

**Labor Law Reforms and Labor Market Performance  
in Egypt**

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# **Labor Law Reforms and Labor Market Performance in Egypt**

**(Ahmed Fayez Abdelgouad\* , October 2014)**

## **Abstract**

This study introduces a review of the institutional framework in the Egyptian labor market to show how it is regulated by discussing extensively the most recent labor law regulations in Egypt and the main reasons behind enacting this law. The paper guides also to different data sources that can be used and highlights a number of empirical studies about the labor market in Egypt. Finally, it concludes that further reforms are still required to improve labor market efficiency in Egypt.

**Keywords:** labor law, reforms, labor market flexibility, Egypt

**JEL classification:** J31, J41, J51

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## **1. Introduction**

Labor laws and regulations determine the level of labor market performance. Governments usually enact these laws to protect workers' rights. First, most governments provide workers with some basic rights to reduce exploitation or increase welfare (i.e. maternity leaves, minimum wages, etc.). Second, labor laws protect the employment relationship by specifying hiring and firing regulations. In addition, they empower labor unions in defending workers' rights. Finally, governments provide social insurance against illness, unemployment and retirement. However, such protection for workers results in increasing costs of formal labor and negatively affects labor market flexibility. Specifically, it affects the speed with which labor markets adapt to fluctuations and changes in society, the economy or production. Hence, the ability to adjust the labor force, given any economic shock (positive or negative) at either the firm or sectoral levels, is hindered. Labor market rigidity results in firms hiring fewer employees during economic upturns to avoid layoffs and associated costs during downturns or negative shocks. Hence, the overly protective hiring and firing regulations designed to protect workers have, instead, discouraged firms from formal employment, which weakens the demand for labor and reduces firms' abilities to properly allocate and employ human resources (Sharma 2009).

In Egypt, despite the introduction of the unified labor law no.12 for 2003, with the aim of addressing the shortcomings and of the previous law, labor market rigidity is still a major problem that constrains the flexibility of firms' performance. According to the recent Global Competitiveness Report 2013/2014, Egypt fell behind a number of MENA (Middle East and North African countries) regional countries, only having a rank of labor market efficiency of 146 out of 148 countries. Furthermore, Egypt ranks 120 out of 148 countries in hiring and firing practices in the same year (i.e. high social security payments, severance payment and notice payment requirements, pressure for higher wages through strikes or other channels). This indicates that the Egyptian labor market is overly regulated, which is evident in the deteriorating performance of the

labor market (Global Competitiveness Report 2013/2014). The unemployment rate in Egypt is high and persistent; it stayed above 8 percent for the last two decades, reaching 12.4 percent in December 2012, and it is now 14.3 percent in 2014.

Insert figure 1 here

Another key problem in the Egyptian labor market is the concentration of unemployment among youth and the educated (who have intermediate, above intermediate, university, and post-graduate degrees). The unemployment rate among young people (15-29) years reached 69 percent for the last quarter of 2013. The highest rate is among the age bracket of (20-24) years, reaching 39 percent (CAPMAS<sup>1</sup> 2012). Out of all unemployed persons, 82.5 percent belong to the educated group (50.4 percent of them have intermediate and above intermediate certificates and 32.1 percent of them have university degrees and post-graduate degrees). These high levels of unemployment across youth and the educated are due to the insufficient growth level of job creation in the private sector on the one hand and because of the mismatch between the education system outcomes and labor market requirements on the other. The small share of jobs in the formal private sector led jobseekers to rely on the informal economy. Total employment in the informal<sup>2</sup> non-agricultural private sector consisting of outside establishments and workers in private firms employing less than 5 workers declined and reached 52.9 percent in 2009 compared to 85 percent in 1996. If we exclude employment in firms employing less than five employees from the definition of the informal sector, informal employment in non-agriculture private firms only amounts to 18 percent in 2009 (Ehab 2012). A major difference between the public and the private sectors is the dominant share of

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<sup>1</sup> CAPMAS: Central Agency for Public Mobilization and Statistics. Website :[www.capmas.gov.eg](http://www.capmas.gov.eg)

<sup>2</sup> Generally, employees in the informal sector have no contracts, no fixed hours, and no employment benefits such as sick pay or maternity leave because employers avoid regulation and taxation. They refuse both to enter into binding work contracts and to bear costs of the social security system.

informal employment in the private sector while the public sector is almost entirely formal. The measure for formal employment is the existence of a legal job contract (El-Ghamrawy and Amer 2011).

Insert figure 2 here

Informal employment is still high despite the introduction of the new labor law no. 12 for 2003 that aims at increasing the flexibility of the labor market and formalizing jobs. This high percentage of employment in the informal unorganized sector means that those employees are not protected by the labor laws as originally intended by the government. In order to reduce this informality, labor laws still need to be less rigid. Formalizing jobs will result in extending the umbrella of protection to workers in formal jobs. In contrast, stringent regulations deter formal employment and increase informality (Sharma 2009). This paper discusses how the Egyptian labor market is regulated, guides to different data sources that can be used, and highlights a number of empirical studies about the labor market in Egypt. This paper is organized as follows: The next section provides a review of the institutional framework in the Egyptian labor market. Section three includes an overview of the available datasets. Then, some recent empirical studies in the context of the Egyptian labor market and their main findings are summarized in section four. Section five concludes.

## **2. Institutional Framework of the Labor Market in Egypt**

### **2.1. Labor Market Organizations**

Labor market organizations are those that are regulated by national law and whose principal objective is to facilitate the match between labor supply and demand. In Egypt, some labor market

institutions exist that are responsible for planning and coordinating activities aimed at promoting employment. The principal ones are:

1. The Ministry of Manpower and Migration (MOMM), which is responsible for facilitating the match between labor supply and demand, helping to increase the employability of the labor force, and monitoring labor market demand. It runs its own training centers that focus primarily on training school dropouts and laid-off workers. MOMM also runs employment Information Program that prepares labor market statistics and publishes the Monthly Vacancy Bulletin. Once a year, it also organizes an enterprise census to collect information on training needs from all enterprises with more than ten workers. The Ministry collaborates with employers and workers through the Supreme Council for Human Resources Development and also directly shapes training policies while it encourages private enterprises to set up their own training centers and provides with them methodological guidance and certification.
2. The Supreme Council for Human Resources Development is the main body responsible for coordinating the training policies of all ministries. It is headed by the Minister of Manpower and Migration and includes high-level representatives from all other relevant ministries. The Council meets four times a year and announces national training needs. The different ministries are supposed to integrate such announcements in their training programs in order to adapt them to labor market requirements.
3. The Information and Decision Support Centre (IDSC) to the Cabinet of Ministers ([www.idsc.gov.eg/](http://www.idsc.gov.eg/)). It has developed the National Youth Employment Program. In addition, the IDSC is currently conducting a labor demand analysis based on newspaper advertisements.
4. Employment offices are part of MOMM and have a territorial structure.
5. The Social Fund for Development (SFD) ([www.sfdegypt.org](http://www.sfdegypt.org)) is a semi-autonomous governmental agency under the direct supervision of the Prime Minister. It was created in 1991, as a joint initiative between the Egyptian Government, the World Bank and UNDP with the task of mitigating the negative effects of the economic reform on the most vulnerable groups of people. It

promotes economic development in backward regions. The SFD is very active in the field of job creation and runs several employment programs. (De Gobbi and Nesporova 2005).

