

Challenges for Private Sector Job Matching in Rural Egypt: Results from a survey of Forsa Employers

Nada Shokry, Basma Yassa, and Sikandra Kurdi

Introduction

Increasing formal employment for youth and women is a key goal of the *Forsa* pilot graduation intervention and Egyptian government policy in general. As detailed in *Forsa* evaluation reports, matching *Takaful* beneficiaries with jobs in the private sector is a major challenge on the household and on the beneficiary level. In this policy note, however, we examine the challenges from the perspective of potential employers. We review literature of the market failures that may contribute to difficulties with job matching in rural Egypt and present results from a small telephone survey of *Forsa* employers.

Egyptian Labor Market

High rates of informality are one of the most persistent challenges prevailing in the Egyptian labor market. Stable full-time private sector employment is relatively rare, especially for youth and women. Informal work continues to be highly prevalent, despite informal workers expressing the least job satisfaction in the Egypt Labor Market Panel Survey (ELMPS) and preferring a stable job with tenure (Assaad, Al-Sharawy, and Salemi 2019; The World Bank 2020). As of 2020, 56 percent of all workers in Egypt worked in the informal sector and another 17 percent had irregular employment (World Bank 2020). Seventy percent of jobs are created by micro-firms (1-5 employees) which are typically unregistered and unlicensed enterprises and lack the capacity to offer formal employment with written contracts and social insurances (The World Bank 2020).

Both youth and women struggle at finding decent work. The youth unemployment rate of 18.9 percent is considerably higher than the average unemployment of 6.4 percent in 2022 (The World Bank 2022d). The female unemployment rate decreased from 25 percent in 2015 to 18.5 percent in 2022 (The World Bank 2022c), yet the share of women working is still small due to very low and falling rates of labor force participation. The share of female population ages 15 and older in the labor force decreased from 23 percent in 2015 to 15 percent in 2022 (The World Bank 2022b). Only 32 percent of women work in

the private sector compared to 52 percent of men, and only 8 percent in the formal private sector (Amer, Selwaness, and Zaki 2021).

At the same time, wages in the Egyptian private sector are low and slow to adjust to inflation. The mean formal private sector wage stayed at 2,500 EGP from February 2020 till June 2021, during which period there was an inflation rate of around 7 percent (Assaad et al. 2022). Between that period and the employer survey conducted in late 2023, inflation rates continued to surge at a rapid pace, outpacing the increase in minimum private sector wages. Although Egypt faced a price level (CPI) increase of 50 percent during this period (CAPMAS 2021-2024), the minimum wage for private sector workers increased from 2,400 EGP in January 2022 to only 2,700 in January 2023, then to 3,000 EGP/month in July of 2023 (State Information Service 2024). After the employers' survey data was collected and by May of 2024, prices (CPI) have increased by another 25 percent. Despite the minimum wage being finally set to 6,000 EGP in the private sector starting in May of 2024, micro-enterprises with fewer than 10 employees, which as mentioned above create more than 70 percent of jobs in the private sector, do not need to abide by this minimum wage law (State Information Service 2024).

Theories from Recent Literature

We review recent literature on market frictions and policy choices in the Egyptian labor market that may explain the patterns described above. Economists have long commented on the dominance of the public sector in Egypt. In recent years, however, public sector jobs have become scarcer. Based on 2018 ELMPS survey data, public employment accounted for only 5 percent of youth employment compared to one third of the oldest age group (Barsoum and Abdalla 2020; Amer, Selwaness, and Zaki 2021).

Labor productivity

One hypothesis for persistent low wages is that labor productivity is simply low. Despite high educational attainment, firms report that employees do not have the skills they need. This may be explained by both poor education quality and mismatch between educational content and skills demanded by the labor market.

According to the 2019 Global Competitiveness Report, Egypt ranked 109th out of 140 countries on ease in finding skilled employees, and 136th in finding the right skill sets of graduates (Schwab 2019). An ECES survey of "Manufacturing Sector Future Needs and Actual Labor-Related Problems in Egypt" in 2019 revealed that low labor productivity and skill mismatch are two of the most dominant challenges facing private sector employers in all sectors, especially for technicians, machine, and assembly workers and that the education system does not teach soft skills essential to the workplace (ECES 2022). Other research based on employer surveys has also found that graduates of both secondary and post-secondary general and vocational schools lack both technical and soft skills needed by employers (Alattas and Alimam Haga 2022).

