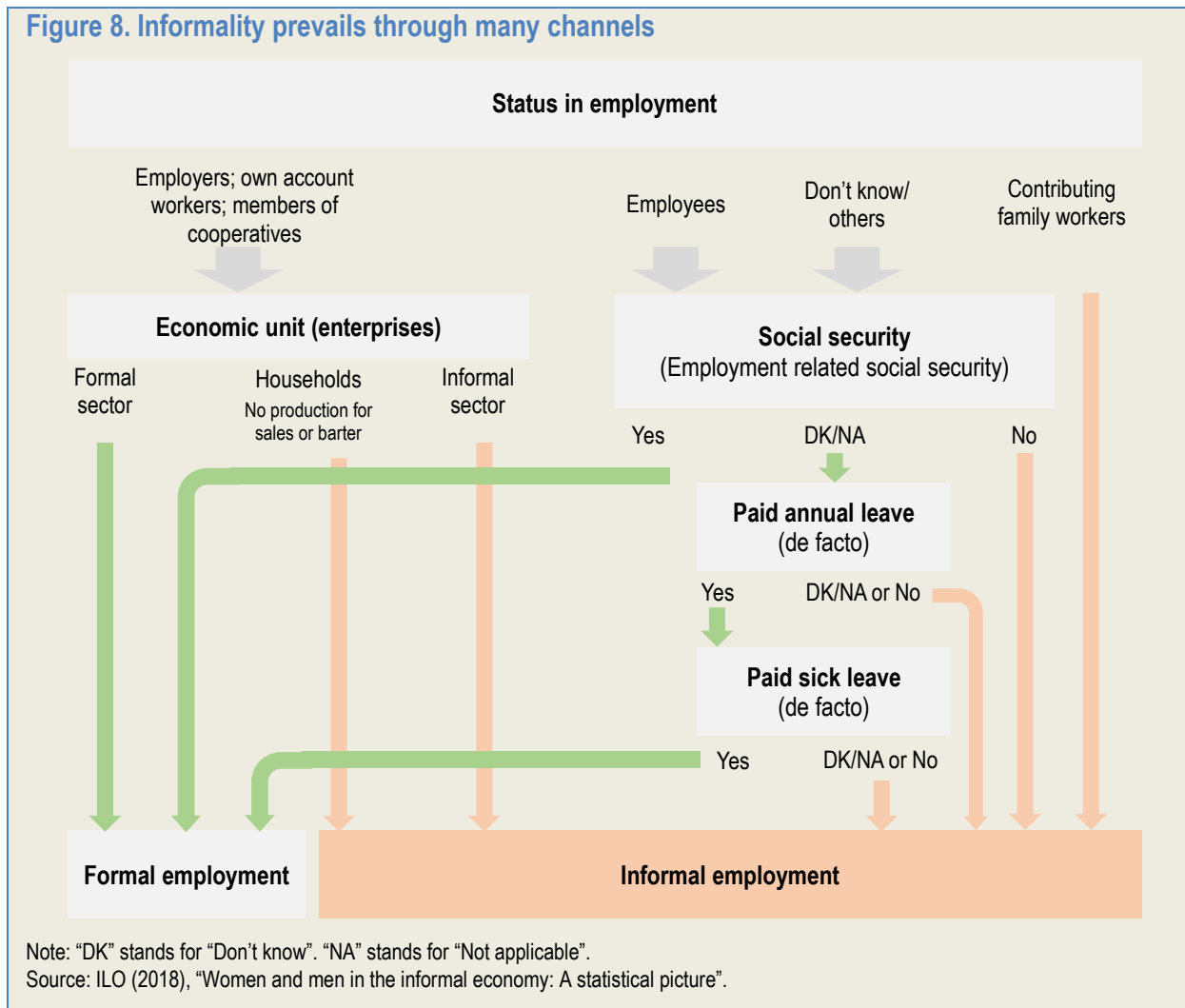
Note: "Informal employees" are those in the job categories "private informal inside establishment" and "private informal outside establishment".
Source: OECD calculation based on ILO and Economic Research Forum (2021).

Box 2. Informality across countries

In this paper, informal employment is defined according to the ILO (2018) definition (Figure 8) as:

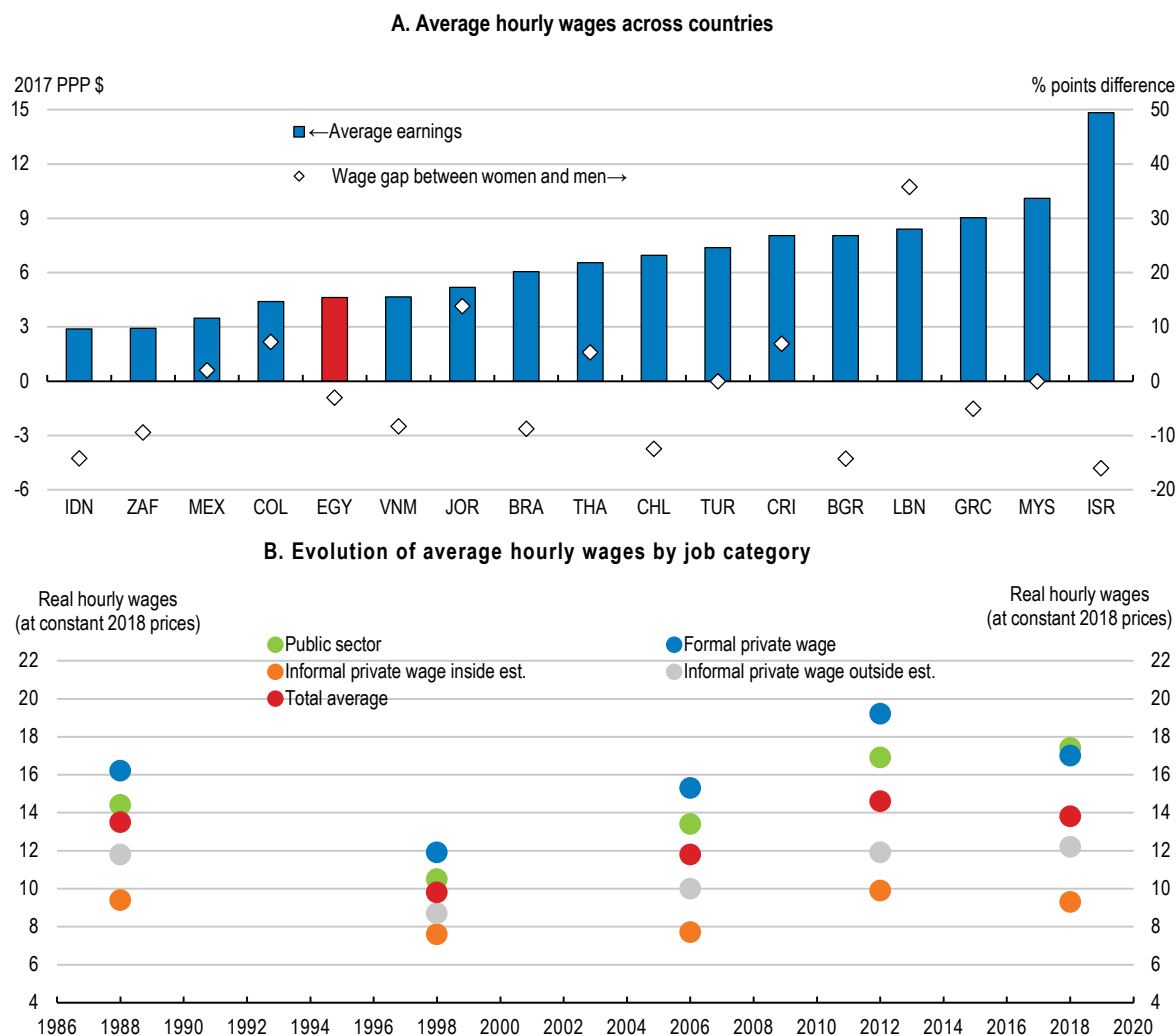
- employment in the informal sector, which in turn is defined as unincorporated enterprises not constituted as separate legal entities independently of their owners;
- informal employment in the formal sector, which is, among others, identified by the coverage of social security, and some other complementary criteria such as the availability of paid annual leave and paid sick leave; and
- employment in households.

Figure 8. Informality prevails through many channels



Informality implies lower average labour earnings and wider earnings disparity. Average earnings in Egypt are lower than in most comparable countries (Figure 9, Panel A). Since 2012, economy-wide hourly earnings at constant prices have declined and the average earnings of informal employees are markedly lower than those of formal employees (Panel B). Informal workers within establishments have lower hourly earnings on average than those working outside establishments, but the latter's work schedule tends to be very irregular and their earnings are not stable. Finally, the gender gap in hourly wages is comparatively small (Panel A), which at least partly reflects the lower share of informal workers among women.

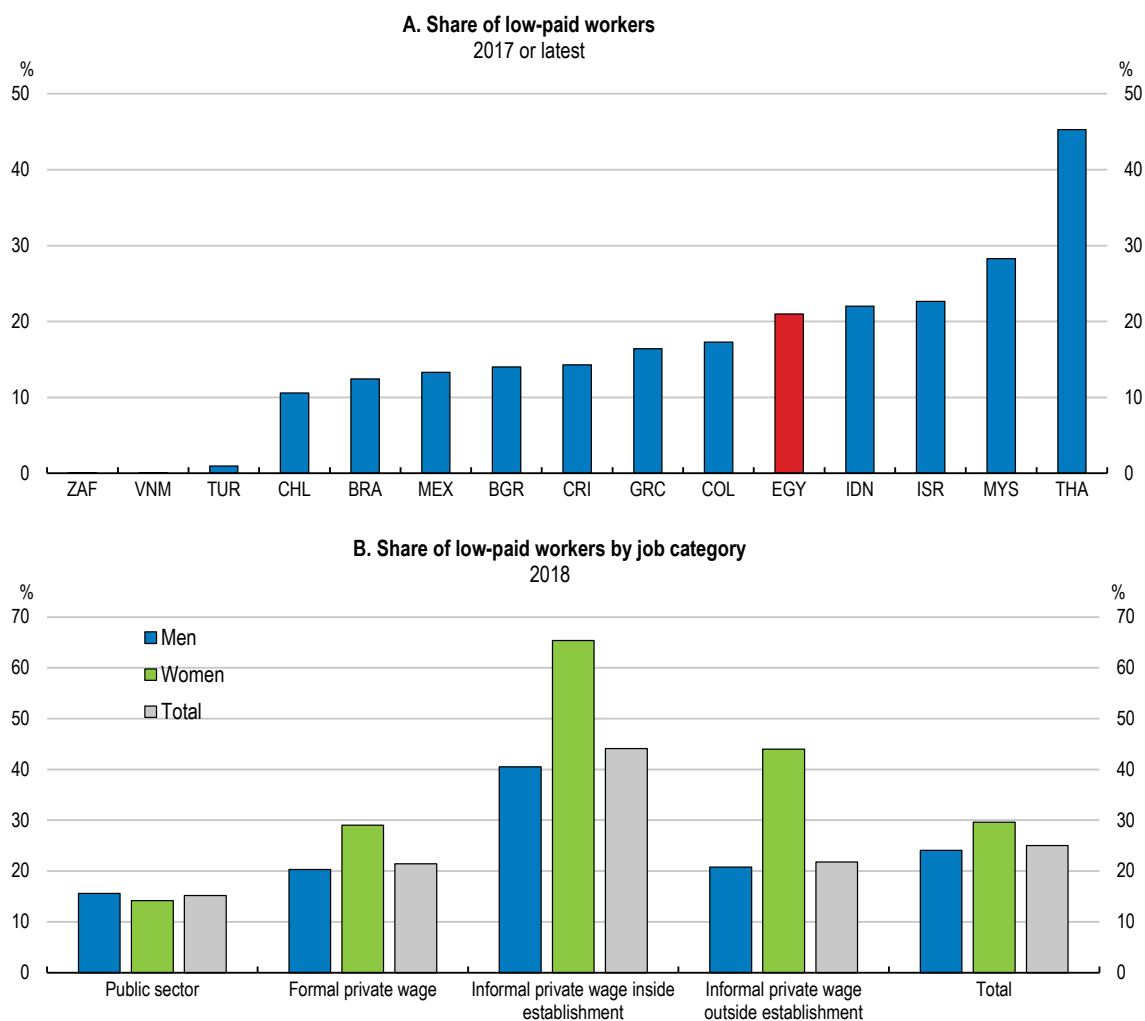
Figure 9. Labour earnings are low and have declined over the past decade



Note: Panel A: difference between average hourly earnings of women and men expressed as a percentage of average hourly earnings of men. Source: ILOSTAT, Wages and Working Time Statistics; ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey. The underlying data were provided by Prof. Selwaness, Amer and Zaki, Cairo University.