It is worth noting that, one of the newly established organizations according to labor law regulations is the National Council for Wages which is in charge of setting minimum wages<sup>3</sup>. Presided over by the Ministry of Planning, it is composed of technical experts (half of the total number of members) and of representatives of employers and workers (one-fourth of total membership per category). Article 11 of the labor law describes the establishment of a new body. The article reads: “A higher committee shall be established under the concerned Minister for Planning and employing the manpower inland and abroad, comprising representatives of the concerned ministries, as well as representatives of the General Federation of Egyptian Trade Unions and of the employers’ organizations, to be elected by their organizations equally among them.” This committee is responsible for “drawing up the general policy for employing Egyptian manpower in the Arab Republic of Egypt or abroad, and setting the systems, rules and procedures required for that employment”. So far it is not clear whether the committee will be a new body or whether this task will be given to an existing body. The Labor Law also envisages the creation of a Supreme Consultancy Council for Insuring a Healthy Vocational Working Environment. Headed by the Prime Minister, this body should include representatives of concerned ministries, workers and employers, and some technical experts. The main task of the Council is to formulate a policy to ensure a healthy working environment for all professions. The Consultative Council for Labor is another regulation that article 145 of the Labor Law describes. Its members will be technical experts and representatives of employers and workers. Article 145 lists its tasks as follows:

- (a) Express a view in draft laws connected with labor relationships.
- (b) Express a view in international labor agreements before signing them.
- (c) Study the subjects connected with vocational and productive relations at the national level.

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<sup>3</sup> Up till now, this National Council for wages is unable to enact the minimum wages law because of the absence of the elected Parliaments and the non-independence of the judicial system.

- (d) Propose the means for strengthening cooperation between workers' and employers' organizations.
- (e) Propose proper solutions for prevention of collective labor litigations at the national level, particularly in economic crises that lead to interrupting the work of certain projects wholly or partially.
- (f) Express a view on subjects that concerned ministries referred to it (De Gobbi and Nesporova 2005).

## 2.2. Employment services

Other labor market regulations are those that provide employment services. Employment services are under discussion because they have proven to be rather ineffective and disorganized. The institution providing employment services is mainly MOMM, but other agencies, councils and funds are also involved. Article 16 of the Labor Law states that "The concerned minister may issue a decree licensing the associations, institutions and trade union organizations - with regard to their members - to establish offices for recruiting the unemployed." This new type of employment services should meet the same functioning requirements as existing governmental employment agencies. MOMM is responsible inter alia for monitoring labor market demand. Local employment offices collect information on job vacancies and MOMM advertises them in order to facilitate the match between labor supply and demand. Vacancies are announced through a monthly bulletin issued by the Ministry. Job seekers and vacancies are registered in a computerized system. Additionally, a recent innovation has been introduced that allows enterprises to seek the assistance of local employment offices in finding candidates for vacancies in between the publications of bulletins. The monthly bulletin advertises both public and private jobs. Most vacancies are blue-collar, low paid positions. Enterprises have an obligation to report all vacancies and all changes in their staff to local employment offices. Nevertheless, they are free to either accept or refuse the



candidates proposed to them as officials of local employment offices are reportedly lacking the skills for proper screening of jobseekers. The bulletins are said to be useful, but only partially reflect labor demand. In addition to the job bulletins, private enterprises often advertise available positions, in particular skilled and better paid jobs, through newspapers. As of March 2003, the placement rate reached through the monthly bulletin was only 40 per cent due to both mismatches between required skills for the jobs and available skills of jobseekers and to the low salaries offered. To remedy part of this problem, local employment offices may send jobseekers with low skills on training courses. (De Gobbi and Nesporova 2005).

### 2.3. Social partners

Because of the centralized economy of Egypt in the past, the government and employers are very closely connected. The government has traditionally been the principal employer in the country. This has led to the development of a large group of employers who do not represent the private sector. The most representative organization of Egyptian employers is the Federation of Egyptian Industries (FEI) founded in 1921. At present, FEI groups 15 industrial sectoral chambers represent a total of about 18,000 enterprises, both from the public and the private sector. The main purpose of this organization is to do the following:

- represent its members' interests to governmental and other official authorities,
- share views with and consult the government on industrial policies and strategies, as well as on any national tripartite socio-economic scheme,
- represent its members in negotiations with trade unions,
- render services to its member enterprises either directly or through their respective industrial chambers, including retraining and skills upgrading of the labor force,

- represent the Egyptian employers and their organizations in regional and international organizations.

In Egypt, there are 23 official trade unions, each representing a different industry or service. Total membership in all these unions was 4.5 million in 2001, which corresponds to 25 percent of the total labor force. Most unions' members belong to the services sectors and public agencies. 25 percent of unions' members work in public manufacturing enterprises. Only 25 percent are private sector workers. On a company level, unions are organized in committees. As of 2000, 1,641 committees had been established. Any trade union must be affiliated with the Egyptian Trade Union Federation (ETUF) which is the only legally recognized trade union federation in Egypt. The ILO Committee of Experts on the Application of Conventions and Recommendations has repeatedly stated that a law requiring all trade unions to be part of one single federation is not in conformity with the principle of freedom of association. Egypt has nonetheless ratified ILO Convention No. 87 on the Freedom of Association and Protection of the Right to Organize. Collective bargaining is allowed in all enterprises. In companies with 50 workers or more, negotiation occurs between the employer and either the union committee on an enterprise level or the general union on the industry level. However, according to the Labor Law, workers in establishments with less than 50 workers cannot participate directly in negotiations on the improvement of working conditions and settlement of disputes. Under these circumstances, collective bargaining takes place between the general union and the employer's association. This is a considerable limitation, given that in Egypt, the majority of total workers in the non-agricultural private sector are employed in establishments with less than 50 workers. (De Gobbi and Nesporova 2005)