The World Bank's Human Capital Index project calculated based on test scores that 11 years of schooling in Egypt is only equal to 6 years of education in a good quality educational system and that an adult coming out of the Egyptian educational system is only 49 percent as productive. The educational quality may improve over time as recent reforms have been implemented such as collaboration with private sector firms to develop and administer the new computer-based graduation system in education (IFC 2020). The difficulty in finding skilled employees increases costs for firms as employers are then forced to compensate for the low educational outcomes by implementing training programs.

On the other hand, the declining female employment and labor force participation rates do not appear to relate to lower productivity as women surpassed men in educational attainment during the same period (Assaad 2015; Constant et al. 2020).

Policy preference for capital intensive industries

In recent years, economic growth in Egypt was primarily led by capital intensive industries, such as construction and petroleum. By contrast, investment and growth and consequently job creation in labor-intensive industries, such as manufacturing and tourism, has been minimal (Said and Zaki 2023). In addition to being capital intensive, the construction sector creates primarily seasonal or temporary jobs, which increases underemployment. In the construction sector, 65 percent of employment is informal private waged work outside of establishment and the share has increased by 15 percent from 2008 to 2017 (Amer, Selwaness, and Zaki 2021).

Geographic mismatch

Formal jobs in the private sector tend to be concentrated in urban metropolitan areas and established industrial zones. By contrast, a large under-employed labor force in Egypt live in remote rural areas working in seasonal and irregular jobs in agriculture. More than half of Egypt's population is still located in rural areas and agriculture employs around 26 percent of the labor force (Amer, Selwaness, and Zaki 2021). Job seekers in these areas, especially women, are unwilling to accept manufacturing jobs given the long and costly commutes (Assaad 2015; Constant et al. 2020). Informal wage earners inside and outside of establishments work on average five and 14 hours less than formal workers per week, respectively (48 and 39 hours vs. 53) and have more freedom to choose locations convenient to their residence (Assaad et al. 2022).

Working conditions for women

The main explanation in the literature for the low and dropping female labor force participation rate is that female reservation working conditions are generally not met by private sector jobs. Long working hours, long commutes, and the higher risk of harassment coupled with the burden of childcare and household work being mostly on the woman, cause the reservation conditions for women to work in the private sector to be rather high (Assaad 2015; Constant et al. 2020).

Long commuting distances are perceived to pose a safety hazard for women. Women are not likely to migrate for employment and reside away from home for prolonged periods of time compared to men and they report more frequent incidences of sexual harassment and violence (Constant et al. 2020; ECES 2020). To circumvent this mobility issue, some efforts have been exerted by employers to provide gender-separated transportation options, especially in the textile sector where there has traditionally been a high share of women in the labor force (Constant et al. 2020).

Concerns about sexual harassment not only discourage female employment in the case of long-distance commutes but can also discourage women working in alongside men in a small workplace with few or no other female colleagues. This is a potential reason why women tend to be more represented in medium and large enterprises compared to micro enterprises; larger workplaces with female colleagues offer a sense of protection from unwanted male attention or harassment (Assaad 2015; Barsoum, Rashed, and Hassanie 2009).

A final working condition concern for women is the lack of flexible work arrangements or childcare support (Assaad 2015; Constant et al. 2020; Nazier and Ramadan 2016). On average, full-time working hours in the formal private sector are around 53 hours per week compared to 41 in public wage work. At the same time, women spend from 28 to 91 hours on direct and indirect care work per week depending on their marital status and the age of their children (Assaad et al. 2022), which is equivalent to at least another full-time job. Studies showed that men were three times more likely to engage in work that requires more than 48 hours of work per week, which affects women's participation as employers' expectations are fueled by men's willingness to work for more than 40 hours per week (Amer, Selwaness, and Zaki 2021).

From the employers' side, employers are disincentivized from hiring women who are in the phase of starting a new family as they will require costly benefits and employment discrimination laws are not enforced. Benefits for mothers include 90 days paid maternity leave and workplaces with at least 100 female employees must establish a nursery school or childcare facility (Law No. 12 2003 Promulgating Labor Law). Employers are also reluctant to hire females in jobs that require some skill accumulation due to the risk of marriage and childcare interruptions (Assaad 2015).

