

Employment, Budget Priorities and Microenterprises

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Abstract

Despite concurrent opinions about Egypt's employment problems, practical remedies are in short supply. The purpose of this essay is to reflect on current conditions in Egypt's labor market and to examine a number of existing opportunities to exploit in favor of a new and innovative path for growth and development.

This paper outlines seven accepted propositions in the diagnosis of Egypt's employment dilemma, as well as seven challenging opportunities. It also gives evidence on the prospects and potential of the micro and small enterprise (MSE) sector, while proposing a package of government policies and revisions in budget allocation that can alleviate the unemployment problem and meet the aspirations of the working populace.

ملخص

على الرغم من اتفاق الآراء حول مشاكل البطالة في مصر، إلا أن هناك نقصاً في الحلول العملية المطروحة. تهدف هذه الورقة إلى دراسة الظروف الحالية في سوق العمل في مصر وتحليل عدد من الفرص المتاحة التي يمكن استثمارها من أجل تحقيق التنمية المنشودة.

وتقوم هذه الدراسة بتشخيص مشكلة البطالة في مصر في سبع نقاط محددة، مع إلقاء الضوء على سبع مزايا تتمتع بها مصر مقارنة بالدول النامية الأخرى. كما تستعرض الورقة بعض الأدلة حول إمكانيات ومستقبل قطاع المشروعات الصغيرة والمتناهية الصغر، وتقدم مجموعة من المقترحات الخاصة بالسياسات الحكومية ومخصصات الموازنة بهدف تخفيف حدة مشكلة البطالة وتوفير فرص عمل للمواطنين.

I. Introduction

There have been several systematic inquiries into how Egypt's labor market functions over the past few decades, and the various approaches and perspectives have reinforced a consensus view in the diagnosis of the country's labor problems. This paper starts out by noting that beyond the convergence of views on symptoms and causes, much of the available analytical assessments of employment and unemployment are short on providing practical remedies. The purpose of this essay is to reflect on current conditions in Egypt's labor market and to examine a number of existing opportunities to exploit in favor of a new and innovative path for growth and development. What is proposed is a framework that adopts a cost-benefit approach, using budget data to measure alternative cost scenarios, and labor force statistics to compare and contrast the contribution of occupations and activity sectors in job creation.

The hypothesis states that the government's employment and education policies – as reflected in the budget – can be reengineered to increase economic efficiency and social equity, while ensuring growth in real jobs and productivity. The logic of the argument is that the multiplier impact of boosting incomes of the urban and rural working poor has never been tapped and that this largely un-unionized and informal workforce is the key to sustained poverty alleviation with employment generation. The proposed engine of growth is the vast traditional small and micro-enterprise sector and the policy tool is subsidized insurance.

There are two underlying premises to this hypothesis: the first is that the old and costly social contract between the state and citizens is due for replacement and can be revised to the advantage of all grassroots stakeholders; the second is that the state carries the bulk of the burden in initiating a new growth and development strategy, with its corresponding system of prioritization, targets, and budget allocation.

II. Seven Accepted Propositions

The accepted wisdom in diagnosing Egypt's employment predicament can be outlined as follows:

- (i) Of the many types of unemployment that can prevail in an economy, Egypt's unemployment is recognized to be primarily of the structural type.
- (ii) The modern sector has not fulfilled the expectations placed on it as the engine of economic growth. Neither the public sector of the 1960's to the 1980's, nor the

- (iii) Discrimination and biases imposed by government employment policies in the formal segment of the labor market continue to result in distortions in the incentive to work, drawing workers away from the private sector in favor of jobs in the government.
- (iv) The lack of balance in the allocation of the education budget across formal education and technical training, and between basic and tertiary education, has translated into a chronic mismatch between supply and demand in the labor market.
- (v) The allocation of the social services budget has prioritized the more privileged classes. Surplus labor in government employment is an additional subsidy that favors the middle class at the expense of spending that boosts the employment potential of the poorer segments of the labor market.
- (vi) The vast traditional sector of micro and informal enterprises has operated for the past five decades of “development” with no explicit or implicit support from the state. In fact, the institutions that govern this sector in Egypt are among the worst by developing country standards.
- (vii) Egypt’s lagging rank on the human development scale is attributable to the government’s long-term negligence of basic school enrollment and primary health care. In turn, a poor human development index (HDI) record has retarded Egypt’s demographic transition, the development of national savings, and growth in productivity.

