

Moving up or Moving down?

The heterogeneity of informal employment in Egypt

Imane Helmy¹ and Nistha Sinha²

Informality and formality of employment stands at the core of dualistic labor markets in many developing countries (Fields, 2004). Starting from 2014, the government of Egypt embarked on an economic reform program to achieve macroeconomic stability and resume high growth. With a growth rate exceeding 5 percent in 2018, the informal economy in Egypt was expected to shrink. Nevertheless, informal employment and working outside establishments witnessed a significant growth from 12 percent in 2006 to 23 percent in 2018 (Assaad, AlSharawy & Salemi, 2019). Previous studies addressed the issue of informality mostly through static analysis (see Wahba (2009); Assaad and Wahba, (2014); Hendy and Zaki, (2012)) while few studies explored the transitions between informal and formal employment (see Canavire-Bacarreza and Soria (2007); Pages and Stampini (2009); Bosch and Maloney (2010), Assaad and Krafft, (2013); Amer (2014), Selwaness and Roushdy (2014)). However, there is little evidence on the heterogenous nature of informal employment, particularly in MENA countries (see Sen, Danquah and Schotte (2019) for Sub-Saharan Africa).

Accordingly, this study addresses a gap in the literature by shedding the light on heterogeneity of informal employment in one of MENA countries, Egypt. Specifically, this paper provides a mobility analysis of the Egyptian labor market with an emphasis on voluntary vs. involuntary movements into and out of upper-tier and lower-tier informal wage and self-employment. We define formality as either having a contract or social insurance. Following Sen, Danquah and Schotte (2019), we define low-tier informal employment as easy-entry, unskilled wage/self-employment which is expected to have low earnings and low productivity while upper-tier informal employment are skilled jobs that requires professional trainings. Recent availability of

¹ Consultant, Poverty and Equity Global Practice, World Bank

² Senior Economist, Poverty and Equity Global Practice, World Bank

panel data on the labor market in Egypt from 1998 to 2018 enable long-term dynamic analysis using data of Egypt Labor Market Panel Survey (ELMPS). The research questions that this paper attempts to answer are:

1. What is the frequency of transitions between upper-tier and lower-tier informal employment in Egypt?
2. What are the determinants of downward and upward movements?
3. How did the welfare of individuals change with the transitions?

The mobility analysis is explored using transition matrices, differentiated by gender, to enable the investigation of transitions into and out of various labor market states (formal wage employment, informal upper-tier wage employment, informal lower-tier wage employment, formal self-employment, informal upper tier self-employment, informal lower tier self-employment). The determinants of transitions are investigated using a multinomial logit model while a regression analysis is used to study the determinants of change in the logarithm of individual labor earnings between time. Studying the heterogeneity of informal employment will inform the design of different policies addressing informality in Egypt.

Acknowledgements: The authors are thankful for valuable discussion with participants at UNU-WIDER Summer School and Professor Gary Fields.

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