Labour market security is low among informal workers, with high unemployment risk. In emerging market economies, many workers are at risk of being pushed into extremely low pay jobs owing to the absence or weakness of social insurance schemes. The incidence of low pay, defined as earnings at two-thirds of the median wage or below, is high in Egypt (Figure 10), at approximately 21% of employees. It is markedly higher among informal than among formal employees (Figure 10). Among informal employees, the incidence of low pay is slightly lower for those working outside establishments, but they tend to be frequently out of work. Indeed, when measured in terms of monthly earnings, the incidence of low pay is higher among informal workers outside establishments.

Figure 10. The incidence of low pay is high in Egypt

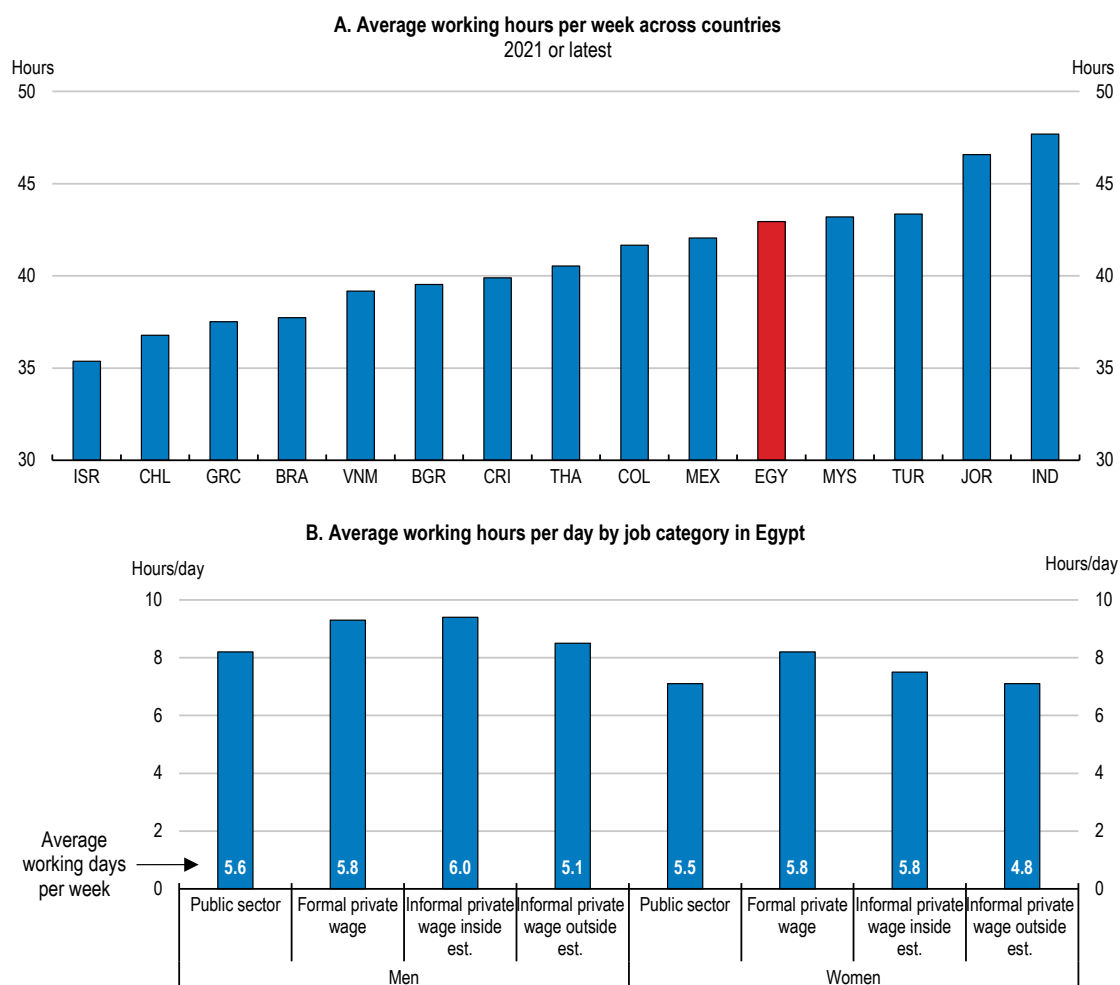


Note: Low-paid workers are defined as those earning two-thirds of the median hourly wage, or less.

Source: ILOSTAT; ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, based on the national Labour Force Survey (LFS). The underlying data were provided by Prof. Selwaness, Amer and Zaki, Cairo University.

The quality of the working environment, as defined in Box 1, is low, especially for informal workers. The incidence of very long working hours is particularly important for workers' well-being (OECD, 2015a). Average working hours are long in Egypt, and a sizeable share of employees work very long hours, particularly among men (Figure 11). Average working hours are longer among informal employees within establishments than for those working outside establishments. However, among the latter, the irregularity of the work schedule is markedly higher, implying that they occasionally work very long hours or not at all.

Figure 11. Working hours are long in Egypt



Source: ILOSTAT; OECD calculation based on ILO and Economic Research Forum (2021), Regional Report on Jobs and Growth in North Africa 2020, Geneva.

Policy measures to be prioritised in Egypt

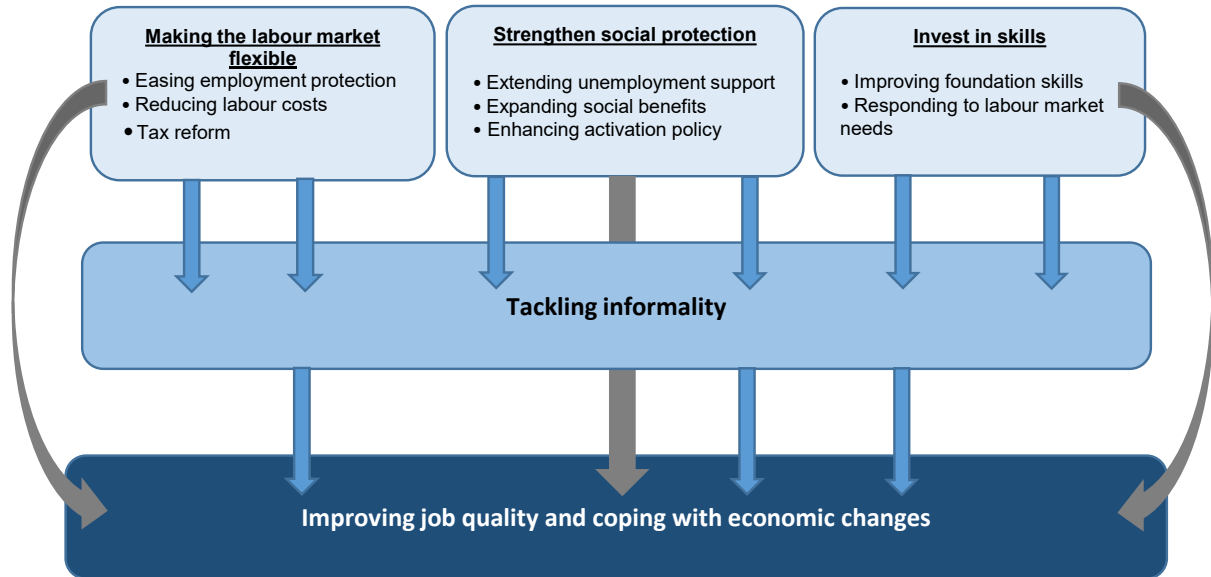
The OECD Jobs Strategy framework identifies policy measures that need to be prioritised to ensure inclusive growth in emerging market economies such as Egypt, that are characterised by low productivity and widespread informality (Figure 12). Removing inefficient market regulations, not only in the product market (OECD, 2024a) but also in the labour market such as very rigid employment protection legislation (see below), can spur the entry and expansion of prospective firms and job creation, particularly in the formal sector. Expanding social protection and worker support provided by the authorities to the vulnerable people, in particular, those in the informal sector, can directly improve labour market security and, if well designed, promote labour market attachment. Finally, skill development is critical for raising productivity and promoting formal employment while reducing inequality. These measures are all essential to make the economy resilient to shocks and adapt to new technologies.

As more and better-educated young people enter the labour market in the near future, accelerating reform efforts in line with the OECD Jobs Framework is crucial. This would help promote better-quality jobs for young people and improve their work incentives and employability. More flexible market regulations would boost hiring and especially benefit youth newly entering the labour market. Providing income and employment support matters particularly for young people, as many of them are involuntarily unemployed

or working poor in the informal sector. Developing skills aligned to changing labour market would improve youth's employment prospects and reduce the risk of informal employment.

Figure 12. Policies to reduce informality and improve job quality

OECD Jobs Strategy framework for emerging economies



Source: Adapted from OECD (2018), "Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy".

Increasing labour market flexibility for better job creation

Labour market flexibility can support job creation and improve job quality by reducing inefficient labour costs. Excessively rigid employment regulations, including those on collective bargaining, and high labour taxation hold back job creation in the formal sector, and shift job creation into the informal sector where job quality tends to be poorer.

Labour taxation should be reduced

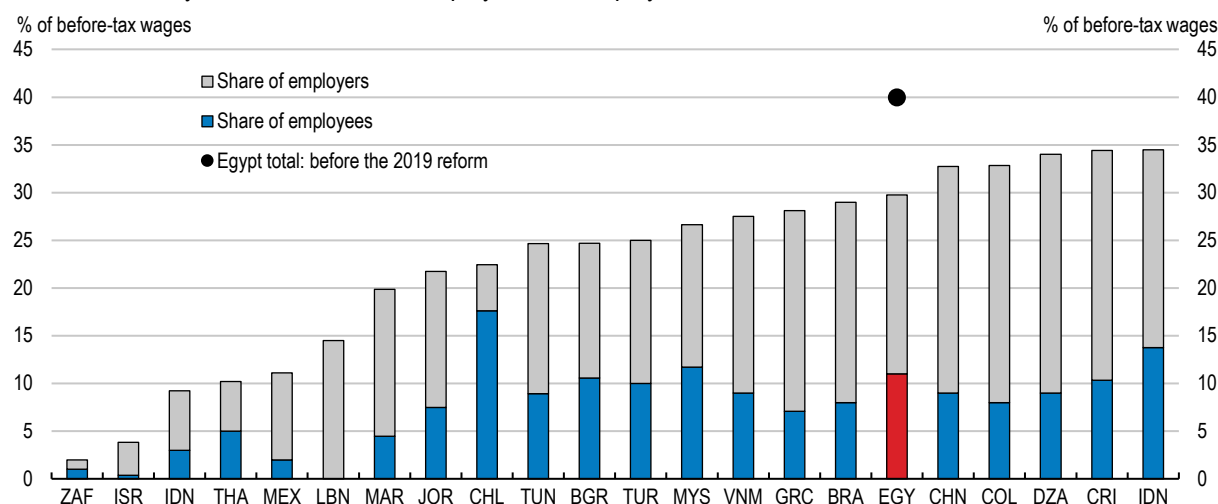
The statutory rate of social security contributions is high in Egypt (Figure 13). High labour costs are among the most important drivers of informality (ERF, 2019). Employers often either decide not to register their workers, thus pushing them into informality, or underreport their earnings. The coverage rate declined in the 2010s, as reflected in the rising share of informal employees (Figure 7). Employers underreport the earnings of approximately 40% of employees in the private sector (Roushdy and Selwaness, 2019). Such underreporting occurs frequently, particularly for youth, low-educated people and low-paid workers (Barsoum and Selwaness, 2022). These findings illustrate how employers often circumvent non-wage labour costs, depriving employees of benefit entitlement and increasing the risk of poverty.