#### 2.4. Labor Law No.12 for 2003

Until July 2003, when the Labor Law was ratified, existing legislation had been rather stringent, both for workers and for employers. It prohibited employers from terminating the contract of a

worker after a certain probation period. In addition, employers were not allowed to recruit workers directly, but only through local employment offices. This particular rule was a major problem for employers because of the risk of low productivity of potential workers that were selected by employment offices. To avoid stringent rules, many employers developed a practice according to which workers had to sign a resignation letter before being regularly hired. Workers were not entitled to go on strike when facing hard working conditions. They could not engage in collective bargaining either. All these unfavorable conditions for workers made job seekers choose employment in the public sector rather than employment in the private sector. Labor law no.12 for 2003 comprises 257 articles that address all the legal aspects regulating the Egyptian labor market. The law aims at increasing private sector involvement and, at the same time, achieving a balance between employees' and employers' rights. Amongst the most important issues that the new law addresses is the right of an employer to fire an employee and the conditions pertaining to this as well as granting employees the right to carry out a peaceful strike according to procedures prescribed in the new law. However, these guarantees for workers still do not seem to make private employment any more attractive than it was before. Public employment still remains the preferred option because it offers guarantees against dismissal and ensures the benefits of social insurance, vacations and periodical wage increases for employers and workers. Its fixed and limited daily duration also allows workers to exercise other jobs (moonlighting) at the same time, thereby increasing their incomes (Wahba 2009).

Labor law no.12 for 2003 introduces some quite important changes. It was drafted by a committee composed of representatives of Egyptian Trade Union Federation (ETUF), business organizations, The Ministry of Manpower and Migration (MOMM), and the local legal community. The International Labor Organization was in charge of ensuring that the new legislation would not contradict Egypt's participation in international agreements. The Labor Law applies to all types of enterprises, except the self-employed. It allows employers to hire workers directly, without having to rely on public employment services. Employers must still notify vacancies to local employment

offices, but if the latter do not find suitable candidates within a week, employers are free to recruit workers directly. An outstanding innovation of the Labor Law is its recognition for workers of the right to strike. This right is nonetheless restricted to specific conditions which may make it difficult to exercise (De Gobbi and Nesporova 2005).

It also introduces a new procedure for dispute settlement. If a dispute on work conditions, terms or employment provisions arises, both the employer and the worker have the right to ask the competent administrative authorities (public employment offices) to start informal negotiations to settle the dispute. This right can be exercised only within seven days of the dispute. If within ten days from the time administrative authorities were requested to intervene a solution is not found, both the employer and the worker can resort to a judicial committee within forty-five days of the dispute. This committee is composed of two judges, a representative of The Ministry of Manpower and Migration (MOMM), a representative of the trade union and one of the employers' associations. The decision of this committee is provided within sixty days. If the decision of the judicial committee mentioned above concerns discharging a worker, the sentence is delivered within fifteen days. When the committee sentence is against the employer's request to fire the worker, the former must reintegrate the latter in his/her job and pay all due salaries. If the employer does not respect the sentence, the worker is entitled to receive compensation for unlawful dismissal. Article 122 states that the amount of this compensation cannot be less than two months of salary per year of service and the judicial committee fixes the exact amount. Article 70 states that "The committee shall, in the merits, decide for provisional compensation if the worker requests doing that". Dismissal for unionist activities of workers as well as for other reasons which are deemed to be discriminatory (color, sex, social status, family obligations, pregnancy, religion, or political view) is strictly forbidden. Dismissals based on discrimination are subject to the sanction foreseen for unlawful discharges and thus to the compensation mentioned above. According to the Labor Law, the costs for unlawful dismissal to be borne by the employer, as described above, are rather high.

However, no information is available on the strictness of application of this norm. As for collective disputes, the Labor Law states that, if within 30 days negotiations do not lead to a settlement, one or both of the parties can ask for mediation. Mediators are selected by MOMM, which is also responsible for informing mediators of the situation. The Ministry receives the report of the mediators and presents its results and recommendations to the parties. If one or both disputers reject the recommendations, the Ministry is responsible for starting the procedure of arbitration. The results of arbitration are to be provided within a week. They are then presented to the parties by the Ministry (De Gobbi and Nesporova 2005).

The Labor Law contains a section dealing with occupational safety and the assurance of an adequate working environment protecting good health. These norms are complemented by some ministerial decrees. It establishes the responsibility of employers to create a safe and healthy work environment and their obligation to report work accidents and accident-related statistics. It also envisages the creation of an administrative body in charge of occupational safety and health inspection, the establishment of occupational safety and health committees at an enterprise level and the setting up of national and provincial consultative bodies. Furthermore, the provisions on health and safety at work apply to both private and public enterprises and entities. They do not apply to household servants and family members who are direct dependents of the employer. The law provides comprehensive guidelines for the recruitment, hiring, compensation, and termination of employees. In particular, it provides increased flexibility for firms in the hiring/firing process which has been a major bottleneck for job creation in the Egyptian labor market. Moreover, the law aims at increasing the private sector involvement and at the same time achieving a balance between employees' and employers' rights. The labor law aims to more flexibility in the labor market by allowing a private sector employer to renew a temporary contract without transforming it automatically into a permanent employment status as was stated in the preceding law. Also, under the new regulation, employers can terminate a contract more easily and layoffs can be justified by

difficult economic conditions. In return workers that have been dismissed have the right to appeal. However, workers in the public sector keep their privileges of life-long security for jobs as their contracts cannot be terminated (De Gobbi and Nesporova 2005).

## 2.5. Labor Contracts

The Labor Law mentions two types of labor contract: contracts for an indefinite period and fixed-term contracts. The latter category includes labor contracts with a fixed term and contracts concluded for the accomplishment of a specific task. Employment contracts are required to be in writing, in triplicate, and in Arabic. The employer, employee and social insurance office each keep one copy of the employment contract, which must include certain information as specified in the Law (Article 32). It is necessary that both employer and employee agree on essential matters in the law concerning wages, job description, and contract period. It is also important to state the kind of work, which the employee is obliged to do. The probation period shall be specified in the labor contract and no employee shall be appointed under probation for a period exceeding three months, neither shall an employee be appointed under probation more than once with the same employer (Article 33). The maximum duration of a fixed contract is five years. If the employer and employee agree on longer employment duration, then the employee has the right to terminate the contract after the initial five years, without receiving compensation; however, the employer must be notified within an agreed time period, namely three-month prior notice. If the employee and the employer continue in implementing a fixed-term contract after its term, such shall be considered as a renewal of the contract for an indefinite term. A fixed-term contract is deemed renewed for an indefinite period if both parties continue to abide by it after its date of expiry, although an exception is made for foreign workers (Article 105). Upon agreement of the two parties, the fixed-term employment contract may be renewed several times (Article 106). According to the 2003 Labor Law, employees should not work more than eight hours a day or 48 hours over a six days working week. Most private sector employees work 5 days a week, usually Sunday to Thursday. The number of working

hours may be increased to 9 hours a day in certain circumstances. Employees are entitled to one whole working day off each week. Certain exceptions apply when work is intended to prevent a serious accident or to cope with a heavy workload. In such situations, the employee must be paid overtime. An employee is entitled to a minimum annual paid leave of 21 days every full year of service and proportionally if his period of service is less than one year. This annual leave is increased to one month after the employee has worked for 10 consecutive years or is over 50 years old. In addition, every employee is entitled to full pay for official holidays not to exceed 13 days a year. If employees are required to work during official holidays, employees are entitled to overtime (paid at twice their normal rate). Overtime for hours worked beyond 36 per week is payable at the rate of 35% extra for daylight hours and 70% extra for work performed at night. The premium for work on rest days is 100% while workers should receive 200% for work on national holidays (Boni 2009).