Information asymmetries on wage growth

Another plausible hypothesis which has been less explored in the literature on Egypt is information asymmetries regarding wage growth. The high share of workers in the informal sector may reflect preferences for the higher entry-level wages offered compared to the formal sector. Job seekers in Egypt are described as focused on short-term benefits of higher wages offered by informal and unstable jobs in constructions compared to low paying formal sector jobs in the manufacturing industry even though the long-term benefits would appear to be higher from formal sector employment (Amer, Selwaness, and Zaki 2021).

In Mexico, the private sector similarly tends to offer low entry-level salaries, however, researchers note that while informal sector wages do not grow over time, formal sector employers offer substantial wage increases of 40 percent over the first year. A study of the impacts of offering a six-months wage incentive found significant impacts on permanent formal sector employment, suggesting that overcoming initial high discount rates can change preferences between formal and informal sector (Abel et al. 2021).

Methodology and Data

The Forsa program, launched in 2019/20 by the Egyptian Ministry of Social Solidarity, has been designed as an economic inclusion program to graduate beneficiaries of Takaful and Karama to economic self-reliance by enabling them to engage in wage employment or small productive enterprises. The International Food Policy Research Institute (IFPRI) in collaboration with the Ministry of Social Solidarity (MoSS) conducted an employers' survey in January-February 2023 to ask partnering employers about their hiring practices. The analysis of survey responses provides a picture of the current labor market challenges faced by the private sector in Egypt.

IFPRI received a list of enterprises partnering with MoSS for the Forsa program as a sample for the employers' survey interviews. Out of 49 enterprises listed as FORSA Phase 1 partnering employers, 26 enterprises participated in the survey, forming a 53 percent response rate. The sample responses were collected via a phone-call survey conducted by "Athar Impact" consulting agency with the hiring representative of each establishment.

Enterprises in the sample are located in seven governorates: eight enterprises in Cairo, six in Sharqiyah, four in Qalyubiyah, four in Minya, three in Giza, three in Faiyum, and one in El Behera. Only five enterprises are located in rural areas, mostly in Minya, with one exception in Qalyubiyah. Most sample enterprises work in the field of agriculture (5 enterprises), food services (5) and textile production (4). The remaining twelve enterprises are equally represented in the fields of security and protection, manufacturing, finance, insurance, and employment services as well as in healthcare services. All sample enterprises are private sector enterprises with no public ownership, and all are mid to large sized firms. Sixteen enterprises have less than or equal to 500 employees on site, while the remaining ten enterprises have from 500 to 3,500 employees.

A large part of the survey questions was designed to be asked twice, once for medium-skilled workers and once for low-skilled workers. We define medium-skilled work as work that generally requires a more complex skill set compared to low-skilled work. The skill set can be acquired through a certain level of education, training, or experience. Some examples of medium-skilled work would be administration work, call center customer service, sales representation etc. Low-skilled workers, however, typically do repetitive tasks that can be learned in a short period of time and do not require a high level of education or years of experience.

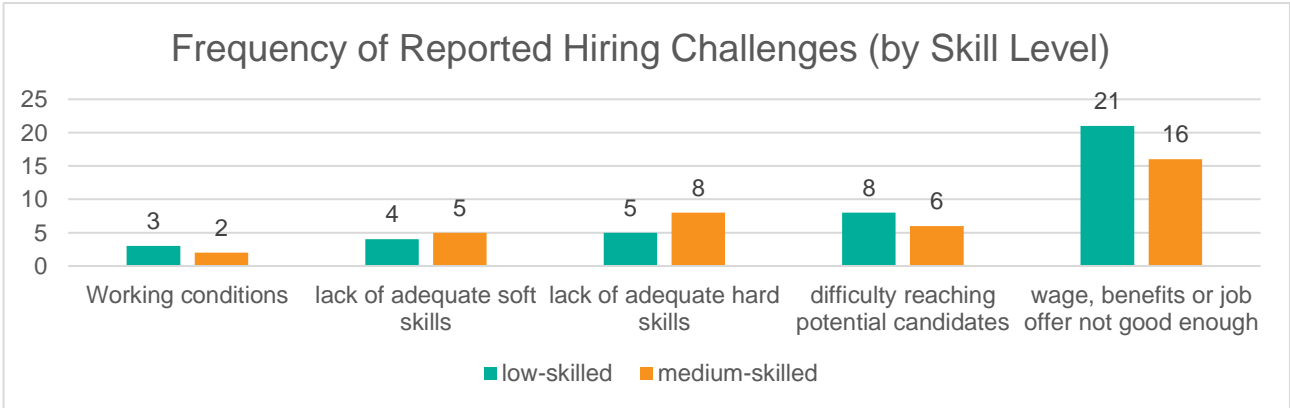
Findings and Discussion

Labor productivity

Our survey provides some evidence consistent with the theory of low labor productivity being a constraint on job matching.