The Social Insurance Law 148/2019 expanded coverage to a wider range of workers while reducing contribution rates. It reduced the contribution rate in the private sector from 40% to 29.75% of gross earnings subject to the lower and higher thresholds (Figure 13). Out of the total contribution rate, 18.75% is paid by the employer and 11.0% by the employee. Even so, the contribution rate remains higher than in most comparator countries (Figure 13) and than the OECD average (16.4% for the employer and 9.7% for the employee, respectively, for single persons at 100% of gross wage earnings in 2022). However, minimum pensions to support low-income older people are financed by social security funds in Egypt rather

than by the general budget, unlike in many OECD countries. In practice, collection is weak and the share of social security contributions in total government revenue in Egypt is only 1.9% in FY 2020/21 versus 9.2% on average in OECD countries in 2020 (OECD Revenue Statistics), notably due to high informality.

Figure 13. Labour taxation for the employer remains high

The social security contribution rate for employers and employees



Note: 2023 data for Egypt, 2019 data for Algeria, Brazil, Colombia, Costa Rica, Morocco, South Africa and Tunisia; 2018 data for Bulgaria, China, Greece, India, Indonesia, Israel, Jordan, Lebanon, Malaysia, Thailand, Türkiye and Viet Nam.

Source: The International Social Security Association.

In the calculation of social security contributions, there are two earnings thresholds: the lower one at EGP 1 400 in 2022 or around 26% of average earnings in FY 2021/22, under which social security contributions are exempted; the higher one, at EGP 9 400 or around 176% of average earnings, at which social security contributions are capped. These thresholds are increased by 18% each year on average until 2027 and at the pace of inflation thereafter, according to the 2019 social insurance law. Thus, the evolution of the thresholds can differ from the pace at which actual wages increase. This is particularly problematic during times of high inflation.

A large part of social security contributions serves to finance the pension system (Table 1). Only a small share of social security contributions is allocated to finance unemployment benefits. There is no additional contributory unemployment assistance, which is typically provided upon the expiration of the standard unemployment benefits in some OECD countries. Thus, jobless people not eligible to the unemployment benefit can only be covered by non-contributory benefits (see below).

Table 1. Social security contribution rates were reduced

The rate of social security contribution by insured risk, in %

	Old scheme (Law 79/1975)			New scheme (Law 148/2019)		
	Employer	Employee	Total	Employer	Employee	Total
Old age, disability and survivors' pension	15	10	25	12	9	21
End of service bonus	2	3	5	1	1	2
Injury	3	0	3	1.5	0	1.5
Sickness	4	1	5	3.25	1	4.25
Unemployment benefit	2	0	2	1	0	1
Total	26	14	40	18.75	11	29.75

Source: Barsoum and Selwaness (2022), "Egypt's reformed social insurance system: How might design change incentivize enrolment?"

Law 148/2019 also introduced provisions to promote the enrolment of informal workers. Own-account workers who remain outside the formal business sector are covered by these provisions. Their earnings are presumed to amount to EGP 1 700 in 2023, the lower threshold, and they pay social security contributions set at 9% of presumed earnings, while the government pays 12% thereof, in lieu of the employer contribution. These provisions apply to a limited number of specific jobs only, implying that the system does not fully capture the diversity of informal forms of work (Barsoum and Selwaness, 2022). The 2019 law also increased the fines imposed on employers who do not register their employees. The government conducts labour inspections to verify the registration of employees, but like in other countries these take place less frequently in small firms, which explains disproportionately low social security coverage among these firms (Barsoum and Selwaness, 2022).

So far, no studies have investigated the effects of the 2019 reform on the promotion of formal jobs. The government should evaluate its effects. These may be limited due to the existence of the low earnings threshold, above which social security contributions become mandatory. It should be removed as it has created strong disincentives to increase low wages and creates strong incentives for employers to underreport wage earnings, in particular when the threshold does not increase as much as average wages, compromising the collection of social security contributions and the social insurance coverage for low-paid workers. The threshold should therefore be removed, while further reducing the rate of social security contributions, which would expand the coverage of social insurance and limit the financial burden for employers.

An across-the-board reduction of social security contributions across all earnings levels can be costly. Therefore, a reduction could be targeted on low-paid workers. The expected effects would be stronger, for a given budget, as the elasticity of labour with respect to taxation is higher among low-paid workers (OECD, 2011a). Labour costs matter particularly for goods and services that are more intensive in low skills as they are more sensitive to price competitiveness. However, such a targeted reduction in labour taxation can result in a low-pay trap, as the marginal tax wedge becomes high when low-paid workers move to higher earnings levels (OECD, 2011a). Therefore, the reduction in labour taxation would need to be tapered gradually, avoiding an abrupt rise in the marginal tax wedge at a particular earnings level.

Moreover, compliance costs should be reduced as they prevent the expansion of the coverage of the social security system. The introduction of a presumptive tax regime aiming at reducing tax compliance costs (OECD, 2024a) can be an option to increase social insurance coverage (Mas-Montserrat et al., 2023). The presumptive regime is characterised by simplified procedures, for instance, levying tax on a presumed tax base approximating taxable income by indirect means. By reducing compliance costs, it would encourage the provision of social protection to self-employed individuals who otherwise would operate in the informal sector. Moreover, it encourages labour formalisation if social protection is provided through registration. Such simplified procedures can be particularly adapted not only to the self-employed but also to domestic workers (Figure 7). Social and labour rights are often extended to domestic workers via simplification measures in other countries, such as the simplified registration, tax and contribution payment mechanisms in Argentina and Peru (OECD and ILO, 2019).

Progressivity in the personal income tax system is relatively limited. According to a recent study (Mansour and Zolt, 2023), the lowest rate is comparatively low among MENA countries (Table 2), but the threshold below which income tax is exempted is also low. The highest rate is comparatively low, and the income threshold above which the highest rate applies is high.

The government aims to sharpen progressivity in the tax system as part of the IMF programme (OECD, 2024a) (IMF, 2023). The recent income tax reform in Budget FY 2023/24 raised the highest tax rate to 27.5% while raising all the taxable income brackets, reflecting surging inflation. To raise progressivity further, the threshold for the top taxable income bracket could be lowered as it is comparatively high (Table 2). Besides, the statutory tax burden can be reduced for the low-paid by increasing the income tax exemption threshold, as it is low compared with some neighbouring countries (Table 2). The government

has increased this threshold to EGP 45 000 in October 2023 and then to EGP 60 000 in February 2024 (OECD, 2024a). The threshold has increased by 50% since the beginning of FY 2023/24, making up also for high inflation in previous fiscal years. Reducing the tax burden on low-paid workers can have strong effects given the high elasticity of labour supply to taxation (OECD, 2011a).

Table 2. The personal income tax could be more progressive

Personal income tax rates and taxable income brackets among selected MENA countries

	2020				Early 2000s			
	Rates, %		Brackets (Multiples of per capita GDP)		Rates, %		Brackets (Multiples of per capita GDP)	
	Low	Top	Exempt	Top	Low	Top	Exempt	Top
Algeria	20.0	35.0	0.29	3.51	10.0	40.0	0.44	14.17
Egypt	2.5	25.0	0.41	13.10	10.0	20.0	0.56	4.45
Jordan	5.0	30.0	2.96	328.87	5.0	25.0	0.00	7.62
Lebanon	2.0	25.0	0.80	25.54	4.0	21.0	1.12	17.98
Morocco	10.0	38.0	0.95	5.68	13.0	44.0	0.97	2.92
Tunisia	26.0	35.0	0.49	4.86	15.0	35.0	0.48	15.88

Source: Mansour and Zolt (2023).

Employment protection should be more efficient

In Egypt, both job creation and job separation are low, likely due to rigid employment protection legislation. Yassin (2014) estimates the hiring rate (as a ratio of total employment) to be between 2 and 3% using household survey data, and the job separation rate (as a ratio of total employment) to be below 1%. Across OECD countries, hiring rates range from 3.8% to 10.7% and separation rates from 6.1% to 16.3% (OECD, 2010). Yassin (2014) attributes Egypt's excessively low labour turnover to rigidity in the labour market. She finds a high job-to-job transition rate within the informal sector, which implies rigidity in the formal sector.

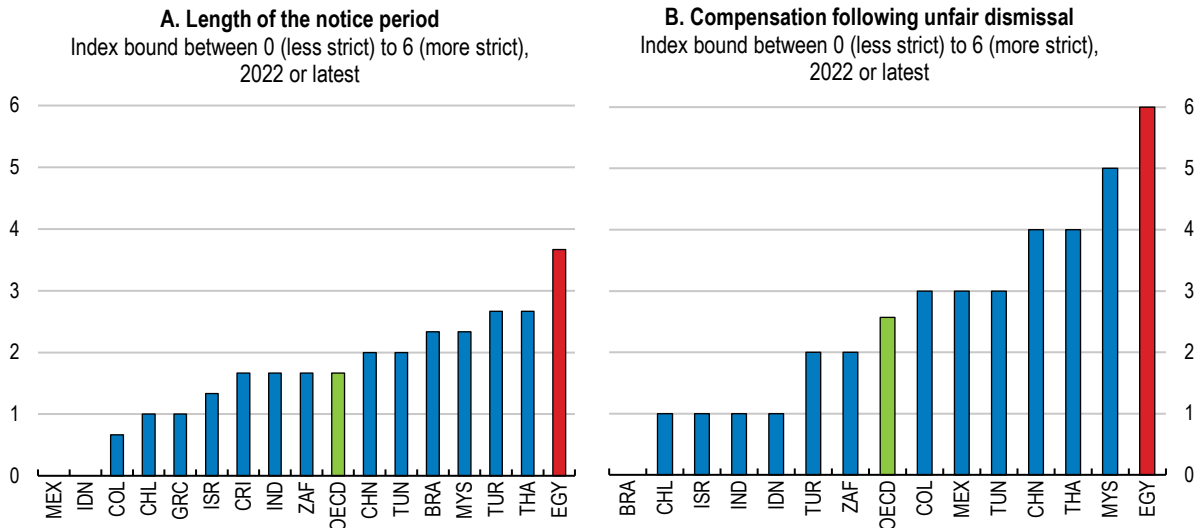
In general, employment protection legislation provisions raising employer costs of dismissal include long proceedings related to dismissal including trials in the labour court, high severance pay, and additional penalties in case of unfair dismissal. Employment protection legislation limits both job creation and job separation, which is particularly harmful to the expansion of youth employment insofar as it discourages the hiring of new entrants. It also inhibits the efficient reallocation of resources (OECD, 2010), particularly when firms undertake innovative activities with high risks (Calvino et al., 2016). Among its provisions, financial burdens and uncertainty related to the judgment as to whether dismissal is fair or unfair are found to significantly affect labour turnover (OECD, 2010; Bassanini and Marianna, 2009).

In Egypt, Labour Law 12/2003 regulates labour contracts between employers and employees. According to this law, difficult economic conditions can justify dismissals, although the exact criteria are unclear. Dismissals must be notified in writing two months in advance for employees whose tenure does not exceed 10 years and three months in advance for employees with over 10 years of tenure, a notice period that is longer than in other countries (Figure 14). Employees may object to a committee that consists of competent authorities, trade unions and business associations. If not settled after 21 days, they may turn to the labour court. If the dismissal turns out to be unfair, financial compensation amounting to two months per year of service would be required of the employer, a heavier penalty than in other countries (Figure 14).