It is worth noting that Part-time work bridges the way for a more flexible labor market and Government employees work part-time jobs or ‘moonlight’ in the small and micro-enterprise sector (SME) sector while still employed in the government (Handoussa and El Oraby 2004).

## 2.6. Dismissal and Termination of labor

A worker can now be dismissed for a just cause based on a ‘serious error’. The Labor Law lists some nine types of serious errors on the side of the worker, including a long absence without legitimate justification; false documents submitted by the worker; serious damage to the employer committed by the worker, if the employer notifies the authorities of this damage within 24 hours; serious worker misconduct etc. Moreover, the employer is entitled to dismiss a worker in the case of some custodial sentences, which are listed under Article 129, such as ‘breach of honor, honesty or public morals’. Similarly the worker can terminate the contract if the employer ‘defaults on any of the substantial obligations ensuing from the law, the individual or collective labor contract, or the

articles of association of the establishment, or if the employer or his representative commits a hostile act against the worker or a member of his family'. An employee may not be dismissed until the matter is brought before a committee with judicial powers at the Ministry of Manpower and Emigration (MOME). The committee shall decide the request for dismissal brought to it within 15 days from the date of the first session and its decision shall be final. However, the employer may thereafter dismiss an employee and the employee retains the right to challenge the dismissal in court. Egyptian Labor Courts retain discretion in reviewing a dismissal. Compensation awards may be granted to employees for wrongful dismissal on the basis of a review of the facts and circumstances of each case. An employee is entitled to 60 days' notice for dismissal if his period of service does not exceed 10 years and 90 days if that period exceeds 10 years. Should the employer desire to dismiss the employee without giving him the relative notice period, the employee shall receive two or three month's salary payment instead of such notice. Article 122 states that the compensation shall not be less than the wage of two months' salary for each year of employment for wrongful dismissal. Throughout the notification period the labor contract shall remain active. The termination of employment provisions do not apply to public servants employed by State agencies, public establishments and local authorities; domestic workers and the like; or employer's family members whom the employer is in charge of (Boni 2009).

As regards terminations for economic reasons, the severance allowance must be equal to one month's wage for each of the first five years of service, and one-and-a-half months for each subsequent year (Article 201). Employees retiring at the age of 60 are entitled to pension payments (Article 126). At the age of 60, a worker is entitled to indemnity calculated on the basis of half of his/her monthly wage for each of the first five years of employment, and one month's wage for each subsequent year, unless he/she is entitled to benefits under the old-age, disability and death insurance scheme provided for by the Social Insurance Law (Boni 2009).

## 2.7. Wage Determination Mechanism



The MOME oversees and monitors collective negotiations and agreements. The government sets wages, benefits and job classifications for public sector and government employees. Employers must pay social insurance contributions to the Ministry of Social Insurance and Social Affairs with respect to their Egyptian employees<sup>4</sup>. Egyptian employees are also liable for contributions. Employees' contributions are withheld by the employer from the employees' salaries and wages each month and paid to the ministry; together with the employer's own contributions, within the first two weeks of the following month. In Egypt, for public employment and public enterprises wage setting mechanisms are defined by law. Labor legislation sets the minimum wage and wage increases linked to the cost of living. It fixes wage levels according to the different job categories, field of specialization, and describes the qualifications required to receive a specific salary. Promotion and incentive mechanisms are also precisely defined. In addition, a maximum amount to be granted for overtime, allowances and incentives are all set by law. In 1987, public enterprises were granted a certain degree of freedom in setting rules on incentives and the system applied in public enterprises became more successful in promoting productivity than that adopted in the public sector. In the formal private sector, wages are determined by labor demand and supply. National law only sets the minimum wage, social insurance, special wage increases, and living-cost allowances. These rules have always been largely ignored by private employers and their application can certainly not be imposed by workers, given their low level of unionization. Wages are set almost on an individual level according to personal skills and degree of specialization. In the agricultural sector and in the informal one, wages are determined by the labor market and are, therefore, rather flexible. Employers make social insurance contributions at rates of 26% of basic wage and 24% of variable wage. The basic wage consists of basic salary and all fixed allowances, while the variable wage comprises bonuses and incentives that may be paid by the employer from time to time. Employees pay at rates of 14% and 11% respectively. The maximum monthly amounts on which

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<sup>4</sup> According to Law, Foreigners that have been working on a contract basis for a year or more are insured conditional on having a reciprocity agreement between Egypt and the foreigner's country.

contributions are payable are, for basic salaries, EGP5 650 and, for variable salaries, EGP 500 (Wahba 2009).

In 2003 a National Council for Wages was established to set and adjust minimum wages, establish national wage policy, carry out studies on minimum wages, and study reports issued from Arab and international organizations. The National Council for Wages has been revising the minimum wage level in an attempt to provide better levels of income to a large proportion of society. The legislative framework of the wages system in the government sector is very complicated since it is regulated by more than 40 laws and decrees issued between 1942 and 2008. The monthly minimum wage was set at EGP 35 in 1984 when it represented 60% of GDP per capita. It reached EGP 214 in 2005/06 according to the Wage Council. In practice, official figures based on the Annual Bulletin of Employment, Wages and Working Hours in 2007 state that the average weekly wage was EGP 252, with the average weekly wage being EGP 308 in the public sector and EGP 214 in the private sector. According to estimates by the World Bank and the Ministry of Economic Development, the poverty line was at EGP 155 per individual per month, thus, the Wage Council was considering raising the minimum monthly wage to EGP 250. The minimum wage in Egypt is not only very low, but is also poorly enforced. Employers in the private sector do not adhere to the minimum wage even in the formal sector (Wahba 2009).