The above propositions have been well evidenced in literature on Egypt and some are further detailed in the remainder of this paper. What is clear is that there are no quick fixes, no short cuts, and no routes that can circumvent the obvious: most of the new jobs created in the civil service are parasitic, and the pressure exerted by youth for more of those same government jobs can only undermine the process of real job creation in the economy.

In the short-run, given the four-year-long economic recession, it would be wise for the government to engage in a Keynesian pump priming effort. And yet, even during a cyclical downturn, it is counterproductive for government expenditure to go toward more wages for additional redundant employees. Instead, a package of support to the micro and small

enterprise (MSE) sector could produce positive results in both the short-term and the longer term.

III. Seven Challenging Opportunities

In comparison with a typical developing country, Egypt enjoys a number of advantages, which can be summarized as follows:

- (i) Egypt's governmental budget is well-endowed in terms of the rents it earns from the petroleum and gas sector, the Suez Canal, as well as its regular access to significant aid flows.
- (ii) During 1970's and the 1980's, the government provided a dramatic boost to rural and urban infrastructure, which has raised the ability of MSEs to multiply and allowed small entrepreneurs to increase their productivity.
- (iii) Rural incomes and savings have risen significantly since the oil boom and the era of massive labor exports. As a result, net surplus labor found new channels for investing in rural non-agricultural activities and the earlier process of rural-urban migration has been arrested since the 1970's.
- (iv) The bulk of Egypt's urban and rural MSE sector is economically viable and enjoys reasonable levels of productivity. This again contrasts with typical developing countries where the informal sector is predominantly the reservoir of "disguised unemployment."
- (v) Neither powerful trade unions, nor oligopolistic employers are present to defy the forces of competition in the private sector labor market. Wages have not escalated ahead of productivity except during the oil boom. What this means is that Egypt has maintained its comparative and competitive advantage in sectors that utilize labor.
- (vi) Egypt is finally into its demographic transition, a source of accelerating labor supply, but only for another fifteen years. Beyond that interval, the task of job creation will be more manageable. During the transition, however, the window of opportunity is predicated on creating massive new jobs in labor-intensive activities.
- (vii) The MSE sector has been the most versatile, flexible, and unprotected sector that has shown resilience to boom and bust. It is also the sector that shows the most capacity for expanding its employment, increasing its productivity and incomes, and graduating to formality.

The rest of this paper attempts to provide some evidence on the prospects and potential of the MSE sector and proposes a package of government policies that can relieve the unemployment problem and meet the aspirations of the working population.

IV. The Informal and Microenterprise Sector

In the mid-1990's, the vast and mostly informal sector of microenterprises employed more than 2.5 million workers in 1.5 million establishments with less than 5 employees, and another 500 thousand workers in establishments employing 5-9 workers (1996 Census of Establishments). The twenty-year-long focus of planned investments in the infrastructure (electricity, water, roads, telephones), has significantly improved the productive opportunities for this dynamic sector, while the structural adjustment program has provided it with better market signals that reflect the opportunity cost of capital, inputs, and output. However, the sector is far from operating at its full potential because of market failures that prevent it from accessing credit, skilled labor, better technologies, and the larger domestic and export markets.

The absence of continuous support for the development of the private sector has led to the development of a dual structure, with a small number of large formal establishments (1.3 thousand establishments with 100 or more employees), and a vast traditional sector of micro and informal enterprises (1,531 thousand establishments with 1-4 employees). The glaring “missing middle” is the small and medium enterprises with 83 thousand establishments in the 5-9 employee category and only 25 thousand establishments with 10-99 employees (1996 Census of Establishments).

