



Quality of Employment in Egypt and a Multidimensional Approach to Labor Market Policy

1. Executive Summary

Throughout the COVID-19 crisis, job creation continues to remain a primary concern for policymakers all over the world. However, focusing solely on the number of jobs delivers a partial picture, as wellbeing and economic sustainability also depend on the quality of the available jobs. This issue remains more relevant in emerging markets, where earnings are low, social security systems lack coverage and informality remains high while many formal jobs are highly precarious despite their formal status. Considering these difficulties, it is necessary to focus on measuring employment quality in conjunction with other conventional employment indicators.

The findings of the background paper indicate that the quality of employment (QoE) in Egypt has declined significantly during the 12-year period studied (Sehnbruch et al., 2021). The proportion of workers suffering severe deprivations in the labor market has increased from 71% in 2006 to 90% in 2018. These rates of deprivation by far exceed the proportion of informal work in Egypt, which illustrates that many formal jobs are also precarious. Of the variables included in the index, the most significant deterioration was experienced by income levels and social security coverage, followed by occupational status.

2. Context

The increase in gross domestic product (GDP) has not resulted in better job quality for workers in Egypt. This

suggests that there are still grounds for policy to work towards the reduction of inequalities among workers.

Setting an adequate minimum wage is an important step towards decent work. To date, the implementation of a minimum wage across all sectors has not yet been effective in Egypt. It does not apply uniformly across all sectors as the minimum wage is not yet effective in the private sector. The legal enforcement of a private sector minimum is still underway according to the Ministry of Planning, which has reportedly announced that the minimum wage will be administered on an hourly basis (EGP12/hour) (Oweis, 2020). Eventually, the monthly minimum wage will amount to nearly EGP2000 per month, comparable to that of the public sector. It also does not apply to small businesses employing less than 10 workers nor to sectors where competitiveness may be affected (Akhbar Al Youm, 2013).

Despite the observed increase, El Haddad and Gadallah (2018) mention that increasing the minimum wage is far from being good news for all workers. Amid large numbers of informally employed workers who effectively earn very little income and no minimum wage, the decision to increase the minimum wage may reinforce already existing income inequality if it is not accompanied by structural change. Informal workers — whose numbers have been increasing continuously since 2006 (Assaad et al., 2019) — will still be left behind at the lower end of income distribution. The presence of a large informal sector is mainly attributed

to weak private sector labor demand, which has been unable to create adequate and decent jobs for the working population, forcing them to either drop out of the labor market altogether or resort to the informal sector for employment, where wages and working conditions are extremely poor. The root problem therefore lies not solely in the presence — or lack thereof — of a minimum wage policy, but also in a deep-rooted structural deficit in the labor market where not enough jobs are being created.

Lastly, there is a lack of institutionality when it comes to social insurance. As Selwaness and Ehab (2019) point out, social insurance coverage has been in continuous decline throughout 1998-2018, from 52% in 1998 to 30% in 2018. There are marked gaps in effective coverage, especially for casual, seasonal and rural workers. Many workers are not covered, including informal workers, the self-employed and residents of rural areas. Non-enrollment in social insurance is a definite sign of informality. In practice, low coverage rates are the result of contribution evasion, where workers avoid paying their due contributions. In 2019, a new Social Insurance Law 148/2019, aimed at rectifying these historical and deep-rooted deficiencies, was passed by parliament. The new law came into force in January 2020 replacing four old laws that used to govern the system concurrently. The main features of the new law include: unifying the legally fragmented system, reducing the contribution rates, introducing an annual pension increase and mandating insurance coverage to specific segments of irregular workers.

In light of the pandemic and the subsequent income losses that have followed, the state decided to direct financial support to irregular workers. In April 2020, pursuant to a presidential decree, an EGP50 billion fund was set up by the Ministry of Manpower to provide EGP500 cash payments for three months to irregular workers and day laborers, as compensation for lost income (Moneim, 2020). In light of the country approaching the second wave of COVID-19, it was decided to extend these cash payments for another three installments. Approximately four million workers registered, but after excluding ineligible

applicants, the grant was paid to around half of this number (1.6 million workers) (Al Masdar, 2020). The only eligibility criterion was non-enrollment in social insurance. This one-off cash assistance approach was quite similar to initiatives in other developing countries like Costa Rica, Morocco and Vietnam, which also offered emergency income grants to informal workers (International Labour Organization [ILO], 2020). Nevertheless, these payments are barely sufficient to maintain workers' pre-COVID earnings. As Gad (2020) puts it, the amount is close to the extreme poverty line, set by the Central Authority for Public Mobilization and Statistics (CAPMAS) at EGP490 monthly.

3. Policy Options

The following policy options recognize job quality as a multidimensional issue; thus, it is important to create structurally configurative changes to reduce the inequalities in Egypt's job market. Addressing quality of employment requires going beyond fragmented and contingent policies and instead developing a cohesive system that ensures better working conditions for Egyptians in the labor market.