## 2.8. Unemployment benefit schemes

In practice, very few workers receive unemployment<sup>6</sup> benefit. Data on the rate of coverage of unemployment benefit is not available. According to the ILO, although since 1982, the government was not committed to providing unemployment insurance benefits against unemployment for workers in the private sector, it continues to apply the law requiring employers to pay 2% of all the salaries for unemployment insurance. Unemployment benefits are regulated by Law no. 79 for the

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<sup>5</sup> EGP refers to the Egyptian Currency (The Egyptian Pound). 1 Euro = 9.65 EGP in April 2014

<sup>6</sup> Unemployment is defined as all individuals aged between 15 and 64 who are physically able to work, want to work, and were actively searching for jobs but could not find work.

year 1975, and they correspond to 60 % of the last salary received by the dismissed worker and are granted for a maximum period of 28 weeks after dismissal. Unemployment benefits are financed through a contribution of employers equal to 2% of their workers' wages, and through the revenues made from the investment of such contributions. Requirements to qualify for unemployment benefits are as follows:

- The employee must not have resigned or lost his/her job as a result of a judicial sentence.
- Not compromising his/her honor, honesty and moral attitude.
- The employee must have been part of the official insurance system for at least six months, the last three of which with no interruption.
- The name of the employee who is officially part of the insurance system must appear in the unemployment register of the labor office.

The conditions under which a dismissed worker is not entitled to receive unemployment benefits are rather numerous:

- The dismissed employee has refused a suitable job assigned to him/her by the labor office (a job is deemed suitable when the corresponding salary is at least 75 % of the last salary received, when it matches the experience and qualifications of the former employee, and when the job is within the governorate where he/she has been working before).
- The dismissed employee is self-employed.
- The unemployed person is a waged employee receiving a salary which is equal to or higher than unemployment benefit.
- The unemployed person benefits from a social pension which is equal to or higher than unemployment benefit.
- The former employee has left the country for an indefinite period.

- The former employee is 60 years or older.

Unemployment benefits are no longer granted when the cases listed below occur and are provided again as soon as the situations described here cease to exist:

- When the unemployed person does not visit the labor office regularly, unless serious reasons account for it.
- When the dismissed worker refuses to participate in the training indicated by the labor office.
- When the unemployed person joins the army.
- When the dismissed worker receives a wage or a pension which is lower than the unemployment benefits (in this case, the individual is granted only the difference between what he/she earns and the unemployment benefits).

The Workers Emergency Aid Fund was created to alleviate the effects of economic liberalization, privatization and adoption of the new Labor Law which gives employers more flexibility to dismiss, to adopt fixed-term contracts and to change the conditions of the labor relationship. Regulated by Law no. 156 for 2002, this fund provides some financial support to those workers who stopped receiving their salaries because of the partial or total closure of the enterprise where they were employed or because of dismissal due to a reduction in staff. To have access to the financial allocations from this fund, workers must be part of the official insurance system and must not be receiving unemployment benefits. In addition, he/she must have been employed in the same enterprise for at least one year. The financial support offered can be enjoyed for a maximum period of six months. The financial contribution received by the former worker corresponds to 75% of his/her highest salary and ranges between EGP 150 and EGP 1,000 per month. The fund is financed through a fee of

about 1% of basic workers' wages. The financial contribution ceases to be granted in the following cases:

- When the former employee finds another job.
- When the enterprise where he/she was working restarts activities.
- When the labor relationship is terminated according to law provisions.
- When it is found that the financial support is being received through fraud. (Wahba 2009).

## 2.9. Labor unions and Collective Bargaining

One of the main reasons behind the eruption of the last revolution in Egypt in January 2011 was the performance of the labor unions in Egypt which did not play a significant role in protecting workers rights, nor in setting the wage levels. The underlying reason is the lack of sufficient independence<sup>7</sup>. This, in turn, is due to several factors, including: the centralized hierarchical structure of syndicates, as well as the government intervention and tendency to control syndicates' leaders to ensure political stability and to achieve strict control of the labor market. In addition, the government tended to attract and contain syndicates' leaders, by means of granting several privileges, involving them in boards of directors of the holding companies, with signals for having official positions. The Egyptian constitution acknowledges labor rights in establishing unions and federations on a democratic basis. Syndicate activities are allowed as long as they match the framework of the General Federation for Labor Unions' programs. Under the old Labor Law, workers were not entitled to go on strike when facing hardworking conditions. They could not engage in collective bargaining, either. The new law shows a considerable degree of flexibility when compared to previous labor laws. The law permits collective negotiation at all levels starting at the establishment

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<sup>7</sup> The official labor unions were not, and still not, independent and their main role was to suppress workers' demands for better working conditions and wages, ensure that they toe the government line, and thus keep them in their place as loyal supporters of the regime.

level and reaching the national level. Collective negotiation may aim at improving labor terms and conditions, fostering cooperation between various labor parties to achieve workers' social development, and settling disputes between workers and employers. According to Clause 192 of the new Unified Labor Law of 2003 workers cannot legally strike without a green light from the labor union. There is very little scope for collective bargaining in the private sector. Companies must comply with certain government-established standards, particularly in relation to the minimum wage, social security and official public holidays. The 2002 Special Economic Zones (SEZs) Law laid the legal foundation for setting up export-oriented SEZs. Newly established investment companies in the zones are exempted from complying with legal clauses relating to labor organizing, depriving workers of the right to set up local union committees (Wahba 2009).

### **3. An Overview of Labor Market Datasets in Egypt**

#### **3.1. The Egyptian Labor Force Surveys (ELFS)**

Implemented quarterly by the Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS). Data included in these those surveys has never been rigorously analyzed beyond the production of the standard tables published in the official bulletins. The ELFS is carried on a nationally representative sample of 21,000 households per quarter. They are of fairly standard design, collecting information on demographic characteristics, education, labor force participation, unemployment, and the characteristics of employment, including employment status, occupation, economic activity and sector. The ELFS also include fairly detailed questions on wages that have heretofore not been analyzed or published. The ELFS contains a rotating panel design, where one third of the households in the sample in each quarter is followed and re-interviewed in the next quarter and one third is re-interviewed a year later. Unique identifiers are assigned to the households

and individuals so that they can be traced over time. The quarterly data available from the ELFS, from the first quarter of the 2007 to the fourth quarter of 2009, allows the construction of both the standard and the broad definition of unemployment. However, information available from the 2006 quarters does not provide information on job search, thus preventing the measure of the standard definition of unemployment. (Roushdy and Gadallah 2011)

### 3.2. The Labor Force Sample Surveys (LFSS)

Are nationally representative and were carried out annually: then since 1987, they have been carried out quarterly. The annual LFSS survey is not conducted in the population census year which does not allow for comparison between both data sources. The LFSS provides information on working-age population, labor force, employment and unemployment by gender, age groups, educational attainment, employment status, economic activity, occupation. The reference period is the week preceding the survey. In theory the LFSS uses the broad definition of economic activity (including subsistence activities) of the ILO (1993). However, in practice, LFSS captures female participation in subsistence activities very poorly. Thus, the participation rates obtained reflect only female participation in market economic activities. Moreover, the definition of unemployment was changed in 1996 so as to exclude all individuals receiving any income. In 1988, a special LFSS survey was carried out. This was the first detailed survey that attempted to extend and deepen the measurement of employment in Egypt (Said 2004).

