

MSEs and Opportunities for Youth in Egypt

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About this Work

Today I shall be presenting very preliminary results from a joint research project between the Japanese International Cooperation Agency (JICA) and Brookings on “achieving inclusive growth after the Arab spring”.

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Egyptian economy was growing at a healthy rate

	Current Account (% of GDP)	FDI net Flows (% of GDP)	GDP Growth (%)	GDP per capita Growth (%)	Gross Investment (% of GDP)	Reserves (months of imports)
2000	-1	1	5	3	19	7
2001	0	1	4	2	18	7
2002	1	1	2	0	18	8
2003	5	0	3	1	16	9
2004	5	2	4	2	16	7
2005	2	6	4	3	18	7
2006	2	9	7	5	19	7
2007	0	9	7	5	21	7
2008	-1	6	7	5	22	6
2009	-2	4	5	3	19	7
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But the middle class was not benefitting (percent of population in expenditure groups)

	< \$2	\$2-\$4	\$4-\$6	\$6-\$8	\$8-\$10	\$10-\$12	\$12-\$14	> 14
2008	14.61	56.04	19.80	5.25	1.92	0.88	0.48	1.02
2004	17.56	54.44	18.30	5.17	1.97	0.93	0.51	1.12
1999	18.42	54.47	17.54	5.05	1.95	0.94	0.51	1.12
1995	25.21	54.40	13.53	3.62	1.38	0.67	0.37	0.82
1990	26.72	50.11	14.76	4.37	1.74	0.84	0.47	0.99
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Egypt was behind other countries (percent living on less than \$5/day)

	Brazil	Chile	China	Malaysia	RSA	Egypt
1990	64	45	99	46	70	87
1995	51	36	96	45	72	89
1999	52	33	93	..	72	85
2004	47	24	80	48	66	85
2008	36	19	72	25	62	85

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There were other reasons for discontent

- Corruption and cronyism
- Lack of voice and inability to exercise citizenship increased the sense of youth exclusion
- High rates of unemployment for educated youth
- 72% of young people end up getting jobs in the MSE and informal sector

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Micro and small enterprises are main private employers in Egypt

- They are about 99% of total private enterprises and 80% (5.8 million workers) of private employment.
- Moreover, 88% of those 5.8 million workers are employed by enterprises of less than 10 workers.
- 10.5% of micro-enterprises are headed by women
- 12% are headed by youth (15-24 years) and 15.4% of those are women
- Average years of education of entrepreneur is 8.4, but 10.3 for youth and 11.2 for young women

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MSEs are mostly “partially” formal

Official procedure	% complying
Business License	66.4
Commercial/Industrial Registration	70.1
Tax Card	73.1
Keeping Regular Accounts	28.4

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MSEs providing low productivity employment to youth

- 60% of MSEs are in trade, 30% in services and 10% in manufacturing
- Capital/labor ratio low at \$2000
- 90% say that their clients are households (little subcontracting)
- Only 0.3% sell to export markets
- 15-24 age group represent 37% of total employment, and 15-30 group more than 50%
- Women workers are only 11.4%
- Average wages are \$3.7/day for men and \$2.6/day for women
- Only 50.5% of workers have a written contract

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Access to infrastructure is a problem (% saying no access)

	All entrepreneurs	Young entrepreneurs
Water	59.4	57.2
Electricity	6.7	5.7
Telephone	71.9	73.0
Sewage	68.1	67.2
Roads	10.8	9.9
Transport of workers	96.6	97.1
Transport of goods	94.8	95.4

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MSEs face administrative constraints (% saying it is a major problem)

	All entrepreneurs	Young entrepreneurs
Securing capital	64.6	62.1
Licensing & registration	61.3	64.0
Labor law	32.3	35.7
Labor inspection	44.9	49.2
Tax rates	68.6	66.7
Customs duties	5.8	5.8
Tax administration	65.0	63.0

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Access to credit is an issue (but is it the main issue?)

	All entrepreneurs	Young entrepreneurs
Percent with access to credit	5.3	4.8
Of which: friends & family	47.9	57.1
Bank	35.6	28.6
Development fund	9.2	3.6
NGO	7.3	10.7

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Lessons from Indonesia

- Four factors appear to explain the success of the Bali garment industry and the Jepara furniture cluster:
 - 1) Existence of a basic competence
 - 2) Supportive macro-economic policies
 - 3) Reasonably good infrastructure
 - 4) Injection of technical and marketing expertise

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Tentative conclusions

- Objective should not be to simply expand the sector, but to transform it.
- Providing more credit alone will not achieve this transformation. There is a need to look at other forms of support.
- Government alone cannot provide solutions, it needs to build a broad partnership.
- Need to look at macro-environment, taxation, regulations, civil service performance, infrastructure.
- Need to transform the social fund and enhance its effectiveness.

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