The 2003 Labour Law eased employment protection. Before this reform, employers were basically prohibited from terminating contracts after a probation period (Wahba, 2009). This law also introduced the possibility to continue renewing temporary contracts. The share of temporary workers stands at 6.1% of total employees in 2021 according to CAPMAS, versus an OECD average of 11.8%. Langot and Yassin (2015) find that the reform increased the job separation rate but did not significantly affect the hiring rate, while both remain low by international standards. The draft Labour Law, currently in discussion in

Parliament, revisits the use of temporary contracts with a view to promoting a longer-term employment relationship.

Figure 14. Employment protection legislation is strict



Note: The OECD Indicators of employment protection legislation evaluate regulations on the dismissal of workers on regular contracts on a scale of 0-6, with higher scores representing stricter regulations. Panel A shows the evaluation of the length of the notice period and Panel B the evaluation of compensation following unfair dismissal. The evaluation criteria can be found in Chapter 3 of the 2020 OECD Employment Outlook.

Source: OECD Indicators of Employment Protection Legislation. Costa Rica and Brazil were evaluated jointly by the OECD and the Inter-American Development Bank. OECD estimate for Egypt.

Although dismissal costs remain high after the 2003 reform, employers tend to find ways to circumvent them in practice. Such compensation is rarely paid in emerging economies because of widespread non-compliance, particularly when workers have weak bargaining power (OECD, 2018). In Egypt, enforcement of fundamental labour rights is generally weak (World Justice Project, 2022). The employer may circumvent dismissal costs by forcing the worker to sign a voluntary resignation. Such practices allow employers to reduce dismissal costs on an ad hoc basis, but without certainty at the time of job creation. They also deprive dismissed workers of entitlement to unemployment benefits (see below).

To order to increase compliance to the labour law, the legislated dismissal costs (Figure 14, Panel B) can be reduced further, for instance by aligning them with the levels in comparable countries. This would reduce the potential dismissal costs faced by employers with certainty. To increase compliance with the labour law, labour inspections should be tightened, while strengthening the bargaining power of the labour unions that are also involved in the dismissal procedure.

The collective bargaining system could be further developed

Collective bargaining and social dialogue can play a key role in ensuring the effective enforcement of labour, tax and social security regulations, which is important for combatting informal employment (OECD, 2018).

In Egypt, the Labour Code defines collective bargaining as negotiations about labour terms and conditions, social development for workers and dispute settlement between workers and employers. Collective bargaining engages both trade unions and business owners and is mediated and supervised by the Ministry of Labour. Since its independence in Egypt, union activity has been characterised by centralisation, and all collective bargaining agreements have been made at the national level, controlled

by the Egyptian Trade Union Federation (ETUF) and the state (Nilsson, 2021). In the meantime, the union membership rate declined from 24.7% 1998 to 18.8% in 2018.

Law 213/2017 on Trade Unions aims to develop collective bargaining at various levels. It stipulates that collective bargaining can take place at the establishment, firm, sector, occupation or regional level. It also re-established the ETUF as a single organisation to represent workers while dissolving independent trade unions, requiring them to re-register to be recognised by the government and affiliated to the ETUF.

In order to effectively bargain for labour and social security regulations, worker representativeness should be ensured. The government should investigate the effects of the 2017 law in terms of worker representativeness. It is possible that the law discouraged independent trade unions from participating in collective bargaining by choosing not to be affiliated to the ETUF, which would further reduce the union membership rate. The government should also investigate the extent to which decentralised bargaining has been expanded. In a context in which the union membership rate has declined, ensuring worker representativeness at the firm level could be particularly difficult. According to the same 2017 law, when an establishment is small and lacks sufficient representation of unionised workers, those selected by the union branch office can represent the workers of the establishment in question. Such provisions need to be developed further to avoid adverse effects possibly arising from the weak representativeness of workers.

Recent studies highlight the importance of coordination across negotiating units regardless of the bargaining level, allowing negotiators to internalise the macroeconomic effects of the terms set in collective agreements. For example, Garnero (2021) shows that coordination results in higher employment, particularly among vulnerable workers, and lower wage inequality. Duval and Loungani (2019), summarising the findings for emerging market economies, highlight how specific features can affect outcomes, for example, the required degree of representativeness and coordination among stakeholders.

Tackling labour market insecurity and encouraging labour force participation

Many Egyptians are jobless or working poor, and are not covered by social insurance. Vulnerable people need adequate support to ensure minimum living standards and foster labour market attachment. Targeted social benefits can address informality-related labour market insecurity. Tailored worker support is particularly important for youth, given the high unemployment and incidence of informal jobs among them. Support to reconcile work and family life is particularly important for women, as their labour force participation rate is low, often due to their household responsibilities. Spending in some priority policy areas, including various supports targeted at the most vulnerable people, can be increased, while gradually reducing broad-based subsidies, in particular, untargeted energy subsidies, eliminating inefficient tax incentives and scaling down or postponing some public investment projects, as part of changing the structure of public expenditure (OECD, 2024a).

Unemployment benefits should be developed

In Egypt, unemployment spells tend to be very long, reflecting very low labour turnover. The probability of losing a job is low, as reflected in the low job separation rate (see above). However, once a job is lost, the probability of returning to work is also quite low. Yassin (2014) estimates the job finding rate among job losers to be around 30% on an annual basis. This contrasts with job finding rates between 10% to 35% on a monthly basis across OECD countries (OECD, 2010). Unemployment benefits need to factor in potentially long unemployment spells.

Unemployment benefits are reduced rapidly and the benefit duration is short. Social Insurance Law 148/2019 sets unemployment benefits at 75% of the reference before-tax wage during the first month, which is comparable to OECD standards. However, the replacement ratio declines rapidly: 65% during the

second month; 55% during the third month and 45% during the remainder of the period. The total duration is also short, at 28 weeks for first-time beneficiaries with a minimum contribution record of more than 36 months, and 12 weeks in other cases, for which a minimum contribution record of 12 months is still required. The duration is short compared with 34 and 16 weeks, respectively, for a similar contribution record on average in MENA countries according to World Bank data. To be eligible for unemployment benefits, the beneficiary should be registered with a public employment service office (Labour Office) and visit it regularly. Those who resigned voluntarily are not entitled to unemployment benefits.

The number of beneficiaries is considered negligible, although there are no official data. Indeed, only 17% of employees have social insurance coverage for possible job separation (excluding employees in the public sector and informal employees, Figure 7). The rate of job separation is very limited, and the duration of the unemployment benefit is very short by construction.

Unemployment benefits should be developed further to reduce jobseekers' precariousness. Given the very long average unemployment spell, the duration of unemployment benefits could be extended, for instance to the MENA country average. This would facilitate job search and reduce the risk of pushing them into accepting informal jobs or formal jobs that involve large adjustment costs or do not match their qualifications.

At the same time, conditionality could be further strengthened to better support jobseekers. Currently, beneficiaries are encouraged to find a job owing to the rapid reduction in benefits. This is not effective when labour demand is weak. Instead, while enhancing income support during unemployment, jobseekers can be better oriented and up-skilled or re-skilled by public employment services (see below). According to current regulations, jobseekers are required to visit a public employment service office regularly, but it is not clear how strictly these requirements are enforced (e.g. whether the benefit is suspended or terminated if the beneficiary breaches these requirements). Jobseekers are also supposed to take up a job similar to their previous job, but it is not clear how "similar" jobs are defined. Finally, it is not clear how frequently job-search activities are verified. These aspects must be considered when seeking to enhance the effectiveness of public employment service support (Langenbacher, 2015; Immervol and Knotz, 2018).

Activation policy needs to be strengthened

In Egypt, the Ministry of Labour is responsible for the provision of labour market information and employment services. Over 300 public employment services offices exist across the country, which are in charge of the registration of jobseekers and job vacancies. These offices tend to be underdeveloped and to lack resources such as information systems, while mainly playing a bureaucratic role of registering jobseekers (Semlali and Angel-Urdinola, 2012). Staff are not sufficiently qualified to help match labour supply and demand (ILO, 2017). According to the ILO Decent Jobs for Egypt's Young People project in 2015, 90% of young people who registered reported not having received any job offer and only 4% said they had received career guidance services and/or labour market information. About 45% of respondents who received a job offer said that it did not match their qualifications. These problems arise due to the lack of personnel, in particular job counselling specialists, and modern equipment (ILO, 2017). Public employment service resources should be increased to provide tailored support to jobseekers (so-called "profiling"). The Ministry of Labour is seeking to upgrade the quality of employment services, for instance, by making the career guidance units meet international standards, which is a step in the right direction.

Active labour market programmes (ALMPs) to facilitate labour market transitions are provided not only by the Ministry of Labour, but also by many other entities. These include quasi-public bodies, such as the Federation of Egyptian Industries, civil society organisations, private companies and international donors. They provide diverse programmes for different purposes. The Ministry of Labour offers job training programmes to jobseekers, which are different from the formal VET programmes provided by the Ministry of Education, and around 350 000 people obtained a certificate in 2022. However, it is not clear how such a certificate is recognised by employers due to diverse accreditation systems (see below). Moreover, the

ALMP system is fragmented without a coherent policy and strategic framework (ILO, 2017). In order to achieve policy objectives such as those stated in *Egypt Vision 2030*, such as reducing the share of youth not in work nor in training, the introduction of such a coherent and strategic framework would help to design specific programmes and target programme beneficiaries.

Evaluation of ALMPs is not common in Egypt. According to the Youth Employment Inventory database that surveyed 183 ALMPs in Egypt, skill training accounts for 66% of all ALMPs, followed by entrepreneurship promotion (24%), employment services (8%) and subsidised employment (2%) (Barsoum, 2016). According to the same database, around two-thirds of all ALMPs only collected basic descriptive information and only about 30% of programmes had some form of performance or process evaluation (ILO, 2017). Such evaluation is not available publicly, and it is not possible to assess these programmes, since key outcome indicators such as placement rates, income, job stability and retention are often missing.

For ALMPs to be successful, programme design should take labour market needs into account. The Ministry of Labour monitors labour market developments and assesses current labour market shortages and future needs, through regional labour market observatories. According to the Ministry of Labour, this information is used when it designs its training programmes. However, the labour market information it collects is not publicly available. The coverage of such information should be wide enough, including as many industries as possible and specifying required worker skills in as much detail as possible. The Ministry is expanding the number of labour market observatories. Also, as part of the new National Labour Market Information System, the Ministry of Labour intends to improve the methods of data collection and analysis for the determination of labour market needs across sectors (see below). The Ministry of Labour should be accountable for explaining how exactly the information and assessment feed into its labour market programmes and how these affect employment outcomes for beneficiaries.

Social benefits should be enhanced further

In Egypt, there are several non-contributory benefits. These include the ration card for foods and energy subsidies, which are broad or untargeted (OECD, 2024a), as well as various types of support for specific beneficiaries. Among them, *Takaful* and *Karama* are the main non-contributory cash transfer programmes conditional on households' means. These programmes target those living below the poverty line. They were introduced in 2014 and have expanded since, though still accounting for a limited share of public expenditure (0.3% of GDP in FY 2020/21; Figure 15). While the government expands these targeted social benefits, job-ready beneficiaries should be encouraged to earn their own income by improving financial incentive mechanisms and job search support (see below).