### 3.3. The 1998 Egypt Labor Market Survey (ELMS98)

Carried by CAPMAS under the auspices of ERF. It was designed to be comparable to the 1988 LFSS. Both surveys were designed more carefully with a better construction in the sampling operations, a more detailed questionnaire and better control of responses. They collected more detailed information than the regular LFSSs and special attention was given to female and child labor and wages and earnings. Special modules on economic units run by households and the

history of employment were added. Three periods of reference were used: the week, the month and the trimester. However, in the 1988 LFSS, the ILO definition of the economically active population was strictly applied with no attempt to determine what constituted an ‘important contribution to household consumption’. This resulted in an overestimate of female participation. In the ELMS98, the employment questions were asked in such a way as to allow for the separate identification of the market labor force as well as the extended labor force. The ILO international recommendation for measuring unemployment states that in situations where the labor market is organized or limited in scope or where labor absorption is inadequate, the ‘seeking work’ criterion can be relaxed. This was used for the estimates of unemployment in the 1988 LFSS. However, the practice in Egypt since then is to impose the ‘seeking work’ criterion. So, the ELMPS98 collected data on whether the unemployed are searching for jobs (Wahba 2009).

#### 3.4. Egypt Labor Market Panel Survey of 2006 (ELMPS06)

The Economic Research Forum (ERF), with the cooperation of the Population Council and the Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS)- the main statistical agency of the Egyptian government has successfully conducted the Egypt Labor Market Panel Survey of 2006 (ELMPS 06), it is a follow-up survey to Egypt Labor Market Survey of 1998 (ELMS98). The ELMPS06 is the second round of what is intended to be a periodic longitudinal survey that tracks the labor market and demographic characteristics of the households and individuals interviewed in 1998, any new households that might have formed as a result of splits from the original households, as well as a refresher sample of households to ensure that the data continue to be nationally representative. The fieldwork for ELMPS06 was carried out from January to March 2006. The final sample of 8,349 households is made up of 3,684 households from the original ELMS98 survey, 2,167 new households that emerged from these households as a result of splits, and a refresher sample of 2,498 households. Of the 23,997 individuals interviewed in 1998, 17,357 (72%) were successfully re-interviewed in 2006, forming a panel that is used for our



analysis. The attrition that occurred in the original 1998 sample was mostly random in nature since it resulted from the loss of records containing identifying information for the 1998 households at CAPMAS. Of the 1,115 households that could not be re-interviewed, 615 are due to loss of records and the remainder is made up of expected losses due to total relocation of the household, death of all household members, or refusal to participate in the survey. The questionnaire for the ELMPS06 is closely based on that used in the ELMS98 to ensure comparability of the data over time. The surveys provide a rich source of information on labor market conditions of individuals. The surveys collect information on the characteristics of jobs such as on the presence of legal job contract and social security coverage.

### 3.5. Annual Bulletins for Employment, Wages and Work Hours Statistics

Published by the Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS). This dataset lends itself to conducting analysis at two distinct levels: all economic activities in the Egyptian economy (18 in total) and skill level occupations (9 in totals). Employment and wage statistics are classified by skill level occupation and economic activity covering private sector enterprises employing 10+ workers in addition to public and public business sector enterprises, regardless of the number of workers therein. Wages are measured on a weekly basis. They are paid in compensation for the relevant working period prior to any deductions, including basic wage, overtime, periodic allowances and any other periodic accruals, such as commissions and periodic production bonuses (Helmy 2012). One important obstacle is access to data. Not all data collected by CAPMAS is accessible for researchers. Summary tables are published by CAPMAS. The ELMS98 and the ELMPS06 are available through the ERF. CAPMAS is the main source of data that feeds the ILO databases and, in turn, the World Bank uses the ILO as the main source of data on the Egyptian labor market (Wahba 2009).

### 3.6. The World Bank Panel Dataset for the Egyptian Manufacturing Firms

The World Bank's Enterprise Surveys<sup>8</sup> collect data from key manufacturing and service sectors in every region of the world. The Surveys use standardized survey instruments and a uniform sampling methodology to minimize measurement error and to yield data that are comparable across the world's economies. Most importantly, the Enterprise Surveys are designed to provide panel data sets. Because panel data are one of the best ways to pinpoint how and which of the changes in the business environment affect firm-level productivity over time and across countries, the Enterprise Survey Initiative has made panel data a top priority. At the same time, it is important to note that there is a lack of studies using the World Bank enterprise survey not only in Egypt but also at the MENA region. At the best of my knowledge, there are no previous papers studying the effect of labor regulations on labor market flexibility in Egypt using this valuable dataset which I will depend on mainly in the following chapters in this thesis. This Enterprise Survey is a firm-level survey for the manufacturing sector in Egypt. The dataset includes 3129 observations resulting from interviews conducted in years 2004, 2007, and 2008.

The dataset covers major industries in the manufacturing sector, such as textiles, garments, food, metals, machinery, electronics, chemicals, wood and furniture, non-metallic and plastic products, paper, and printing and publishing. The Survey topics include firm characteristics, gender participation, access to finance, annual sales, costs of inputs/labor, workforce composition, bribery, licensing, infrastructure, trade, crime, competition, capacity utilization, land and permits, taxation, informality, business-government relations, innovation and technology, and performance measures. Over 90% of the questions objectively ascertain characteristics of a country's business environment. The remaining questions assess the survey respondents' opinions on what are the obstacles to firm growth and performance. The Enterprise Survey questionnaire is answered by business owners and top managers. Sometimes the survey respondent calls company accountants and human resource managers into the interview to answer questions in the sales and labor sections of the survey.

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<sup>8</sup> See [www.enterprisesurveys.org](http://www.enterprisesurveys.org) for detailed description of the data and methodology used for data collection.