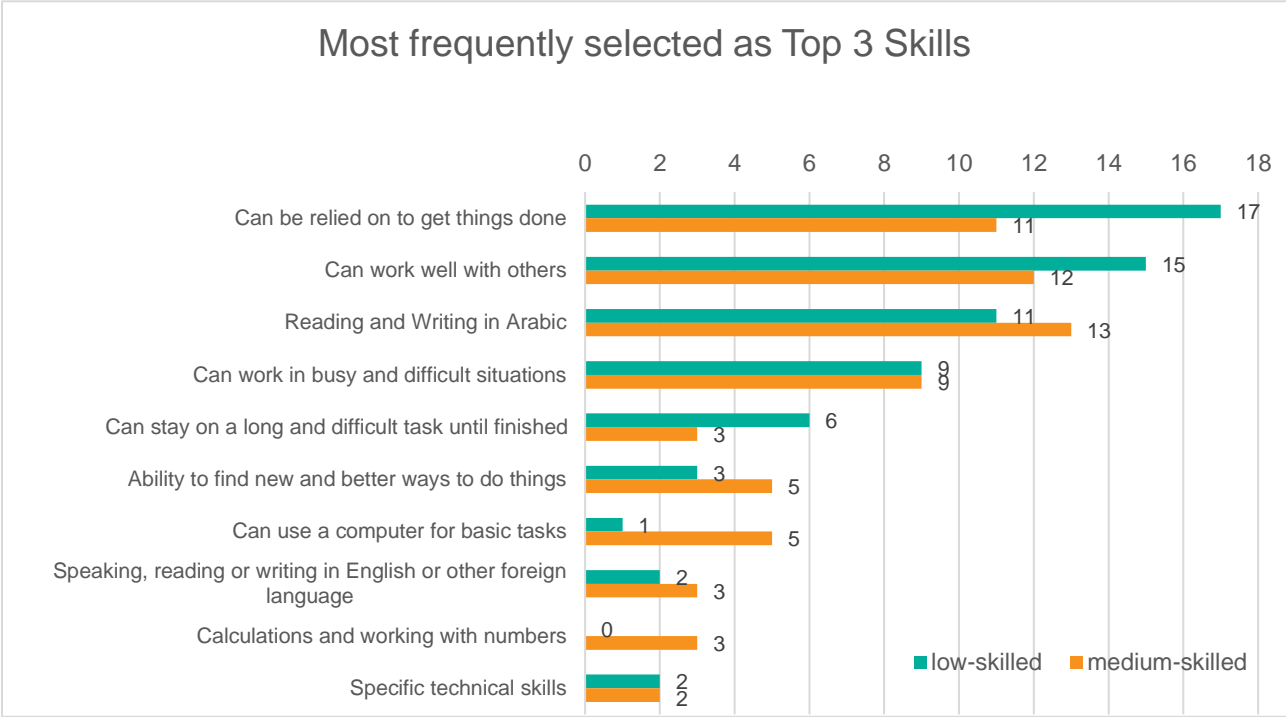
When asked about the most pressing hiring challenges they are facing, the most frequent response from employers was wages being insufficient rather than difficulty finding candidates with the needed skills (see Figure 1 below). Obviously, this raises the question of why employers are unable to raise wages to meet market expectations. When asked directly about the reasons, some respondents attributed the difficulty to the inability to afford higher salaries either due to country’s economic situation and the rapidly rising inflation or due to being a smaller firm and not part of a larger establishment like some competitors.

Figure 1:



When asked directly about the skills demanded for low-skilled and for medium-skilled employees, the most frequently cited skills are literacy and soft-skills (see Figure 2 below). Surprisingly, employers do not seem to put much emphasis on computer skills, calculations and working with numbers or specific technical skills even for medium-skilled employees.