The state's provision of support to the micro and informal sector of economic activity has been largely lacking broad level accessibility to primary education and health care for the poor. As recently as 1998, the Egypt Labor Force Survey showed that 30 percent of informal sector workers are illiterate, compared to only 6 percent in formal employment (El Mahdi, 2002). Moreover, the state has also neglected the provision of tailor-made support to ensure the micro sector has access to training facilities, credit, serviced land, and extension services. In comparison with other countries where a vast and efficient micro sector is thriving – all the way from Japan to India or Italy – a program for MSE development has hardly started in Egypt. Equally serious to small business is the absence of formal property rights: “Because ownership cannot be readily traced and validated...their assets cannot be used in efficient and legally secured market transactions. Their property is, in effect, dead capital. It is useless as

collateral; it can neither secure a bank loan, nor guarantee the payment of water, electricity, or other infrastructure services. As long as the majority cannot put their assets to work in the market because they are informal, they will not realize most of the benefits that should accrue from macro-reforms” (de Soto, 1997).

Small and micro firms provide 77 percent of jobs in the non-agricultural private sector inside establishments, more than 3 million jobs in the 1-9 employee size in 1996 (Table 1), and generate an estimated 80 percent of value added by that sector (Ministry of Economy). The government expects these enterprises to employ half of the annual new entrants to the labor market over the next 20 years, with an average increase of 550 thousand workers per year. The strategy is to capitalize on the dynamic features of microenterprises which utilize a low cost of capital per job created, flexible production methods, and high economies from clustering together. The evidence also shows that a large proportion of those working in the microenterprise sector enjoy full-time work opportunities and higher wages and productivity than home-based and casual workers whose incomes are marginal (Handoussa, H. and G. Potter, 1992). Informal sector employment opportunities are not only fairly stable, but they also offer wage levels that are relatively higher than those in formal employment (El Mahdi, 2002).

The growth in the number of micro firms has been phenomenal over the last two decades, but the depth of the regulatory constraints at the central and governorate levels discourage the bulk of these enterprises from registering or abiding by most of the rules of formal firms. According to a Ministry of Economy report, a new business must comply with at least 11 laws in order to get a trade license. An in-depth survey of all new registered manufacturing firms in the micro to medium size group (1-50 employees) during the six-year period from 1986-1991 (El Leithy, 1996), shows that only 6,747 were registered with the General Organization for Industrialization (GOFI). This compares with an increase of 32,435 firms in that group (Census of Establishments, 1986 and 1996) in the ten-year period from 1986-1996, with a ratio of less than one-fifth having formal registration status, even after adjusting for the difference in the time interval. The fact that a disproportionate number of SMEs chose to remain informal (avoiding one or more of the legal procedures), is a reflection of excessive bureaucratic costs and corruption, the complex rules for entry and exit, labor laws, tax procedures, social insurance requirements, investment licensing, and lengthy judicial procedures.

Table 1: Size Distribution and Growth of Establishment and Employment, Private Sector, 1976, 1986 and 1996 (figures in brackets are percent average compound growth rate of 1976-96)