The enterprise survey contains some information that allows one to measure for example labor regulations that might directly affect firms' decision to hire or lay off workers. The survey collected information on the number of temporary and permanent workers, the number of male and female workers and employees, the number of skilled and unskilled workers, the number of part-time and full-time, the percentage of unionized workforce and others. There is also information on firms' sales levels, working capital and new investments, exporting and importing activities and total costs of labor including wages, salaries and bonuses. In addition to questions concerning conditions in the local investment climate and how they affect firm-level productivity, exports and imports, the enterprise survey has numerous questions in different fields for instance; one question asks about the two main reasons that affect the decision of changing number of employees. Another question<sup>9</sup> asks how much firms would adjust the number of their workers if there were no restrictions in the labor markets for hiring and firing. The survey has also important questions about the education levels of permanent employees (males and females), the highest level of education of the top managers and the number of years of experience they have in a foreign and in a domestic establishment before running their establishments. Furthermore, there are other interesting questions that ask the unethical behavior in the Egyptian business for example: „Did the firm have to present gifts or unofficial payments “to get things done „with regard to taxes, customs, licenses, regulations, services, etc. It is worth noting that the size of the Egyptian army's share in the economy has been a subject of great debate and data are not under the control or oversight of parliament or any other civilian body<sup>10</sup>.

#### **4. An Overview of some recent empirical studies about the Egyptian Labor Market**

Insert table 1 here

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<sup>9</sup> “At your current level of production, how many workers would you fire/hire, if there are no restrictions affecting your decision? “

<sup>10</sup> For more information about the military enterprises in Egypt, see (Sayigh 2012).

## **5. Conclusion**

This study sheds some light on the labor market performance in Egypt and in particular on its legal framework. The labor Law no. 12 for 2003 addresses all the legal aspects regulating the Egyptian labor market. The law aims at increasing the private sector involvement and at the same time achieving a balance between employees' and employers' rights. Among the most important issues that the new law addresses is the right of an employer to fire an employee and the conditions pertaining to this as well as granting employees the right to carry out a peaceful strike according to controls and procedures prescribed in the new law. The law aims to more flexibility in the labor market by allowing a private sector employer to renew a temporary contract without transforming it automatically into a permanent employment status as was stated in the preceding law. Also, under the new regulation, employers can terminate a contract more easily and layoffs can be justified by difficult economic conditions. In return, workers that have been dismissed have the right to appeal. However, workers in the public sector keep their privileges of life-long security for jobs as their contracts cannot be terminated. The labor law aims at increasing flexibility in the labor market by providing comprehensive guidelines for the recruitment, hiring, compensation, and termination of employees. In particular, it provides increased flexibility for firms in the hiring/firing process which has been a major bottleneck for job creation in the Egyptian labor market. Even though this labor law shows some progress, it is clear that there is a need for further changes in taxes and social security systems to enable it to become more effective. Further reforms such as reducing the social security contribution by employers and workers will help create and formalize jobs. However, policymakers must recognize that labor regulation is only one part of the broader economic policy framework. Its interaction with the regulation of product markets, macroeconomic policy, and the business investment climate will determine the overall labor market performance.

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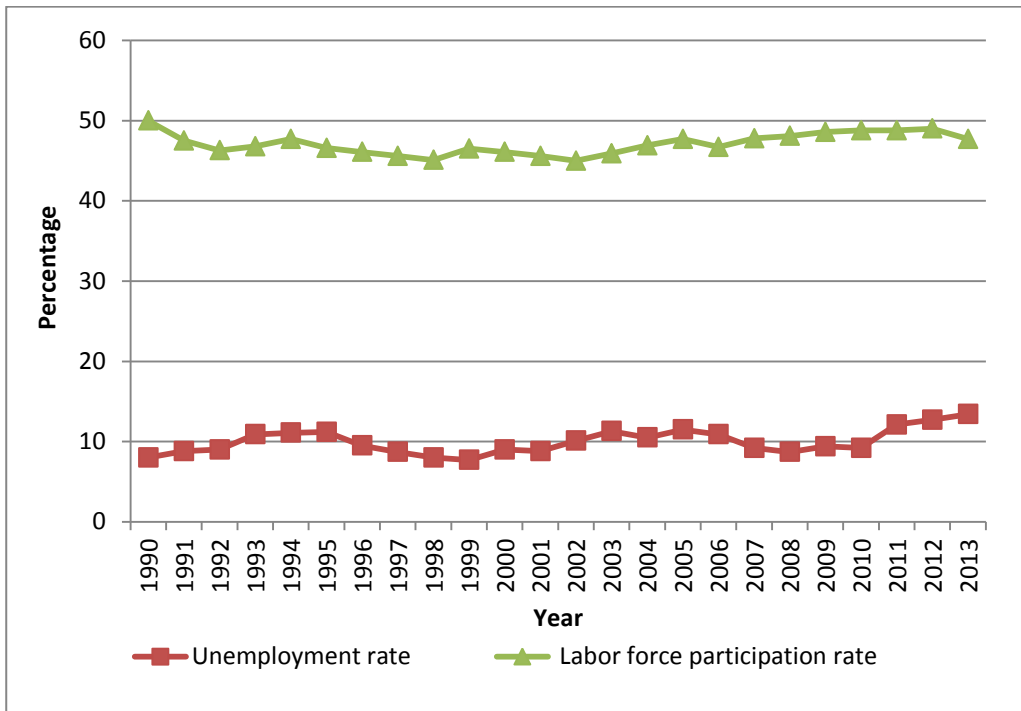
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Figures and Tables included in text

Figure 1: Unemployment and Labor Force Participation rates during the period 1990-2013

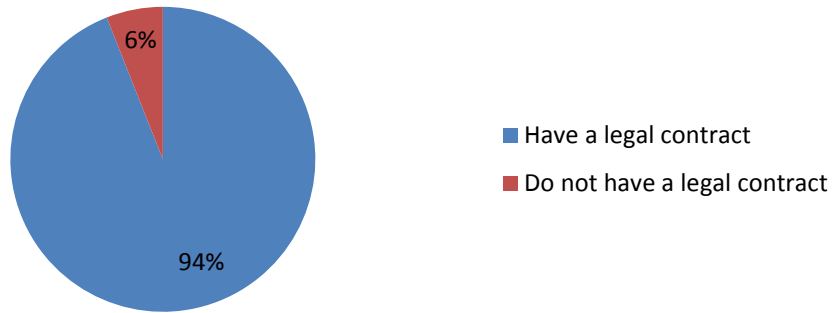


\* World Economic Outlook

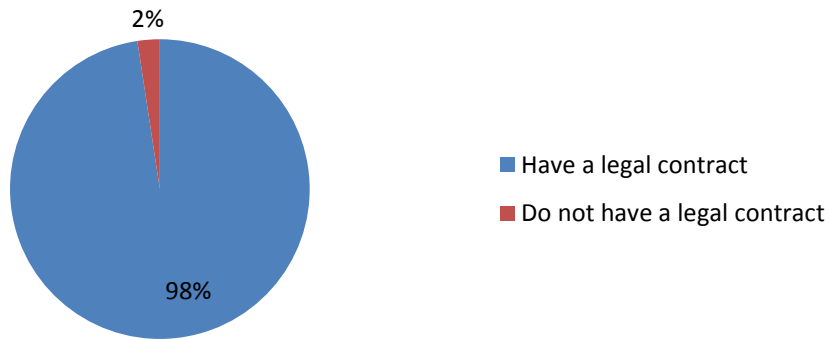
\*\*<http://data.worldbank.org/country/egypt-arab-republic>

