



THE PUBLIC POLICY HUB

Youth Participation and Employment Program

Policy Brief

Startups and Human Capital Management in Egypt: In Search of Decent Jobs

2020

Executive Summary

While startups are considered an important potential contributor to Egypt's economic growth, they encounter myriad challenges that hinder their ability to reach their potential, sustain their market presence, and their capacity to provide decent job opportunities. Challenges include the difficulty of locating and sustaining funding, the complicated legal and regulatory framework that governs them, the conservative social norms and culture, and the lack of data and information regarding market dynamics and existing opportunities. The research findings revealed that many startups face challenges with their Human Capital Management (HCM), in the planning, acquisition, development, or sanction functions. This policy paper examines Egypt's current startup ecosystem, focusing on human capital management. The main research question is: what is needed for startups in Egypt to thrive, and more importantly, what can be done to help them provide more decent jobs? The paper adopts the "Decent work" framework presented by the ILO which defines a decent job as one that is of acceptable quality in terms of ensuring productivity, social protection, rights, and dialogue.

The policy paper identified **five** different policy alternatives to enhance Egypt's startup ecosystem: Policy Option I calls for **enhanced governmental support** to startups through a package of policies, tailored legal services and incentives that meet their needs; Policy Option II calls for **strengthening HCM in startups through capacity building and awareness raising** activities on raising awareness about the importance of HCM and develop a Code of Ethics for startups; Policy Option III suggests capitalizing on Corporate Social Responsibility programs of large multinationals to mentor startups; Policy Option IV focuses on **upgrading and linking the higher education curriculum to entrepreneurship market needs**; Policy Option V promotes **enhancing support provided by civil society organizations and international development partners** to startups in Egypt. The recommended policy option in order to better sustain startups, enable them to thrive, and allow them to offer more decent jobs, is to start with the government placing the role of startups in creating decent jobs high on its agenda and initiating the recommended Comprehensive Support Program (Policy Alternative 1) and be willing to provide tax holidays, paid leaves, and grants to change the startups ecosystem into being a friendlier one.

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The opinions expressed in this paper are those of the authors and do not reflect AUC Policies or views. They are published to stimulate further dialogue on issues and challenges facing Egypt in an attempt to expose graduate students to practical policy solutions.

What is hindering the implementation of decent work agenda in startups?

1. Problem statement:

The startup ecosystem in Egypt encounters a myriad of challenges that hinders their ability to reach their potential, sustain their market presence and their capability to provide decent job opportunities.

Some of these challenges are general challenges in the ecosystem and others are human capital related.

A. Gaps in the Existing Ecosystem

1. **Locating and sustaining funding and investment opportunity** throughout the startup lifecycle: The lack of proper financial knowledge of startup founders puts them at a disadvantage in terms of identifying the potential funding opportunities and during their negotiations with potential investors (Riseup manifesto, 2018).
2. Lack of **awareness** of startup founders with the **Egyptian regulatory system** in terms of hiring, contracting, insurance and labor rights.
3. **Conservative social norms and culture**
4. **Lack of data and information regarding** market dynamics, available opportunities, existing and operating startups, and case studies of successful and failed startups cases.

B. Human Capital Related Challenges

1. Planning Function:

At the early stages of startups, they face difficulty in efficiently planning their talent needs, which reflects on their hiring strategies and criteria and the organizational structure.

2. Acquisition Function:

• Finding talent:

Most interviewees reported that hiring talents is of primary concern for the startups. There is a shortage of talent at junior and senior management levels of the startups specifically in hard skills that enable innovation, namely IT, design, and marketing, and also in soft skills, i.e. negotiation and communication skills.

• Gap between higher education curriculum and entrepreneurship market needs:

In terms of technical skills, know-how and education, they form blocks in the face of startups, due to the lack of an integrated curriculum that promotes entrepreneurship and teaches the principles and skills required to establish small businesses, thus, many entrepreneurs face difficulty in terms of finding the right pool of graduates to join their startup.

• Local geographical discrepancy in representation:

Egypt also faces a geographical talent gap due to increased internal migration of the most talented calibers to Cairo which leaves the other governorates without talents.

• Gender balance:

Women-led businesses have a lower probability of continuation compared to men-led businesses. Additionally, women are less likely to negotiate for higher salaries, leading to a gender pay gap.

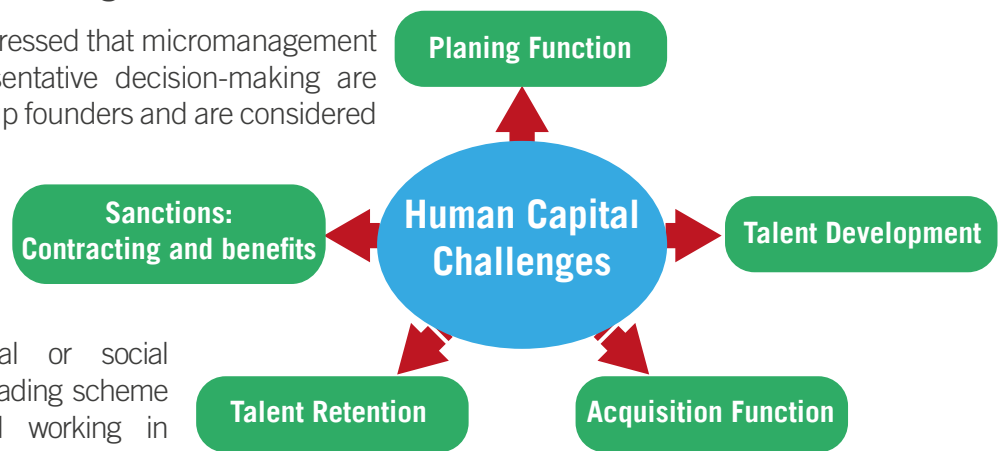
3. Development of talent:

Developing talent is the second concern for all interviewees. Because startups depend on their human force on inexperienced young fresh graduates, they therefore require a lot of technical development training and entrepreneurship education, however, most startups have very tight budgets, so they rather focus on sales and investment and not education and training for employees.