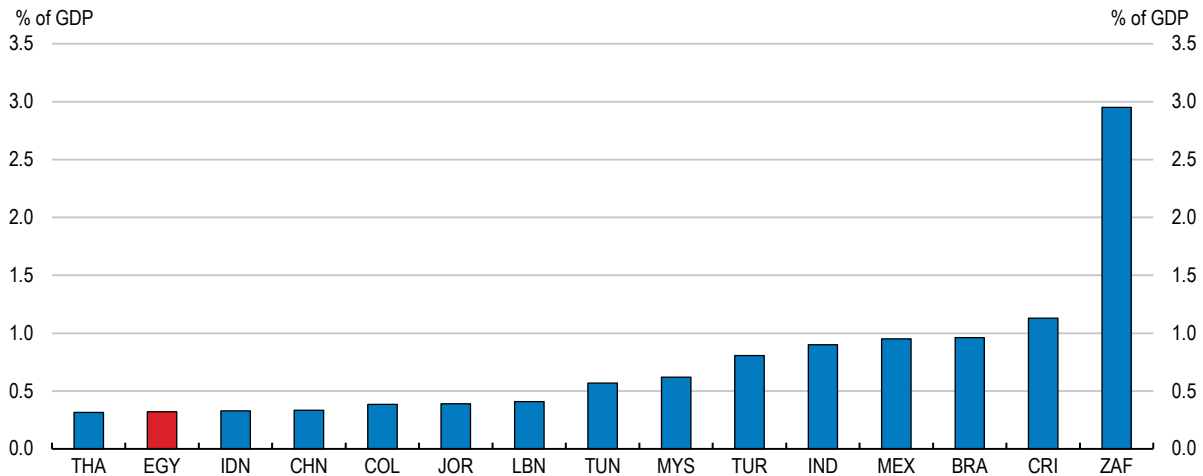
Takaful ("solidarity" in Arabic) is a non-contributory benefit for families with children. Around 2.7 million households were enrolled in this programme in December 2023. The basic component of *Takaful* amounted to EGP 406 per month as of end 2023, with the top-up component varying depending on the age of children (from EGP 75 for every child aged zero to six to EGP 175 for every child enrolled in secondary education) covering a maximum of two children per household. The February 2024 fiscal package has increased the benefits by 15% overall (OECD, 2024a). These benefits aim to reduce poverty, support food consumption, ensure use of health care services and encourage school enrolment. As such, beneficiary households need to meet certain requirements, including at least 80% school attendance and four visits per year to health care units by mothers and children aged six or less. Once households earn more than the nationally defined poverty line or their assets exceed the threshold in the predefined criteria, they lose eligibility for this programme. This is verified monthly against the Unified National Registration system.

Karama ("dignity" in Arabic) is a non-contributory benefit aiming at protecting specific disadvantaged people living under the poverty line. Over 1.7 million individuals are enrolled in this programme as of December 2023. The benefit amounts to EGP 615 per month for the elderly and those with disabilities and

EGP 490 for orphans and jobless single women aged 50 or above as of end 2023. The February 2024 fiscal package has increased the benefits by 15% overall. Unlike *Takaful*, there are no specific requirements but the same eligibility condition applies, which is also verified by the Unified National Registration system.

Figure 15. Social protection spending is comparatively low

Non-contributory social benefits, as a % of GDP



Source: World Bank (2022) "Egypt Public Expenditure Review for Human Development Sectors - Social Protection, Education and Health: Volume 1 - Macroeconomic Context, Social Assistance and Pensions".

Compared with broad-based benefits, these programmes are well targeted as they mostly reach low-income households. Selwaness and Ehab (2019), on the basis of 2018 household survey data, show that the benefits paid to households in the poorest first and second quintiles account for 78% of total benefits. The same study shows that the households in the first and second quintiles benefiting from these programmes account for 13% and 7% of total households in these quintiles, respectively. This contrasts with the results for food subsidies, with the share of recipient households varying within a limited range (70 to 75%) across quintiles, except for the highest quintile where that share is only somewhat lower.

In terms of adequacy, the targeted programmes are found to be far more efficient than broad-based benefits in reducing poverty. In terms of poverty reduction, World Bank (2022) shows that bread subsidies and ration card subsidies (OECD, 2024a) contribute to reducing the poverty rate by approximately 10 and 8 percentage points, respectively, while the *Takaful* and *Karama* programmes together reduce the poverty rate by approximately 9 percentage points. Accordingly, the *Takaful* and *Karama* programmes are much more cost-effective, as they account for only 0.3% of GDP, while the two food subsidies together account for 1.4% of GDP. World Bank (2022) micro simulation analysis suggested that increasing the number of beneficiaries of these programmes to 5 million households would further reduce the poverty rate by one percentage point, at a cost of EGP 9 billion (0.1% of FY2021/22 GDP).

There is no official mechanism to index the benefits to inflation, but they are adjusted on a discretionary basis. For instance, total expenditure on these programmes was supposed to increase by 31% from 23.7 billion in FY 2022/23 to 31 billion in FY 2023/24, which was higher than the 12.6% projected inflation in Budget FY 2023/24 over the same period. In contrast, the budget for FY 2024/25 will increase the *Takaful* and *Karama* benefits by 13.6% compared with the previous fiscal year, which is projected to fall short of inflation. These programmes can be further developed by expanding their target to all poor households, including those without children. There are still many households that are potentially eligible for these programmes. The government intends to expand their coverage, including additional households into the social registry while verifying their programme eligibility (OECD, 2024a).

While expanding the cash transfer programmes, the government also aims to facilitate the transition from dependency to self-sufficiency by encouraging recipients to engage in paid work. According to the current system, once the beneficiaries of the *Takaful* and *Karama* programmes earn more than the poverty line, they lose their entitlement to the programmes altogether, but only after six months, not immediately after they begin work. This has a larger budgetary cost, but ensures that incentives to work are not compromised, which may pay off in the longer run.

The attachment of beneficiaries to the labour market could also be strengthened by integrating various support measures, including income support and assistance for jobseekers, as in Chile's anti-poverty programme, *Chile Solidario*. The latter is one of the best-known examples of integrated anti-poverty programmes, which combine income support for the poor with interventions that seek to address the structural causes of poverty, recognising the need for a comprehensive approach to tackling the multiple barriers to moving out of poverty.

FORSA ("opportunity" in Arabic), is such an integrated anti-poverty programme supported by the World Bank. *FORSA* assists individuals who wish to work with finding a job or establishing a micro-enterprise to earn a decent income on their own. If the beneficiary chooses to establish a micro-enterprise, *FORSA* offers assets to start a business. This programme is built on cooperation with a wide range of stakeholders, including several ministries, governorates, civil society organisations, the private sector, and local economic development partners who can identify the strengths and opportunities available in local economies. It complements other social benefits, including *Takaful* and *Karama*. *FORSA* is implemented across the country, and supported by the World Bank in eight governorates. *FORSA* covered only 35 000 families as of early 2023. Given its comprehensive approach, it requires huge resources and coordination efforts across stakeholders.

Market mechanisms can be employed further to reach as many beneficiaries as possible while minimising costs. While a comprehensive but costly approach, such as *FORSA*, can target the most vulnerable, the beneficiaries of the *Takaful* programme may be encouraged to register with the public employment service, benefiting from support measures such as job counselling, job broking, referrals to companies, and if necessary, job training. Such an integrated policy would not only provide immediate income support but also allow benefit recipients to enter or stay attached to the labour market, which is ultimately more important for improving their living standards durably. Examples of this approach include Mexico's *Prospera* programme, which is linked to other public services to support poor households in obtaining a foothold in the labour market (Box 3).

Box 3. Fostering labour market attachment: *Prospera* in Mexico

The conditional cash transfer programme *Prospera* is Mexico's federal strategy to combat poverty. Mexico initiated this programme in 1997 (originally called *Progresá*). It aimed to promote human capital formation among poor children by incentivising parents to invest better in children. The government targeted three outcomes: improved school attendance, preventive health care, and nutrition status. Cash income support was given mostly to mothers conditional on their children regularly accessing health care facilities and attending school with fewer than three unjustified absences a month. The cash income transfers gave beneficiary families greater freedom than the pre-existing system of transfers in the form of food subsidies.

Originally offered to just over 300 000 beneficiary families in randomly selected poor communities, *Prospera* redistributed income to 6.6 million families in 2017 (out of a target population of 7.9 million) using a multidimensional poverty threshold as its eligibility criterion. *Prospera's* stated objective was to contribute to strengthening the effective implementation of social rights that enhance the capabilities of

people living in poverty, through actions that amplify their capacities in food, health and education, and improve their access to other dimensions of welfare.

Prospera expanded from its initial three focal areas of education, health and nutrition to include links with other federal programmes. This entailed providing beneficiaries with advice, information and access to programmes or actions in different government agencies related to productive development, income generation, training, employment, financial literacy, access to savings schemes, life insurance and credit. *Prospera's* connection with the *Banco de Ahorro Nacional y Servicios Financieros* (National Savings and Financial Services Bank) led to gains in access to formal banking. By 2016, a total of 626 000 mostly female *Prospera* beneficiaries had contracted savings accounts.

The *Prospera* programme ended in 2018 with its funding transferred to another programme offering free health services (*Servicios de salud y medicamentos gratuitos*).

Source: OECD (2017), Building an Inclusive Mexico, Policies and Good Governance for Gender Equality.

Promoting female labour force participation

Egypt is committed to empowering its women and launched the National Strategy for the Empowerment of Egyptian Women 2030 in 2017. It aims to increase female employment rates and women's access to economic resources, and also includes goals in terms of political representation as well as access to education and property. It sets targets, for instance, to raise the ratio of female income to male income to from 29% in 2016 to 58% by 2030 and to increase the ratio of women with bank accounts from 9% in 2015 to 18% by 2030.

In light of the sharp reduction in female labour participation in recent years (Figure 1), it is a matter of urgency to implement the national strategy in full. Although low female labour force participation is fairly common in the Arab world, it is lower in Egypt than in most of neighbouring countries (Figure 1). Labour force participation is particularly low among married and low-educated women. The main reason why they are staying out of the labour force is unpaid care work (Figure 16). Thus, reconciling work and family responsibilities is key to promote female labour force participation. In this respect, maternity leave and childcare support play an important role. The disproportionate burden of unpaid care work borne by women stems mainly from social norms (OECD, ILO and CAWTAR, 2020), calling for multi-dimensional solutions (OECD, 2024c, forthcoming).

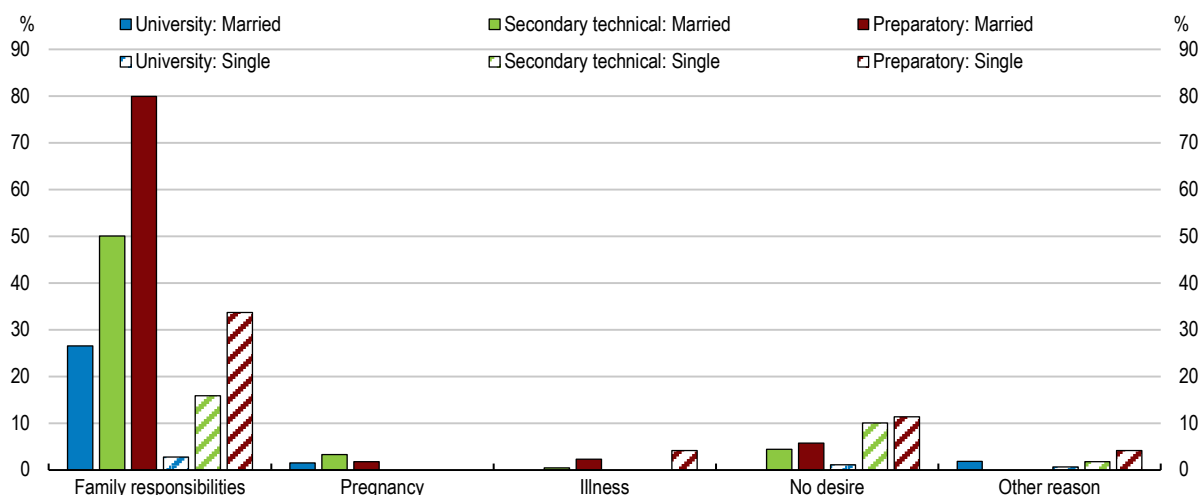
Female employees with at least 10 months of social security contributions are entitled to 90 days of paid maternity leave. During that period, they are paid at 75% of the last wage. In addition, women employed in establishments with more than 50 employees are entitled to up to two years of unpaid childcare leave. According to Assaad et al. (2017), only 18% of female employees take paid maternity leave and unpaid leave is uncommon in Egypt. They attribute this result to the fact that female employees often quit their work in the private sector upon the first pregnancy without taking maternity leave. Moreover, rules are unevenly enforced across businesses, which may force some women out of work altogether. Better informing employers of women's rights and ensuring their enforcement would support women taking up maternity leave. Finally, wage compensation during maternity leave is paid directly by the employer, which can discourage the hiring of women.