Figure 2:



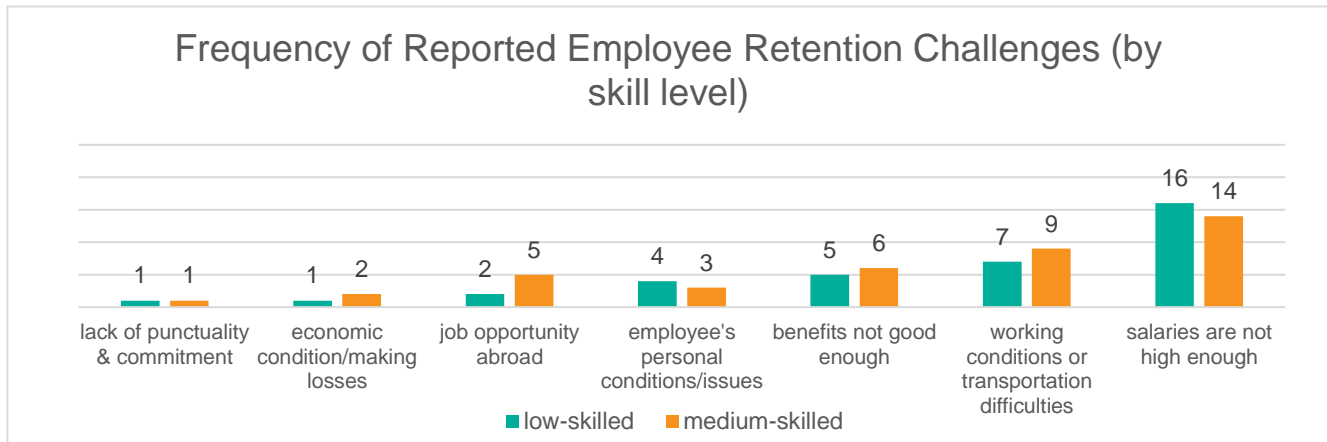
According to CAPMAS figures, illiteracy rates in young generations stands at only 6.5 percent, but is 57 percent in the oldest age group. Interestingly, while only 37 percent of FORSA household survey respondents described themselves as illiterate, 63 percent stated that they do not read any documents, such as bills, instruction manuals, newspapers...etc. This may point to a large gap between illiteracy as understood most broadly and functional literacy that would be useful on a job.

Geographic mismatch

Our survey supports the hypothesis that a major driver of unemployment in Egypt is geographic mismatch as all employers surveyed were based in urban areas despite the Takaful beneficiaries that Forsa aims to target being primarily in rural areas.

Firms also frequently agreed that employee retention is a challenge (80 percent of firms) and after low wages, working conditions and transportation difficulties were the primary reason for employees leaving. Based on FORSA household survey results, the average lowest monthly wage Forsa participants were willing to accept for a formal full-time job was 26 percent higher if a 50 km commute is required (Shabrawy et al. 2022).

Figure 3:

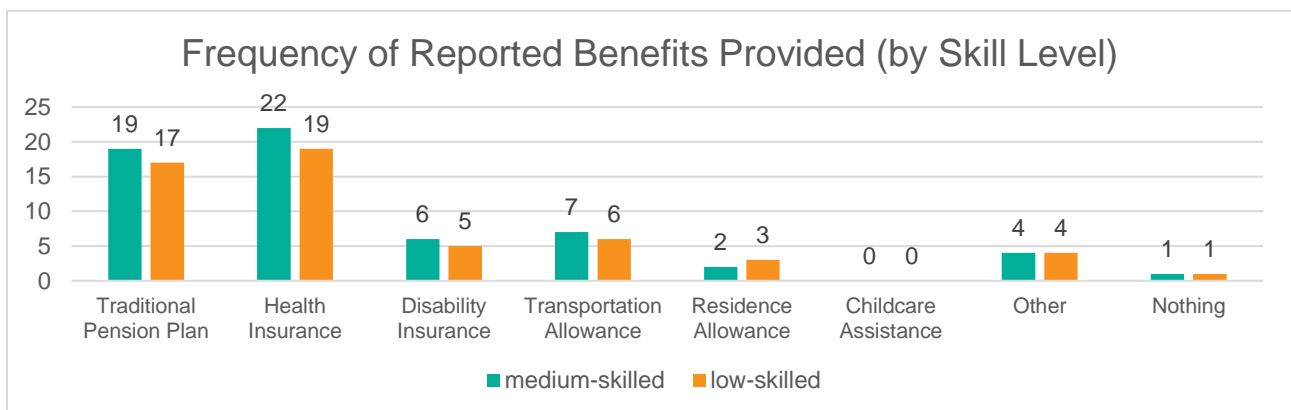


Working conditions for women

The employers survey results also confirm that workplace conditions are challenging for women balancing work and family commitments. While on average one in three employees is female in the sample enterprises, the distribution differs widely by location, field of activity, establishment size and skill-level occupations.