Size	Establishments					Employment				
	1976	1986	1996	Growth		1976	1986	1996	Growth	
				%76-96	%86-96				%76-96	%86-96
1-4	704,566 (95.1%)	1,049,508 (91.1%)	1,531,212 (93.3%)	4.0	3.8	992,107 (70.2%)	1,585,971 (66.7%)	2,571,688 (64.7%)	4.9	5.0
5-9	25,995 (3.5%)	41,005 (3.6%)	82,646 (5%)	6.0	7.3	160,377 (11.3%)	252,778 (10.6%)	500,893 (12.6%)	5.9	7.1
10-49	9,526 (1.3%)	15,073 (1.3%)	23,454 (1.4%)	4.6	4.5	163,242 (11.5%)	267,560 (11.3%)	410,961 (10.3%)	4.7	4.4
50-99	518 (0.1%)	1,149 (0.1%)	1,730 (0.1%)	6.2	4.2	33,655 (2.4%)	74,567 (3.1%)	115,049 (2.9%)	6.3	4.4
100-499	269 -	511 -	1,174 (0.1%)	7.6	8.7	48,093 (3.4%)	91,969 (3.9%)	227,028 (5.7%)	8.1	9.5
500-999	17 -	53 -	102 -	9.4	6.8	12,400 (0.9%)	35,915 (1.5%)	64,891 (1.6%)	8.6	6.1
1000+	2 -	16 -	48 -	17.2	11.6	4,191 (0.3%)	68,930 (2.9%)	84,300 (2.1%)	16.2	2.0
Total	740,893 (100%)	1,142,315 (100%)	1,640,366 (100%)	4.1	3.7	1,414,065 (100%)	2,377,690 (100%)	3,974,810 (100%)	5.3	5.3

Sources: Prepared by ERF based on CAPMAS: *Establishment Census*, 1976, 1986 and 1996

From the perspective of employees, work in the MSE sector means lack of security because of the absence of social security coverage, as well as the absence of work contracts. From the perspective of employers, the cost of social security is too high and the rigidity of the labor law makes a binding work contract too risky in terms of dismissing labor. In an effort to overcome the problem over the medium-term, the government could easily revise downward the amount of money an employer and employee contribute to social security and step in itself on behalf of the MSE sector to provide the balance of the insurance contribution.

V. Youth Employment and Demographic Transition

As can be observed from the educational and age distributions of unemployment, the bulk of job seekers are now under 30 years old and hold intermediate diplomas. The demographic transition will generate larger annual numbers of entrants into the work force for approximately fifteen years, with a positive potential for the average household to earn

multiple incomes. However, this can only occur under the condition that economic growth is maintained at high levels, and that the market mechanism – reinforced by proactive economic policies – functions so as to direct investment in labor intensive activities. A GDP growth rate of 6-7 percent will be needed to generate full employment for a labor force that will grow between 3.2-3.5 percent per year over the next two decades. Special attention will have to be given to programs for enhancing job opportunities for youth and women.

In contrast to countries with an aging population, Egypt can still afford to provide generous incentives for young labor force entrants to find employment in productive activities, especially if this is done via a system of social insurance in which the government provides a substantial and sustained contribution that covers employer and employee shares. This would encourage the formalization and growth of work contracts in favor of targeted age brackets, i.e. for those 16-30 years old.

Table 2: Distribution of Unemployment by Education Status and Age Group
(in thousands and in percent share in total)

Education	1976	1986	1996	Age	1976	1986	1996
Illiterate	139 (23.6)	149.5 (10.5)	61.0 (4.0)	15-20	115.0 (28.0)	270.4 (19.1)	338.2 (22.0)
Read, Write and Primary	91.5 (15.5)	89.5 (6.3)	56.8 (3.7)	21-25	205.2 (50.0)	739.1 (52.3)	571.8 (37.2)
Below Intermediate	20 (3.4)	36.9 (2.6)	21.7 (1.4)	26-30	56.8 (13.9)	276.2 (19.5)	468.5 (30.5)
Intermediate	195.1 (33.1)	817.3 (57.3)	1105.6 (72.0)	31-35	9.6 (2.3)	62.9 (4.5)	137.9 (9.0)
Above Intermediate	4.8 (0.8)	75.7 (5.3)	102.6 (6.7)	36-40	5.1 (1.2)	33.1 (2.3)	6.2 (0.4)
University Degree	56.6 (9.6)	257.1 (18.0)	187.1 (12.2)	41 and Above	18.4 (4.5)	31.7 (2.2)	12.4 (0.8)
Total	589.7 (100%)	1,426.4 (100%)	1,535.1 (100%)	Total	807.2 (100%)	1413.4 (100%)	1535.1 (100%)

Notes: 1. Labor force above 6 years old in 1976 census.