3.1. Minimum wage

The literature on the impact of minimum wage regulation is abundant. A key consensus among experts is that minimum wage increases do not impact the quality of jobs generated, as long as these increases are incremental and not excessive (Card, 1992; Card & Krueger, 1993). Despite this evidence, policymakers regularly face complaints and even threats from the business sector, which frequently argues that increasing minimum wage levels will depress employment levels. The political resistance to regulating the minimum wage ignores two key relationships: firstly, depressed wages depress economic growth levels, as they restrict potential consumption from low-income households and its multiplier effects. Secondly, increasing wage levels obliges employers to make productivity-enhancing investments, which includes investment in human capital and training.

3.2. Regulation of occupational status

Another aspect of QoE that cannot be overemphasized is the occupational status of workers. Two aspects are important here: first, the formalization of informal workers, and second, an adequate regulation of formal contracts.

- **Formalization of informal workers**

There is no magic bullet that encourages informal workers to formalize. One option is to establish generous Earned Income Tax Credits (EITCs) that encourage them to formalize in exchange for receiving a sum greater than their contributions to health and social security. This option is currently being discussed in countries such as Chile, but has not yet been implemented or evaluated. In the absence of clear-cut policy evidence, formalization of the informal sector seems to depend on a set of intangible variables related to the general development progress of a country. For example, as economic growth increases, some independent workers formalize their business as the growth obliges them to hire more workers.

- **Regulation of formal contracts**

Every country that has flexibilized their labor market following advice from international development institutions has ended up with deteriorating employment conditions in the formal sector, while the size of the informal sector does not decrease. These deteriorating formal employment conditions are a result of the increased use of short-term or other forms of precarious contracts. Preliminary evidence also suggests that workers in precarious or low-quality jobs tend to become “stuck” in such jobs, rotating frequently between them rather than succeeding in finding permanent, stable and high-quality employment. This issue particularly affects women in the labor market (Sehnbruch et al., 2020).¹

3.3. Social insurance

Closely related to the issue of formal contract regulation is the problem that informal workers (in the salaried or self-employed sector) generally do not contribute to social insurance. As governments end up providing services for these workers and their families, this produces a significant fiscal pressure on the financial sustainability of social security.

Therefore, an important concern in developing countries is how the coverage of social insurance contributions can be improved and made sustainable. Again, there is no evident public policy that resolves this problem, but evidence from other countries shows that the issue is closely related to the extent to which employment contracts are formalized and long-term, and the extent to which employment legislation is enforced. All of these factors increase the coverage of social insurance (Madero-Cabib et al., 2019).

3.4. Institutional development and enforcement

All of the policy options listed above have one thing in common: they require not only legislation but also depend on its enforcement. This requires building up the capacity of institutions in developing countries.

The institutional procedures that need to be implemented interact to achieve a gradual improvement in compliance with labor legislation and a greater awareness among workers of their rights and obligations. Once firms have undertaken the necessary steps to comply with regulation (e.g. installing health and safety equipment or measures and establishing health and safety committees within a firm), businesses are unlikely to return to a noncompliant situation.

¹ For literature on hidden productivity costs related to non-permanent workers, see Guadalupe (2003), Pedulla (2013), Rubery et al. (2009, 2016) and Stratman et al. (2004).

4. Policy Recommendations

As a result of the analysis presented in the background paper and policy paper, we recommend four key policy changes. These consist of improving minimum wage regulation; encouraging the regulation of contractual employment relationships and labor legislation to reduce the proportion of informal work within the formal sector (i.e. salaried workers employed without contracts), as well as stabilize employment relationships; expanding social insurance contributions and coverage, in both the formal and informal sectors of the economy; and investing in institutional arrangements and capacities that regulate employment relationships and enforce these regulations.

4.1. Minimum wage

- The minimum wage should be implemented and enforced across all sectors.
- The National Council for Wages should revise the minimum wage level annually; the revision process should be based on a collective and participatory process in which workers' representatives and civil society organizations that work closely with labor (like the Center for Trade Union and Workers Services) are represented.
- National campaigns announcing and educating the workers about minimum wages and their employment rights are key.

4.2. Contractual regulation of occupational status

In addition to a nationwide information campaign, minimum wage legislation should be simultaneously accompanied by a formalization strategy.

- Formalization can be included as a criterion in conditional or unconditional cash transfer programmes.
- Employment subsidies — provided they are generous enough — can also be used to formalize workers, especially if the focus is on the most vulnerable in the labor market.

- Another option is to establish generous EITCs that encourage workers to formalize in exchange for receiving a sum greater than their contributions to health and social security.
- Regarding the regulation of formal employment contracts, it is essential that the use of short-term contracts is limited to situations where they are genuinely justified, rather than where they are used as a way of disguising a continuous employment relationship. Regulation that limits the hiring of workers by means of a succession of short-term or temporary contracts must therefore be introduced and enforced.

4.3. Social insurance

- Social insurance reform should be complemented by a comprehensive communication strategy that educates workers about their enrollment rights and obligations.
- It is also imperative that governments build up trust and confidence in their public services, which is an intangible factor in their sustainability.
- Special focus should be given to the irregular workers' fund recently adopted in the new law.
- The government should implement a sliding scale for matching contributions to encourage wider participation, based on a detailed, thorough actuarial study.

4.4. Institutional enforcement

- A detailed plan of verification and inspection should be developed on the regional and sectoral basis.
- In order to activate the role of trade unions, restrictions on the formation of trade unions should be lifted. Moreover, they should be freed from the government's financial and administrative supremacy as already stipulated in several ILO conventions.

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