Figure 2: Structure of Employees According to Legal Contracts

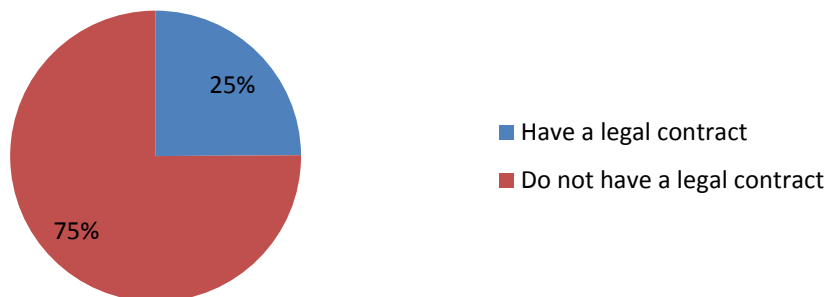
### Public enterprise sector



### Government



### Private sector



Source: El-Ghamrawy Tarek and Amer Ziad (2011).

Table 1: Review of Recent Studies on the performance of the Labor Market in Egypt and Its Main Issues

Study	Data set used	Estimation methods	Study Abstract
Said (2004)	The 1987 Egyptian Labor Force Sample Survey (LFSS) and the 1997 Egyptian Integrated Household Survey (EIHS).	OLS and Maximum Likelihood Methods.	The study considers the determinants of male and female pay in the public and private sectors by estimating a joint model of sector allocation and wage determination. The results highlight the importance of job security as the major factor determining the persistence of queues for public sector jobs in Egypt. The results suggest that there are significant differences between public and private choice decisions and earnings structures in Egypt. The impact of the public sector hiring and compensation policies on labor productivity in the Egyptian labor market is still an open question for the future research.
Said (2007)	Labor force sample surveys (the 1988 LFSS, the 1998 ELMS and the 2006 ELMPS).	Multivariate regression analysis	The study investigates the distributional and structural developments of hourly wages and monthly earnings in Egypt. The results reveal that after the initial period of real wage erosion and wage compression (1988-98), both real wages and wage inequality started rising again for most groups in Egypt. The paper is descriptive in nature and no attempt was made to explore explanations for the observed trends in real wages and wage inequality and the paper should consider the wider labor market and policy implications of the reported results.
Elhamidi and Said (2008)	Labor Force Sample Surveys (LFSS) for the years 2000-2004.	Multinomial Logit Model (Maddala 1983).  Model of human capital earnings function Mincer (1974)	This study assesses the impact of recent economic liberalization measures and institutional changes in Egypt on gender wage and occupational inequality. The determinants of female occupational decisions, the education-occupation mismatches, and gender-based wage discrimination in the new millennium in Egypt are examined. The main finding is that women's education and skill accumulation are the most important factors determining the impact of trade and economic reform on women's employment and the gender wage gap.

Frost (2008)	The Egyptian Labor Market Panel Survey (ELMPS 2006).	Oaxaca-Blinder model of wage decomposition	<p>This study analyzes whether informal employment rewards job qualification measures using a simple uncorrected Oaxaca-Blinder model with one-period data and two period panel data. The results of the empirical work offer little support to the hypothesis that informal employment does not reward job qualification</p> <p>However because of limited sample size, imperfect nature of the formality indicator, and reporting error, particularly for earnings, all of the results need to be taken cautiously. Future research could investigate the issue of qualification for informal employment further, and perhaps new data can show how other forms of qualification are rewarded.</p>
Kandil (2009)	The Egyptian Labor Market Panel Survey (ELMPS 2006).	Quantile Regression Model,	<p>This study aims at studying gender wage differential in Egypt over time and this throughout the distribution of wages using a quantile regression analysis and considers the contribution of discrimination in explaining gender wage differentials. The main finding is that both the raw gender wage gaps as well as discrimination in an absolute term are far from being constant, they are increasing as we move up the wage distribution; the so-called glass ceiling phenomenon. The pattern of some individual's characteristics along the wage distribution, particularly for age, experience and tenure could help in building up an interpretation of the glass ceiling phenomenon in Egypt for a future research.</p>
Wahba (2009)	The Egyptian Labor Market Panel Survey (ELMPS 2006).	Probit Model with Selection	<p>This study addresses a very important question, namely whether informal employment is a stepping stone, as first argued by economists such as Fields (1975), or is it a dead end? The main aim of the study is to examine the determinants of informal workers graduating to semi-formal or formal jobs. The empirical findings suggest that the mobility from informal to semi-formal/formal employment is highly</p>

			segmented along education and gender. Overall, it seems that informal employment is a stepping stone for highly educated male workers, but is a dead end for the uneducated and for female workers. However, the study does not introduce policy recommendations (incentives for example) to minimize the number of uneducated and females working in the informal labor market.
Zaki (2011)	The Egyptian Labor Market Panel Survey (ELMPS 2006).	Human Capital Model (Mincer, 1974)	This paper proposes an empirical investigation of the effect of different trade barriers on wages in Egypt. The effect of trade barriers on wage disparity is studied in three dimensions: on gender (males vs. females), qualification (blue vs. white collar) and regional (urban vs. rural workers). Females, urban workers and blue-collar workers are more affected by such barriers. The main findings show that both non-tariff measures and red tape barriers have a higher impact than traditional tariffs on wage disparity. Females, urban workers and blue collars are more affected by such barriers. Finally, when the effects of observable worker characteristics are filtered out, it turns out that wage premia are negatively affected by all trade barriers. One of the limitations of the study is that in order to determine the evolution of trade policy in Egypt, the panel dimension should be used. Furthermore, it would be interesting to apply the same analysis for services and agriculture given the importance of the former and the high protection of the latter in Egypt.
AlAzzawi (2013)			This study investigates the impact of trade liberalization on the gender wage gap and on female employment in the Egyptian manufacturing sector. Results indicate that the gender wage gap is high and has increased dramatically over time. Increasing trade liberalization has largely had a negative impact on women's relative wages and on their employment. The study gives, however, some evidence supporting a favorable impact of increased export intensity on females in the labor market. The last evidence might be an open question for a future research that studies the relationship between female employment

			and exporting firms in Egypt and especially firms with longer export experience.
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