2. Labor force above 10 years old in 1986 census.

3. Labor force above 15 years old in 1996 census.

Sources: Prepared by ERF based on CAPMAS: *Population Census*, 1976, 1986 and 1996

VI. Best Case Scenario for Budget Allocation

Even today, budget prioritization continues to pit job creation in the civil service against the demands of the social sectors and job creation in the real economy. By analyzing the growth in current account expenditure (Ministry of Economy, 1999-2001), it is clear that the three largest burdens on the government budget continue to be the wage bill, interest payments, and defense, which together accounted for LE 70 billion or 71 percent of total current outlays in 1999/2000. Between 1991/92 and 1999/2000, current budget expenditure increased by LE 36.7 billion, 39 percent of which was absorbed by the rise in wages and salaries, 25 percent by the increase in interest payments, and 10 percent by increased defense expenditure. Meanwhile, subsidies reached less than 8 percent of current expenditure (LE 5.0 billion in 1999/2000). The explosive trend in the wage bill (LE 22 billion in 1999/2000), suggests a tremendous opportunity cost, especially when compared to the decade-long decline in explicit subsidies and the near stagnation in real cash transfers distributed to the poor.

One way of releasing resources from the current account is to gradually overcome the government surplus labor problem by reducing and redeploying administrative employees by up to one million redundant civil servants across central and local government. According to the 1991 structural adjustment program, the wage bill was to be gradually reduced to a manageable percentage of the current budget (perhaps 20 percent), by cutting down on surplus employees as part of the civil service reform component of the program. Instead, the wage bill has been allowed to grow from 24 percent of current budget expenditure in 1991/92, to 32 percent in 1999/2000. If the reform agenda is to encompass the target of reducing the total administration and its attached wage bill as proposed under the civil service reform scenario, budget resources equivalent to up to 10 percent of the current budget, or 2.9 percent of GDP, could be reallocated and utilized toward raising the budgets of the social sectors, including insurance coverage for those who are employed in MSEs. This is equivalent to an increase of more than one-third in real terms to the actual budget resources allocated to education, health, subsidies, social assistance, and the Social Fund.

Table 3: Budget Allocation to Social Sectors

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Total Revenue (LE billion)	43.1	46.7	52.6	55.7	60.9	64.5	68.0	73.2	79.4
Tot. Cur. Exp. (LE billion)	33.4	41.0	45.9	46.9	51.2	53.0	55.3	60.7	69.5
Wage Bill (% Cur. Exp)	24.0	23.9	24.2	26.7	27.4	29.0	30.8	32.2	31.8
Tot. Cap. Exp. (LE billion)	15.8	11.1	10.7	11.3	12.6	14.1	15.6	25.3	26.1
Percent Current Exp.									
Subsidies	14.5	10.3	7.4	7.8	8.0	8.3	8.0	7.5	7.2
Education	14.5	14.1	14.8	16.6	16.8	17.9	19.0	19.0	18.2
Health	3.2	3.1	3.1	3.3	3.3	3.3	3.5	3.3	3.4
MISA	0.6	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Tot. Soc. Exp.	32.8	28.0	25.8	28.3	28.6	30.0	31.0	31.0	31.8
Percent Capital Exp.									
Education	3.4	4.9	10.8	12.0	11.5	14.1	12.8	11.8	13.0
Health	1.0	1.0	0.8	2.4	2.3	2.6	4.9	5.0	4.8
MISA	0.14	0.28	0.28	0.25	0.23	0.17	0.17	0.2	0.4
Percent GDP									
Total Revenue	31.2	29.7	30.0	27.3	26.5	25.2	24.3	24.2	24.3
Total Expenditure	36.6	33.2	32.2	28.6	27.9	26.1	25.3	28.4	29.1
Current Expenditure	24.0	26.0	26.2	23.0	22.3	20.7	19.7	15.0	21.0
Investment Expenditure	11.3	7.1	5.9	5.6	5.5	5.4	5.5	8.2	5.6
Education (Cur. + Cap)	3.4	3.7	3.9	4.1	4.1	4.4	4.6	4.5	4.4
Health (Cur. + Cap)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
MISA (Cur. + Cap)	0.06	0.06	0.05	0.05	0.05	0.04	0.05	0.05	0.05
Subsidies	3.5	2.7	2.0	1.8	1.8	1.7	1.6	1.6	1.5
Tot. Soc. Exp.	7.8	7.3	6.8	6.8	6.8	6.9	7.1	7.1	7.1

Note: Subsidies include GASC debt. Social assistance includes government subsidies to Sadat and other programs and excludes the standard social insurance contribution to employees.