Childcare support also helps women reconcile work and family responsibilities. In Egypt, employers are required to set up childcare facilities if the number of female employees is 100 or above, which can hamper the expansion of female employment. Instead, childcare facilities should be provided by the authorities. Nurseries provide such childcare support for children under the age of four under the responsibility of the Ministry of Social Solidarity. Nursery users can also benefit from financial support, covering from 25% to 75% of the actual cost, depending on users' income. However, the enrolment rate in nurseries is very limited, at slightly below 8% as of 2020, according to the Ministry of Social Solidarity. Indeed, nurseries are

few and far between. To provide childcare services at work, the government has established 1 200 new nurseries as part of the National Structural Reform Programme. However, the total number of new nurseries appears to fall below demand, and the government should accelerate the creation of nurseries.

Figure 16. Women are often out of the labour force due to family responsibilities

Share of women who are out of the labour force, 25-29 years old, by reason



Source: OECD calculation based on Dougherty (2014) "The labour market for youth in Egypt: Evidence from the 2012 school to work transition survey".

Working hours are also an important element to reconcile work and family responsibilities. Predictable hours of work can explain women's preference to work in the public sector (see above). In Egypt there are legal provisions in place according to which female employees in the public sector can request half-time work for half pay. The experience in Jordan shows that flexible work arrangements have likely resulted in increasing female employment (OECD, ILO and CAWTAR, 2020) and that flexible work arrangements are mostly based on informal agreements between the employer and the employee rather than applying legal provisions as the formal procedures are often cumbersome (OECD, ILO and CAWTAR, 2020). In this respect, the government could promote jobs that typically allow for flexible working hours for women. Currently, Egyptian women, in particular, low-skilled women, are more likely to work in recreational services, as well as textiles and apparel productions (OECD, 2024c, forthcoming), where working hours are less predictable or flexible. Public employment support could adopt a targeted approach to upskill women to white-collar jobs, as this type of job better allows for flexible working hours, including teleworking.

Ensuring a safe work environment is a prerequisite to promote female employment. One of the reasons why women prefer working in the public sector (see above) is that it is perceived to provide safer working conditions (Dougherty, 2014). The National Strategy for the Empowerment of Egyptian Women 2030, which subsumed the National Strategy for Combating Violence against Women set up in 2015, focuses on different kinds of violence against women under the pillar of women's social empowerment. The strategy emphasises eliminating all harmful and discriminatory practices. However, the legal framework in Egypt is still not in line with international standards as, for instance, the definition of violence against women is too narrow (OECD, ILO and CAWTAR, 2020). The government should reinforce and extend its actions to align the legal framework with internationally recognised standards.

The government has provided comprehensive support to a limited number of women as part of FORSA (see above). With the help of local non-governmental organisations, by early 2023 the programme had proactively reached out to over 60 000 potential female beneficiaries, disseminating information on its objectives. FORSA includes behavioural change trainings which introduce the programme and encourage

participation in economic inclusion activities. Thanks to this programme, around 4 000 women have received assets through which they can sustain their livelihoods. The government is also actively supporting female entrepreneurship as part of *Egypt Vision 2030* (Box 4).

Box 4. Supporting female entrepreneurship

For Egyptian women, entrepreneurial activity is mostly driven by necessity. Unpaid work, low job quality, lack of safe work conditions, the burden of family duties, lack of market opportunities and other factors push most Egyptian women to seek self-employment as a last resort for survival, rather than for economic opportunity. The female unemployment rate is three times higher than for males. Despite the higher proportion of women in universities, a gender gap in entrepreneurship persists. Around 10% of women owned a business in 2018 (including early-stage entrepreneurship), against around 33% of men. Most of the entrepreneurial activities of women in Egypt (78%) take place in the micro and informal sectors. Among the many obstacles faced by female entrepreneurs in Egypt, the most significant are: i) cultural barriers to starting a business, with 43% of women still needing permission from their father or husband to start a business; and ii) access to finance, in particular a lack of collateral for bank loans, since women own little property in their own right, and banks perceive women as a high-risk segment.

The Egyptian government is actively supporting female entrepreneurship as part of *Egypt Vision 2030*. The Micro, Small and Medium Enterprise Development Agency (MSMEDA) has a dedicated gender strategy focusing on microfinance loans and capacity building to support women's access to resources. In 2020, MSMEDA launched a 50 Million African Women Speak networking platform project, in co-operation with the Common Market for Eastern and Southern Africa, to support trade in products of small and medium projects owned or run by women, via mobile telephones, to lower learning and transaction costs.

Source: Zeitun (2019); Rizk and Rashed (2019); Hassan and Zaharia (2021).

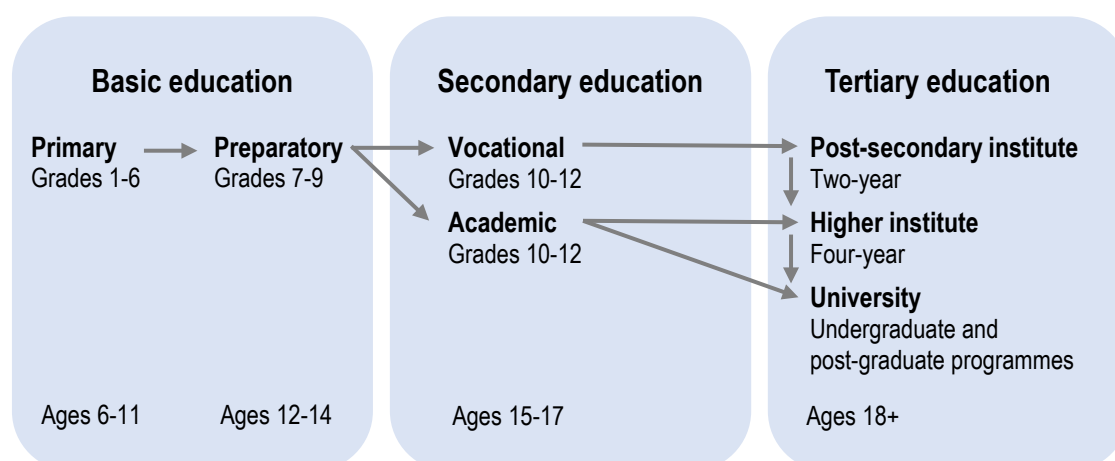
Enhancing education and skills to improve youth employment prospects

Education and skills are fundamental to improve the economic prospects of countries and individuals. They affect business dynamism, productivity and innovation, and contribute to more and better job creation. At an individual level, increased labour earnings, reduced earnings inequality, increased labour market security, and improved quality of life are all positively associated with education and skills. Enhancing education and skills, if corresponding to labour market needs, could help exploit Egypt's job creation potential, which would be particularly beneficial for youth.

Expansion of educational opportunities from primary to tertiary education

In Egypt, education is compulsory from age six to 17, and various options exist for tertiary education (Figure 17). Primary education is followed by preparatory education and completed with a centralised national examination, the Basic Education Certificate. Academic secondary education includes a general academic and a technical track, both leading to the General Secondary Education Certificate, which provides access to a university degree. Students whose exam results are not good enough to progress to academic secondary education enter vocational education, which offers study tracks in industry, commerce and agriculture. The final examination of secondary-level VET education qualifies for labour market entry, and, with a grade point average (GPA) of at least 70%, graduates can enter vocationally oriented programmes at tertiary level.

Figure 17. Formal education in Egypt

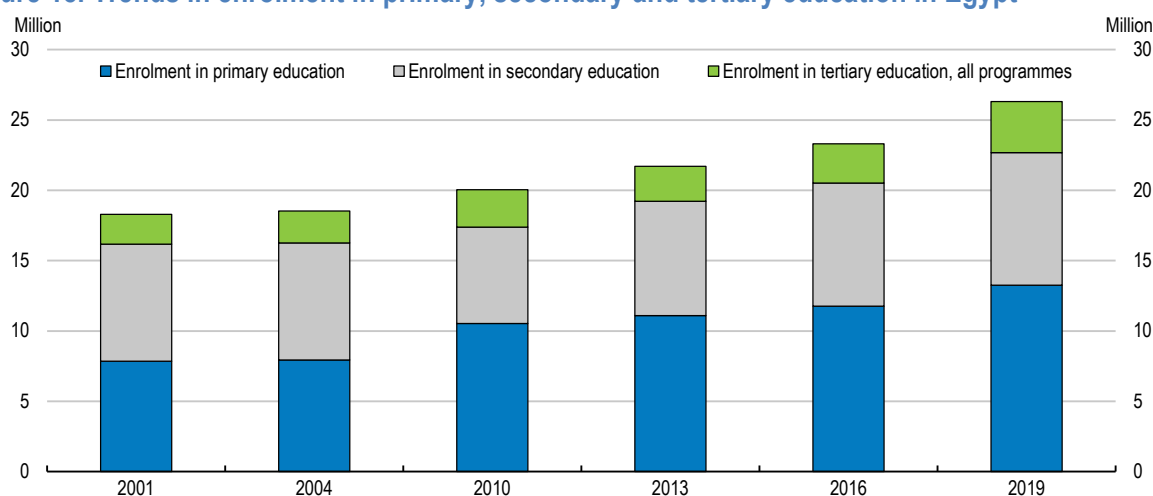


Source: OECD (2024, forthcoming), *OECD Review of Higher Education: Egypt*.

Primary and secondary education is provided by government-funded schools, private schools – of which some offer an Arabic curriculum – and international schools, including American, British, French, and German schools. The demand for places in international schools is increasing, despite their high fees. These schools follow a different curriculum in mathematics and science to their Egyptian counterparts and guide students towards university education, often by maintaining direct relationships with trans-national tertiary education providers.

Enrolment in education is growing continuously across all levels (Figure 18). Attrition from secondary education remains a persistent challenge, although the likelihood of continuing from secondary to tertiary education has increased in recent years, with around 40% of secondary students now estimated to be entering university (Roushdy and Sieverding, 2015). A key factor influencing non-completion of secondary education is the inability of households to afford education-related expenditures, which often include high costs for private tutoring (Sobhy, 2012). Overall, socio-economic mobility in Egypt is still low and the educational status of parents plays a significant role in determining the educational attainment of young people (Roushdy and Sieverding, 2015).

Figure 18. Trends in enrolment in primary, secondary and tertiary education in Egypt



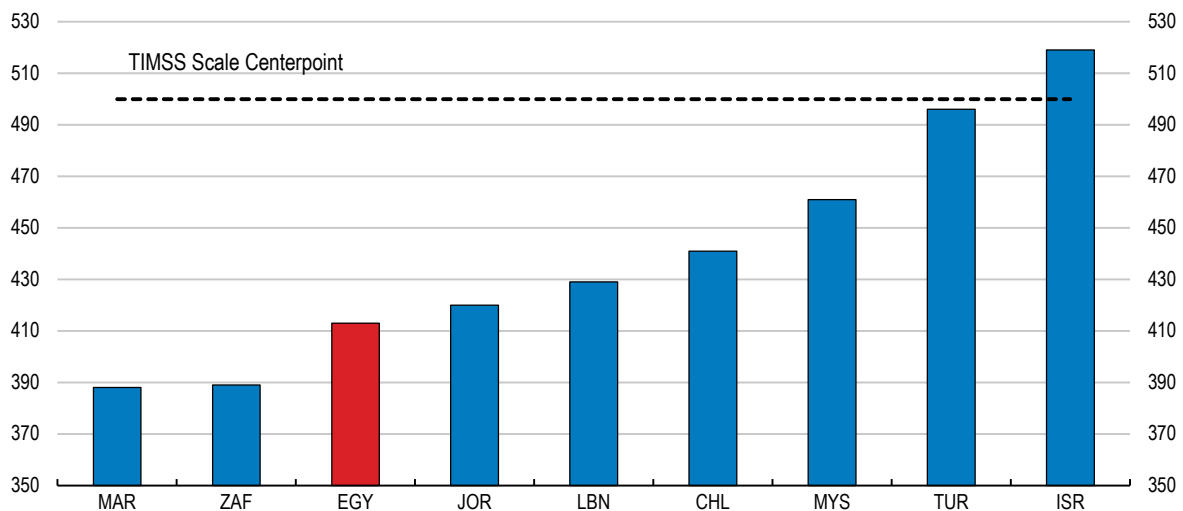
Source: UNESCO-UIS, Enrolment in primary, secondary and tertiary education.