For 20 of the 26 employers in the survey, full-time hours are defined as more than 40 hours per week, mostly between 42 and 56 hours. On top of that, only 7 enterprises reported allowing part-time arrangements and more than half of those enterprises define part-time hours as between 40 and 42 hours per week. The long part-time hours can explain the low level of female share in part-time employment in the sample (27 percent as opposed to 30 percent in full-time work). Additionally, when asked about the benefits provided by the firms, the two most frequently provided benefits are the traditional pension plan and health insurance, and none specified any form of childcare support as is shown in Figure 4, except for one company that mentioned providing one hour off per day for breastfeeding mothers.

Figure 4:



Also consistent with the hypothesis that women are primarily concerned about working conditions, our study finds that female employment is concentrated in large enterprises, in particular sectors of the economy, and in medium-skilled work. Women represented 47 of medium-skilled jobs compared to only 25 of low-skilled jobs. This result is persistent across all fields of activity, firm locations, and firm sizes as

can be inferred from the figure below. Another interesting finding is that the average female representation is lower the smaller the establishment size range is (see figure above). On average, 11 percent of employees in enterprises with less than 100 employees are female, compared to 40 percent of employees in enterprises with more than 1,500 employees.

Figure 5:

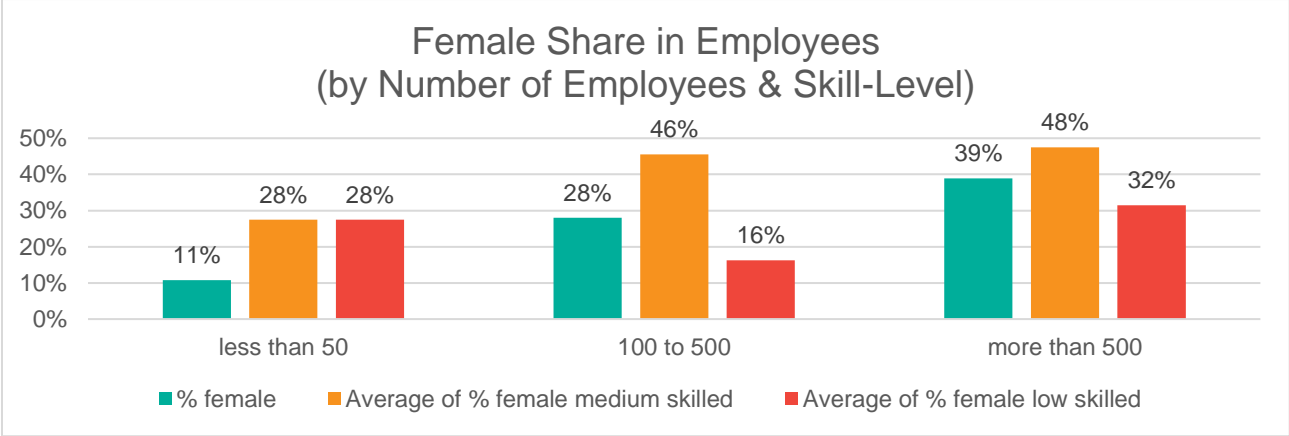
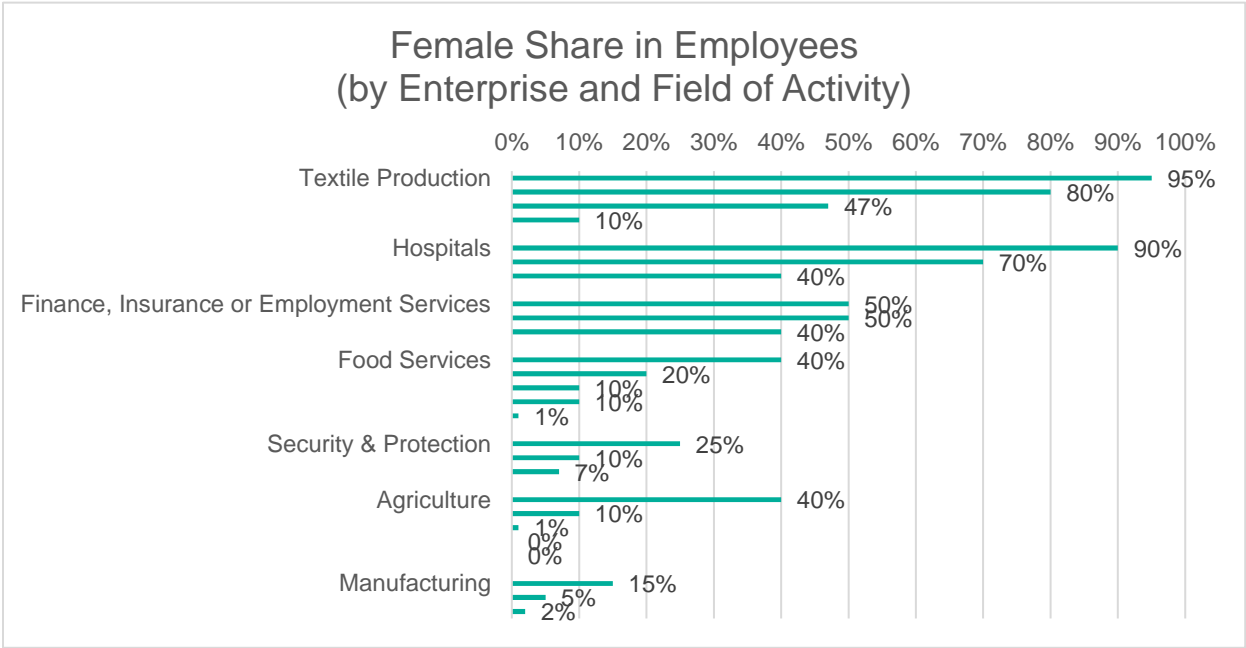