Sources: Calculated from Ministry of Economy (2001), MISA (1999), and Ministry of Finance (1999-2000).

VII. Reducing and Redeploying Civil Service Employment

If the state is to engage civil society in the revision of the social contract, the obvious first items that must be intensely reviewed are the size and structure of government employment, together with the structure and levels of the wage and salary scales in the administration and social services. As can be seen in Table 4, in 1985, Egypt already had one of the highest levels of government employment amongst developing countries. The situation has since deteriorated further, in spite of the initiation of the civil service reform program in the early 1990s. The objective should be to gradually reduce and eliminate the phenomenon of surplus employment in administration, a major and unnecessary burden to the state budget, while improving the average wage and salary payment to productive government employees. The timetable could be set as a ten-year target, with transparent policies and programs discussed and debated publicly.

Table 4: Country Ranking by Share of Government Employment in Aggregate Non-Agricultural Employment (percentage)

<u>COUNTRY</u>	<u>YEAR</u>	<u>PERCENTAGE</u>	<u>COUNTRY</u>	<u>YEAR</u>	<u>PERCENTAGE</u>
<i>Indonesia</i>	1985	10.4	<i>Thailand</i>	1979	24.0
<i>Pakistan</i>	1983	11.9	<i>Barbados</i>	1981	24.1
<i>Philippines</i>	1979	12.6	<i>Sierra Leone</i>	1985	25.8
<i>Singapore</i>	1981	12.7	<i>Botswana</i>	1979	33.8
<i>Korea</i>	1981	13.4	<i>Mauritius</i>	1980	38.7
<i>Tunisia</i>	1985	15.7	<i>Gambia</i>	1985	42.1
<i>India</i>	1981	15.7	<i>Egypt</i>	1985	42.2
<i>Guatemala</i>	1981	15.9	<i>Togo</i>	1980	43.0
<i>Venezuela</i>	1985	16.2	<i>Zambia</i>	1980	44.6
<i>Sri Lanka</i>	1980	16.9	<i>Tanzania</i>	1978	46.2
<i>Argentina</i>	1981	18.2	<i>Benin</i>	1979	49.8

Source: van Ginneken, H. (1991).

Over the next few years, the structure of government employment will also have to improve in favor of local government employment in the social sectors, and at the expense of administrative occupations in both central and local government. Improved access to elementary education in remote rural areas and restructuring health expenditure in favor of preventive care and basic health, should mean an increase in the number of jobs for teachers, paramedics, and social workers serving poor communities in rural and urban Egypt. Conversely, civil service employment should be substantially reduced via incentives for early retirement, attrition, and retraining so as to allow for significant improvements in performance with accompanying increases in the salary scale.

Government revenue cannot keep pace with the ever-rising cost of the wage bill. The bulk of the increase in the wage bill is allocated to new recruitment in government administration and not to improvements in the quality of services rendered. In fact, less than half of the total increase in recruitment between 1986-1996 can be attributed to increases in the number of professionals and technicians serving in the education and health fields (CAPMAS, population census). Moreover, the three critical areas of public expenditure – education, health, and social assistance – have together only increased marginally as a percent of GDP during the 1990's and still stand at less than 6 percent.