Primary and secondary education remains weak

Strong foundation skills are the basis for continuous learning and are typically developed through formal education, underpinned by well-designed curricula. In this regard, Egyptian students perform comparatively poorly in standardised international skill assessments of secondary school students. In the 2019 edition of the Trends in International Mathematics and Science (TIMSS) survey, 8th grade students in Egypt ranked far below the Scale Centrepoint of 500 (Figure 19) in both maths (413) and science (389).

Figure 19. Student performance is low

TIMSS international results in mathematics and science 2019, mathematics grade 8 scores



Source: IEA TIMSS & PIRLS, Boston College, Lynch School of Education and Human Development.

Egyptian schooling has been criticised for being repetitive, and grounded on rote memorisation and factual learning to obtain a grade (OECD, 2015b). To shift the focus to the development of critical thinking, the government introduced 'EDU 2.0' in 2018, as a multi-year reform agenda to lay the foundations for lifelong learning. The reformed school curricula emphasise the learning outcomes in cognitive and social skills, going beyond memorisation. The reform started with the early years of education and has gradually introduced a new student assessment system and a modernised curriculum using digital technologies (Moustafa et al., 2022).

The aim of EDU 2.0 is also being reflected in the evaluation of student performance. There are mainly two types of evaluation. Firstly, continuous evaluation is carried out periodically through different types of tests such as oral and written tests. Secondly, final examination is carried out at the end of both semesters for all grades in the general education track. For the final examination, the Ministry of Education aims to introduce the measurement of cognitive skills gradually, in accordance with the aim of EDU 2.0, while ensuring the objectivity and fairness of tests. The Ministry has approved a new system introducing short essays to evaluate critical thinking (weight of 15%), while preserving multiple-choice questions (weight of 85%), the answers to which are considered to be processed more objectively. The Ministry will provide training forms to students on its official website before the official exam, and supervisors have been trained to get students familiarised with this new exam.

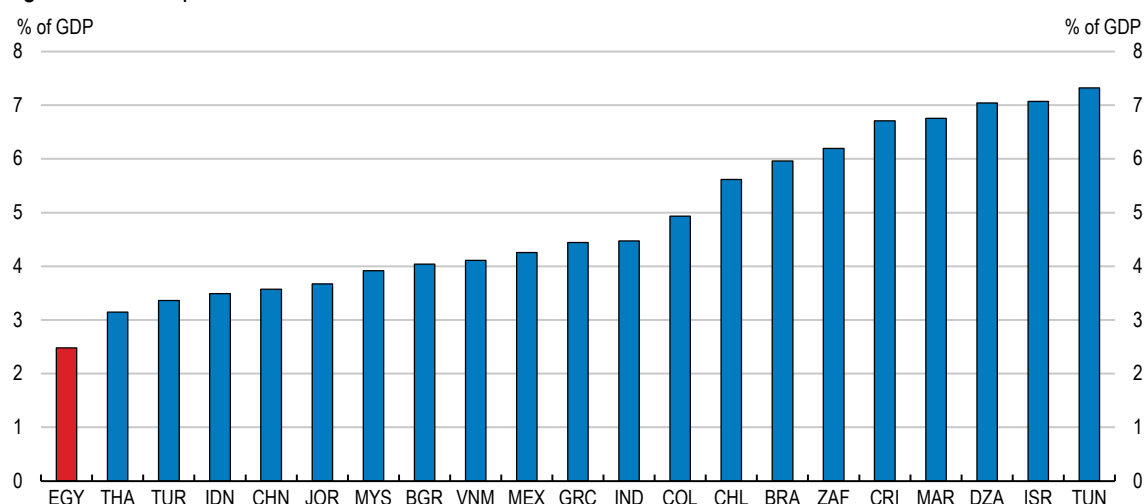
Although a number of the measures envisaged by EDU 2.0 have already been implemented, the monitoring and evaluation mechanism remains weak. It is the responsibility of the directors and agents of educational directorates at the Ministry of Education to follow up the progress of the educational process in all affiliated schools. Directors are responsible for monitoring the implementation of EDU 2.0 and assessing the achievement of objectives, in addition to their coordination task with different departments in the Ministry and local authorities. While it is not clear whether and to what extent the directors of educational

directorates are held accountable for the progress of EDU 2.0, it is essential that progress is monitored and evaluated in an objective way.

To achieve this ambitious reform agenda, the education system lacks critical resources, as Egypt's spending on education is comparatively low (Figure 20). Overcrowded classrooms and teacher shortages have long been a challenge to the provision and quality of primary and secondary education in Egypt. The 2014 Constitution stipulates that education is a right for every citizen and the state is committed to allocating no less than 4% of GDP to education. With actual education expenditure falling below this target, it is insufficient to meet the requirements for achieving quality education. For instance, it does not allow the state to pay teachers' salaries sufficiently and to appoint new teachers to fill the shortage resulting from the retirement of a large number of teachers. The insufficient budget for education is also reflected in a weak capacity to build new schools corresponding to the steady increase in the number of students, which amplifies classroom density, and to ensure school equipment such as furniture, laboratories and technological infrastructure.

Figure 20. Education spending is low

Total government expenditure on education as a share of GDP, 2020 or latest



Note: Data refer to 2020, except for Brazil, Chile (2019), Mexico (2018) and Tunisia (2016).

Source: World Bank, World Development Indicators.

Education spending remains low notwithstanding a 23% increase during this fiscal year foreseen in Budget FY 2023/24 (OECD, 2024a). While raising education spending to the stipulated level of 4% of GDP, the budget allocation should be subject to monitoring and evaluation of the progress in the implementation of EDU 2.0 to ensure value for money.

Higher education is not aligned with emerging labour market needs

With over three million students enrolled in undergraduate programmes, Egypt has the world's seventh largest undergraduate education system after China, India, the United States, Brazil, Türkiye and Mexico. With a place at university (subsidised or tuition-based) offered to every student who completes upper secondary education, the current 20% enrolment rate of 15-24 year olds is set to rise further. Against this backdrop, the government oversaw the opening of 47 new universities between 2018 and 2022 and is encouraging universities to introduce new study programmes. Moreover, the share of enrolment in private universities has increased, from 2% in FY 2014/15 to 8% in 2020/21.

The labour market outcomes of higher education graduates are mixed. High-end employment in ICT and other priority sectors of the economy has not grown in recent years (El-Hamidi, 2020), and a key reason

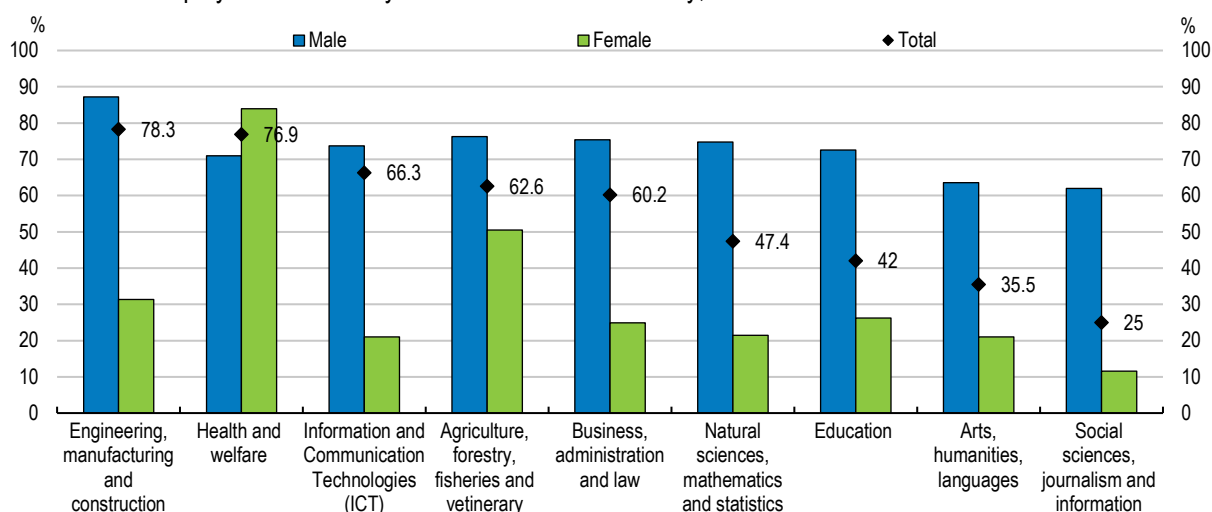
for high-skilled emigration is the lack of research facilities and opportunities for workplace R&D in Egypt (Kabbash et al., 2020). Employment rates of higher education graduates vary by field of study (Figure 21). Engineering, manufacturing and construction graduates have the highest employment rates, in contrast to their peers from the arts, humanities and languages and social sciences, journalism and information. Returns on education, measured through wage proposals in online job vacancies, are highest in jobs requiring advanced digital skills.

Early tracking of students in Egypt limits their subsequent learning options (OECD, 2015b). Students' post-secondary educational choices are restricted at an early stage by secondary school tracking into vocational and academic streams. Academic secondary education is subdivided into "mathematics", "science" and "humanities and arts". The general tendency to enrol in a university degree instead of pursuing a higher education VET programme and the tracking in upper secondary education distorts enrolment in public universities towards programmes with lower entry requirements at the expense of engineering, computer science and other programmes that require high GPA results and a completed math/science track in secondary education.

Matching supply and demand for university places is a challenge. Every year, the government defines the number of study places per faculty and the exact cut-off scores that prospective students need to have obtained in the centrally administered secondary education examination. The highest scores allow access to medicine, dentistry, engineering and science. Lower scores give access to agriculture, arts, commerce and law. In addition to the national examination results, some faculties have additional entry requirements (such as second languages or specific subjects). Excess demand for student places in fields with good employment outcomes, for example engineering programmes (Figure 21), is directed towards private universities where admission requirements tend to be lower, but tuition fees are typically high. Overall, the share of graduates from STEM programmes remains low in Egypt, although it has increased over the past decade from 11.2% in 2012 to 16.9% in 2022, according to the UNESCO Institute for Statistics.

Figure 21. Employment rates of higher education graduates in Egypt

Data from the Employment of Tertiary Education Graduate Survey, 2021



Note: Data are sorted in descending order by total employment rate.

Source: Roushdy (2021), *Tertiary Education Graduate Survey in Egypt 2021: Towards Achieving Graduates' Full Potential*.

Given the rapid rise in the number of university students, ensuring the quality of higher education is a challenge. Although there are no reliable real-term data related to the capacity of universities, such as the student-teacher ratio, the increase in the number of students likely has caused a significant strain on university teachers' workload (OECD, 2024b, forthcoming). Moreover, the support to teaching staff is not

sufficient. There are mandatory training activities to support teaching staff, but these are generally perceived as preventive troubleshooting rather than genuine development and reflection. For more established and tenured staff, there does not appear to be a formal and regular review of teaching ability (Elsafty et al., 2020).

Building on the practice of world-leading universities, universities in Egypt are designing new study programmes. The new programmes are mainly offered at undergraduate level or as one-year diploma courses which may fail to bring students to professional levels of proficiency. Furthermore, the lack of labour market information can make it difficult to adapt study programmes, created abroad, to the Egyptian context. It is essential to gather data on higher education indicators and labour market outcomes as well as emerging employer skills demand for the development of new study programmes.