Figure 6:



As summarized in Figure 6, low shares of female employees tended to be common in agriculture and manufacturing, while higher shares of females were reported by textile firms and hospitals. In general, firms located in Lower Egypt also tended to have higher shares of female employees than those in Upper Egypt.

We also see some evidence that women are less likely to be employed than men conditional on applying. In low skilled occupations, employers reported that 35 percent of job applicants are women, while only

25 percent of currently hired are female. For medium skilled jobs, female applicants seem to be less disadvantaged, accounting for 43 percent of job applicants and 47 percent of current employees.

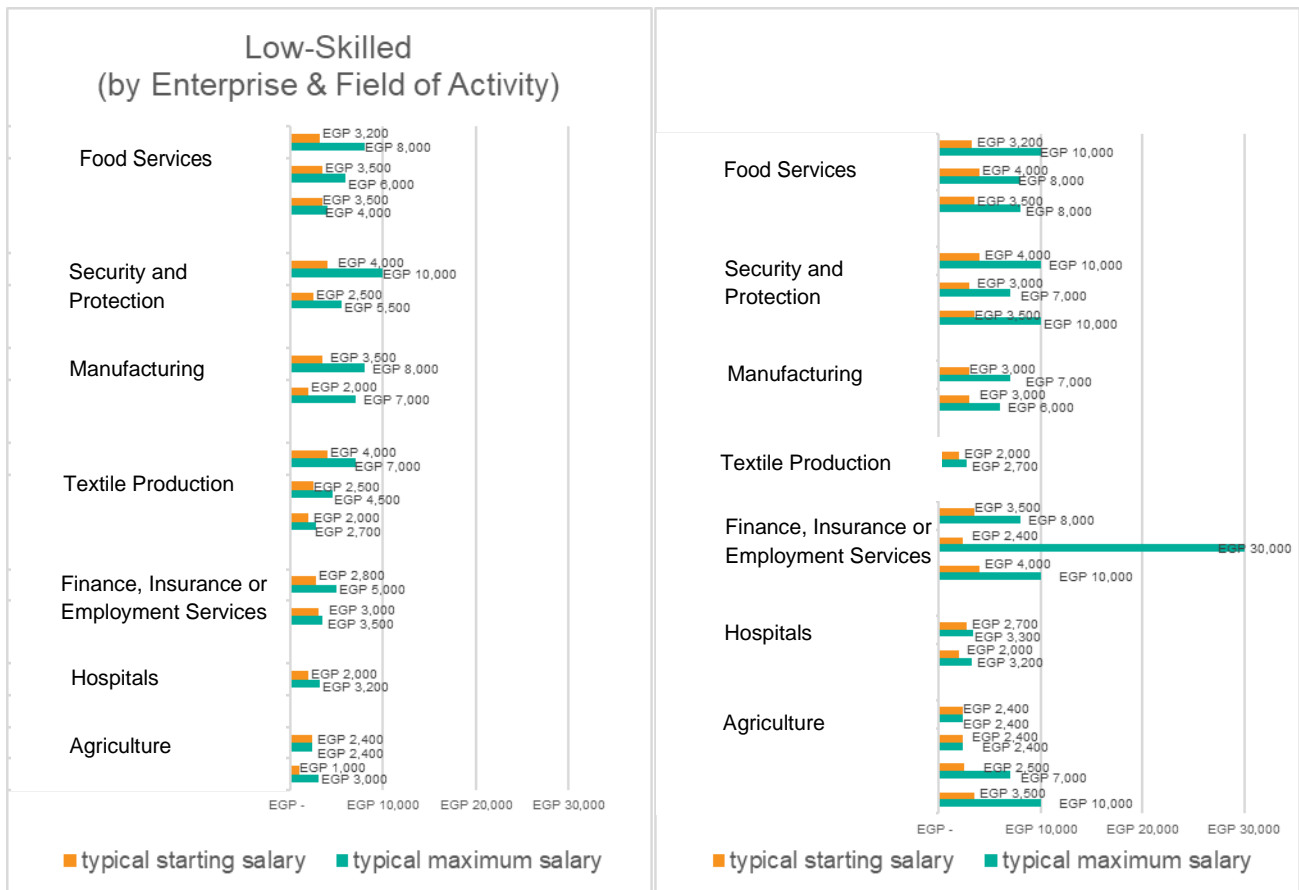
Information asymmetries on wage growth

Medium-Skilled
(by Enterprise & Field of Activity)

Employers in our sample on average reported a large potential for wage growth with years spent working in the specified position. Most of the differential between low-skilled and medium-skilled job wages lies in terms of wage growth rather than starting salary. On average, medium-skilled workers have a similar starting salary to low-skilled workers (2,955 EGP vs. 2,875 EGP and 2,971 EGP vs. 3,128 EGP for the most recent hired employee), however, their average typical maximum salaries are considerably higher (8,056 EGP vs. 5,250 EGP). Notably, even low-skilled workers can almost double their salaries if they stay in the job long enough for maximum promotions.

Some sectors show higher salary growth than others in the sample (see Figure 7 below): limited salary growth can be seen in the textile production and healthcare sectors for example (notably, the same sectors with the highest share of female employees).