As Egypt enters the new millennium, the state must face the last of its hard choices where social justice confronts political expediency, as reflected in the government wage bill budget. What can be easily shown is that the full cost of an ambitious program for social spending is

feasible, if only the government would relinquish its guaranteed employment scheme. This would provide for full coverage of the ultra-poor with adequate social assistance for up to one million households at LE 100 per month, a total of LE 1.2 billion per year; plus government insurance contributions for up to 2.5 million MSE workers at LE 40 per month would provide another LE 1.2 billion per year. Contributions to social insurance in the microenterprise sector would offer security to employees and encourage employers to formalize work contracts and generate new jobs.

For every artificial job that the government creates inside the bureaucracy, two or three real jobs could be created in the MSE sector at the same cost to the budget, but with an increased level of welfare for the country. These contributions would also provide financial incentives for NGOs and local communities to establish support services for working mothers, the elderly, and the handicapped. The funding would also increase the budget of health and education for intermediate supplies and services, as well as other social targets and programs on which consensus is reached. It is clear that trade-offs must be identified and priorities debated; this is the essence of the new social contract.

VIII. Concluding Remarks

In retrospect, it can be said that throughout the second half of the twentieth century, subsequent governments had the budgetary resources to eradicate the two most serious symptoms of poverty - illiteracy and endemic diseases - and yet the state's generous social spending lacked any real focus on the integrated package of services needed by the most disadvantaged segments of the population. Unlimited subsidies, open-ended university education, and unrestricted recruitment to the civil service have been biased in favor of creating a large and dependent middle class of bureaucrats, at least one million of whom are in excess of the needs of effective administration and are a major impediment to good governance.

If the state is to redeploy its civil service staff toward providing additional and improved services to the poorer regions of Egypt as part of a broader program for spatial redistribution and decentralization, as well as reorganize its work force away from administration and toward service delivery, Egypt could move on the road to becoming a welfare state. The state would become the provider of high quality services supplied by more than 3 million educated professionals and technicians in government service. Strengths to build on are the armies of doctors, engineers, nurses, teachers, and social workers who have received a good education

and are on the government payroll, but are not serving in the field where the pockets of poverty are concentrated. The resources needed for retraining and relocation are available. An innovative approach, careful study and design, as well as political commitment, would constitute the start of a new civil service mentality where quality standards and values are commensurate with the task at hand.

In order to implement the proposed new social contract, a comprehensive spending review will be required where all branches of the legislature, executive, and interest group representatives are consulted and the new budget priorities are debated. There is ample scope to shift significant resources to specific programs of education, health, social security and support for NGOs and SMEs while maintaining overall budget discipline, provided reforms in the size, structure, and mandate of public administration are undertaken.

Critical analysis of Egypt's public expenditure on the poor and unemployed suggests that the government should review and increase the social assistance budget from its current level of about 0.5 percent of GDP. What is advocated is to move away from the unsustainable and inequitable policy of providing artificial government jobs for the few, and instead, direct budget resources of up to 2.0 percent of GDP toward shouldering part of the social insurance burden of wages in the MSE and informal sector.

The proposed social reform strategy would then incorporate the poor so that they are not simply the target, but also become the means for achieving a path of sustainable growth and development. The package of policies can jump start the multiplier process of job creation and would include – in addition to the government subsidy toward social insurance contributions – a tailor-made program for MSE modernization that would parallel the plan inaugurated for medium and large firms.

Moreover, a number of programs can be proposed that capitalize on the organic links that tie poor families to the traditional and micro enterprise sectors, and that promote income generation with higher levels of employment, productivity, and competitiveness. This approach would better utilize existing human and physical resources in the government, create partnerships between public and private actors, and generate a new ideology of participation across various segments of civil society.

The government must also capitalize on substantial investments it has made in a number of infrastructural areas which have helped microentrepreneurs and their families graduate from subsistence livelihoods into successful small business. Over the last two decades, the increase

in the small and medium sized enterprises was only 70 thousand. Now, and for the next decade, a more targeted program of incentives including state contribution to social insurance, micro-credit, serviced land, property rights, extension services, and NGO promotion could help as many as 1.5 million micro-sized establishments graduate to formality, earn higher incomes, and generate more jobs.

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