Easily accessible, up-to-date and trustworthy information on the content of studies and possible career options is limited. It makes the job market for university graduates inefficient. On average, it takes up to two years after graduation for graduates to start their first formal job (Assaad and Krafft, 2021). Job-search methods tend to be informal, including for subsequent jobs, and to a greater extent than elsewhere in the region (Elamin, 2018). The new National Labour Market Information System (see below) can be used widely, and if associated with better guidance provided by universities, labour market insertion of university graduates would be greatly facilitated.

Limited information suggests that graduates from some fields of study, such as ICT, are in high demand (Figure 21). Correspondingly, the government has introduced a number of initiatives to develop ICT education recently. These include the establishment of *Creativa* Innovation Hubs in nine universities across the country, Egypt University of Informatics aimed at becoming a centre of excellence for education and scientific research, and the *Mahara-Tech* platform of the Information Technology Institute to provide online training for students (OECD, 2024b, forthcoming).

A greater role for vocational education and training

High quality vocational education and training (VET) can promote necessary work skills. The share of students enrolled in VET in secondary education is relatively high at around 55% in Egypt, which compares with a 43.3% OECD average. OECD experience suggests VET speeds up school-to-work transitions (OECD, 2023). *Egypt Vision 2030* identified nine sectors for sustainable development: agriculture, water and irrigation, manufacturing, tourism, transport, information and communication technology, utilities and domestic trade, housing and utilities, and foreign trade. VET graduates will be needed to meet the diverse skills requirements of the priority sectors. The Egyptian government and international donor agencies have joined forces to improve the social standing of VET, the quality of provision, and the information available to learners about career prospects.

The VET system in Egypt is classified into a formal and an informal one. Formal VET leads to a diploma when the student completes a defined VET programme, while informal VET provides a certificate of attendance to a training programme. The Ministry of Education is responsible for the majority of formal VET programmes. It provides secondary-level VET to over 2 million students enrolled in approximately 3 500 technical schools, out of a total number of about 2.7 million VET students (both formal and informal VET). Other ministries such as the Ministry of Trade and Industry (see below) and the Ministry of Higher Education (responsible for VET at the tertiary education level) also provide formal VET to a small number of students. In addition, the Ministry of Labour provides informal VET for up-skilling or re-skilling to a small number of people as part of active labour market programmes (see above).

The Ministry of Education is centrally responsible for designing the VET curricula provided by its technical schools. Technological Universities, in contrast, design their VET curricula on their own, not the Ministry of Higher Education that supervises them. Since 2018, the Ministry of Education has adopted the Technical Education Reform, reforming all VET curricula to be competency based, shifting from a content-based

approach. In this reform, skills are defined in a broader sense than those narrowly limited to those required in a specific occupation. At the same time, as part of the National Structural Reform Programme, 54 school curricula were revised and 56 new ones were introduced. New schools of applied technology have also been established.

OECD experience illustrates the importance of practical training at workplaces along with school-based training (OECD, 2023). It is desirable to increase the share of workplace training, not only because of the value the workplace has as a learning environment, but also because it helps align training more closely with the needs of employers. It is necessary to ensure that the skills being developed are in line with firms' needs and that they are adapted to the rapidly changing nature of jobs (OECD, 2023).

While the Ministry of Education acknowledges its importance, workplace learning in VET programmes is limited in practice. The time spent by students in workplaces depends on the type of VET school. In Dual System VET schools, students spend four days per week at a workplace and two at school. However, there are currently only about 300 Dual VET schools out of the total 3 000 VET schools. In the remaining vast majority of VET schools, workplace learning usually takes place in an ad hoc way, for instance, during the summer vacation for a period of one month. There are obstacles to develop workplace learning in VET schools, due to the limited capacity and willingness of firms to provide training opportunities for VET students. As a result, only 57 000 students have enrolled in the Dual VET system, representing about 2.5% of all students enrolled in VET schools, and only 4 000 firms have participated in the Dual VET system since its inception in 1996.

The Ministry of Education is coordinating with the private sector in various ways to develop workplace learning further. It has established 46 Applied Technology Schools in partnership with private sector firms since 2018. In these schools, students spend one to two days per week on average at workplace depending on the nature of the partner company. So far, only large private sector firms are partnering with the Ministry. The Ministry aims to build up efforts to extend this partnership to SMEs as well. To overcome typical constraints, such as the lack of resources within SMEs, co-operation among various stakeholders can be extended. To do so, some existing initiatives in OECD countries, such as Centres of Vocational Excellence, can be considered. These typically develop and implement better quality VET programmes and are engaged in a range of cooperative activities, including the provision of placements for students by businesses (Box 5).

Box 5. Partnerships with the private sector: Spain's Centres of Vocational Excellence

In Spain, 150 VET schools across the country form a network of integrated training centres, providing both initial vocational training within the education system, and in-company training for people already in employment. The network's main objectives include the design, management and development of training plans for Initial Vocational Training and employment, and the integration and reintegration of workers. Along these lines, the network aims to boost qualification and requalification levels by offering needs-based quality training in all phases of the lifelong learning cycle. It further facilitates the evaluation and accreditation of professional competences acquired by people through professional experience and other procedures outside formal education. VET Integrated Schools have a Social Council, made up of representatives of the administration, of the centres and of the most representative business and trade union organisations. They also have coordination bodies that guarantee the attainment of integrated and quality training across the VET centres, professional information and guidance, the functions of evaluation and recognition of professional competences, as well as the functions of relationships and cooperation with companies.

Source: European Commission (2019), Mapping of Centres of Vocational Excellence (CoVEs).

In parallel, the Ministry of Trade and Industry, represented by the Productivity and Vocational Training Department (PVTD), is also engaged in vocational training in partnership with the private sector. It runs 45

training centres plus 100 training stations within affiliated private firms. Its VET programmes, which feature a high share of workplace learning, include: an apprenticeship system for three years for the holders of a general preparatory certificate, which leads to a certificate recognised as an equivalent to the Technical Education Certificate; a highly-skilled technical training system for two years for the holders of secondary-education certificates, which leads to a vocational training certificate equivalent to the Technological College Certificate; and some other short-term training programmes. PVTD programmes also attract those who already have work experience but with modest skills or with re-skilling needs.

PVTD programmes coordinate more closely with industry than the technical schools supervised by the Ministry of Education. PVTD partners with the Federation of Egyptian Industries, the Egyptian Federation of Investor Associations and Institutions, and the Education for Employment Foundation to train students for specific needs. It also partners with the German Development Cooperation Agency GIZ, the Italian Agency for Development Cooperation and the Korean International Cooperation Agency. PVTD focuses on the objectives stated in *Egypt Vision 2030*, such as the green and digital transformation, by providing training programmes related to renewable energy and artificial intelligence.

As part of the National Structural Reform Programme, the authorities will set up Sector Skills Councils to develop public-private partnerships. At the same time, the Ministry of Education has already collaborated with private sector representatives to identify the required competencies for each profession in the reform of VET curricula (see above). In addition, private sector representatives participate in the committees of the Ministry of Education in charge of the final practical exams before graduation. The institutional framework to promote the role of the private sector in education and training will be reinforced by the establishment of the Sector Skills Councils, but their exact competency is not known yet. For the Sector Skills Councils to be effective, the network with private sector representatives needs to be expanded further while streamlining and better coordinating the two ministries' cooperation with them.

As part of the National Structural Reform Programme, the Egyptian National Authority for Quality Assurance and Accreditation in Technical and Vocational Education and Training (ETQAAN) has been established to facilitate the recognition of skills and qualifications in line with efforts to adopt the National Qualifications Framework. ETQAAN will be in charge of quality assurance of VET education at all levels and for all types, looking after all VET schools, training centres as well as the 10 newly established Technological Universities affiliated to the Ministry of Higher Education. The law setting up this new independent authority has been approved in October 2022 and bylaws are now being prepared. International partners for vocational education such as the German GIZ and KfW as well as the USAID and European Union are supporting the establishment of ETQAAN. ETQAAN will adopt indicators following the example of the European Quality Assurance Reference Framework for Vocational Education and Training indicators, which aim to evaluate whether VET programmes are established in response to labour market needs and the private sector participates in the identification of competencies and assessment of students. According to the current plan, VET curricula will be reviewed based on the results of quality assurance examination of VET schools by ETQAAN. As the VET system is highly fragmented currently, ETQAAN should assess numerous VET programmes provided by different entities in a consistent way, such that its assessment facilitates the recognition of each VET programme by potential employers.

Finally, also as part of the National Structural Reform Programme, the authorities are in the process of establishing the National Labour Market Information System (LMIS) to better assess labour market needs. In Egypt, labour market information is scarce and prospective students and their parents tend to be guided in their choices by culturally influenced aspirations, leading to a potential mismatch between study choices, individual interests and labour market demand. It will be important to strengthen the provision of study and career guidance in schools, as well as the capacity of public authorities to collect, analyse and disseminate labour market information. The LMIS should help to meet such needs. Such an integrated information system would help not only design formal VET programmes but also informal training for the purpose of up-skilling and re-skilling existing workers, both corresponding to labour market needs.

Policy recommendations to promote better-quality job creation

MAIN FINDINGS	RECOMMENDATIONS (key ones in bold)
Making the labour market more flexible for better job creation	
Dismissal costs are high, as proceedings are long and complex, and financial compensation for unfair dismissal is heavy, though firms tend to circumvent these difficulties in practice.	Reduce dismissal costs. Clarify the definition of an unfair dismissal. Simplify dismissal proceedings and strengthen their enforcement.
Social security contributions remain high even after the 2019 reform, leading firms to often not register their employees or underreport labour earnings.	Evaluate the effects of the 2019 reform. Consider reducing the social security contribution rates for lower-paid workers. Consider introducing a presumptive tax regime extended to social security contributions aiming at reducing compliance costs and providing social protection to all workers, including domestic workers.
The minimum threshold below which social security contributions are exempted creates a very high marginal tax wedge and incentives to underreport earnings.	Remove the minimum threshold to facilitate increasing wages above this level.
Income tax progressivity is weaker than in some other MENA countries.	Increase the income tax exemption threshold and lower the taxable income threshold above which the highest rate applies.
Tackling labour market insecurity and encouraging labour force participation	
The average unemployment spell is quite long but the duration of unemployment benefits is short. Beneficiaries are required to register themselves with public employment services but are not adequately monitored and supported.	Extend the duration of unemployment benefits while strengthening job search support to beneficiaries.
Cash-transfer programmes targeted to the most vulnerable, notably <i>Takaful</i> and <i>Karama</i> , contribute to reducing poverty. However, the transition to paid work needs to be facilitated.	Register job-ready beneficiaries with public employment services to support them in finding an adequate job.
Jobseekers do not receive adequate job offers at public employment service offices. Information on the outcomes of the labour market programmes run by the authorities is lacking.	Increase resources for public employment service offices, in particular, qualified job counsellors, to provide tailored job search support. Improve the information about labour market programmes outcomes to allow for their assessment.
Women often withdraw from paid work due to household responsibilities, instead of taking maternity and childcare leaves and returning to work.	Accelerate the creation of nurseries and promote flexible work arrangements to allow women to reconcile work and family responsibilities. Further reform the regulation on workplace safety.
Enhancing education and skills taking account of labour market needs	
Education has been criticised for being repetitive and grounded in rote memorisation.	Provide necessary resources for schools and financial incentives for teachers to implement the EDU 2.0 reform, subject to monitoring and evaluation of its progress.
Post-secondary education choices are limited due to early tracking of students, resulting in low take-up of science, technology, engineering and mathematics in upper secondary education.	Consider later tracking of students in secondary education. Take steps to raise interest, aspirations and competencies in science, technology, engineering, and mathematics.
Practical training at workplaces is limited overall in VET programmes. Coordination within different government bodies is not sufficient to develop partnerships with the private sector.	Streamline and further develop partnerships with the private sector when establishing Sector Skills Councils.
Easily accessible, up-to-date and trustworthy information on the content of studies and possible career options is limited.	Fully develop the National Labour Market Information System to support educational institutions in designing programmes.

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