Figure 7:



Conclusions and Policy Recommendations

Most enterprises across all fields offered wages that were lower than 3,923 EGP in 2023, the average minimum acceptable wage for *Forsa* beneficiaries at the time. This indicates that in 2023, a full-time job with 40 hours of work per week and a long commute that pays less than 4,000 EGP per month was not

attractive enough for beneficiaries to prioritize the formal job over other choices, such as household work or informal jobs. This is especially true since full-time hours are defined by most employers as between 42 and 56 hours per week.

However, the employers survey does show that there are opportunities to improve the prospects for moving rural *Takaful* beneficiaries into wage employment via *Forsa* by better aligning with the current labor market:

- ▶ Provide support for literacy and soft skills, including linking *Forsa* with existing literacy programs for *Takaful* beneficiaries.
- ▶ Address commuting costs directly by either subsidizing transportation or working more with employers in rural areas.
- ▶ Address concerns of women for safe working conditions by supporting childcare and/or transportation and assigning groups of women together
- ▶ Provide information to participants about potential for wage growth.

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ABOUT THE AUTHORS

Nada Shokry is a research associate in the Development Strategy and Governance Unit at IFPRI, based in Cairo, Egypt. **Basma Yassa** is a research associate in the Development Strategy and Governance Unit at IFPRI, based in Cairo, Egypt. **Sikandra Kurdi** is a research fellow in the Development Strategy and Governance Division at IFPRI, based in Cairo, Egypt.

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