4. Retention of Talent: Issues of Management and Culture

- Most of the interviewees have expressed that micromanagement and lack of inclusive and representative decision-making are caused by the inexperience of startup founders and are considered a primary factor for turnover.
- There is a low level of enthusiasm by potential workforce to join startups partly due to weak financial offers. The absence of fair compensation system, non-provision of medical or social insurance, and absence of salary grading scheme further deepen insecurity around working in startups. This in addition to, the absence of an engaging, inclusive and integrated work culture and internal management inside startups. This is reflected on the absence of a shared vision, values and the sense of ownership.



5. Sanctions: Contracting and Benefits

Applying laws that regulate large corporations constitutes a burden on startup resources who don't have nor the financial resources needed to afford medical and social insurance for their employees, nor the time to handle the complexity of bureaucratic papers. This is reflected in:

- The absence of startup-specific regulations such as registration processes, taxation schemes, and subsidized insurance plans.
- Some startups abstain from providing contracts to their employees as a cost reduction mechanism.
- Some startups offer unlawful contractual terms and clauses such as “obliging the employees who leave before the end of the year to pay a year’s worth salary to the startup” (Roundtable discussion, December 29th, 2019).

Policy Options:

Policy Option I: Designing a comprehensive government startup support framework:

Startup tailored governmental regulations and support:

Governmental entities such as the Cabinet of Ministers, GAFI and the Tax Authority can help in making the startup ecosystem more friendly through customized legal packages for startups as:

- Tax exemption for at least the first 8 years of the life of the startup;
- Subsidies on social and medical insurance for startup employees

Digitalization of governmental regulations and support through providing an accessible online portal that:

- Offer information and guidance to startups on starting a business, registration processes and requirements, labor offices functions and locations, current support programs and capacity building opportunities.
- Include a Startup Jobs portal where job opportunities at startups could be marketed.
- Include a clear complaint system where startups can voice their concerns to designated authorities.

Decentralization of government support through:

- Providing an on-the ground stop shop sponsored in Micro, Small and Medium Enterprise Development Agency (MSMEDA) hubs across all governorates to provide startup-specific regulations and procedural.
- Establishing local business development centers (BDS) that will help in “creating localized ecosystems” in Egyptian governorates. This will help in making available several co-working spaces for startups such as the one in GAFI across different geographical areas to help founders through the first cycles of idea development.

Startup Act Tunisia

Tunisia issued special laws tailored to startups, entrepreneurs and investors that seek to identify first what is a startup to provide them with grants, official work leaves from their initial jobs, and tax exemption. The Tunisian government also launched a startup portal “Startup Act” to ease the administrative operations of startups. (The startup act, 2020).



Policy Option II: Strengthening Human Capital Management (HCM) Component in startups through capacity building and awareness raising activities

Mentoring and Building the capacity of startups by GAFI authority through:

- The establishment of national training institutes in different governorates will guarantee access to training and information to startups across Egypt.
- A consultation service for all startups to benefit from it for a reasonable price. It's best to hire consultants that has extensive experience of the startup Journey.
- GAFI authority and Fekretak Sherketak need to sponsor startups major networking events as Rise Up and to settle a regular booth where it will provide the recent work of the unit, their programs, and their services.

Raising awareness on human capital management practices and labor-related legal procedures (contracting and benefits and fair labor rights) through

- startup summits such as RiseUp and Hackathon, email communications, social media platforms, and entrepreneurial opinion leaders.

Developing a Startup Ecosystem Code of Ethics:

- All startup stakeholder's ecosystem including incubators, accelerators and entrepreneurship hubs should develop a code of ethics that will aim at governing cooperative and operative frameworks amongst startups.
- Ethical principles and guidelines concerning human capital management (HCM) in terms of employee rights, fair contracting, tangible and intangible benefits, female representation, positive culture and violations are to be included in the guide.
- This ethics code will foster transparency and accountability amongst stakeholders and will help in addressing gaps in management practices and raise awareness of both founders and employees regarding labor rights, best practices and legal channels of support and complaints.



Policy Option III: Integrating and Capitalizing on Corporate Social Responsibility to support the startup ecosystem

- Corporates can support startups ecosystems through their CSR program, while GAFI is to offer large enterprises incentives such as tax reductions to support these CSR initiatives.
- GAFI can support exchanging programs between corporates and startups where employees from startups serve in corporates, observe their technical and support programs in legal, finance, and human resources departments, the different challenges and the way they are managed on the ground and receive mentorship on different levels such as leadership, technology and sector-specific mentorship.
- Corporates can pay the salary of one HR professional in a startup for one year. This person will get to learn, from the exchange with corporates, the planning of HR needs, hiring cycles, identify more specific job description, and salary grading scale.

Policy Option IV: Enhancing the Partnership between Startups, Civil Society Organizations (CSOs) and International Development Partners:

Maximize the benefits Provided by CSOs and International Development Partners to Startups:

The government needs to cooperate with CSOs and international development partners to ensure more funding goes to increasing decent jobs criteria inside startups through.

- Social and medical insurance to startups employees.
- Connecting them to human resources consultancies or specialists in HCM.
- Entities like YCombinator and Ashoka can offer basic income to founders or HR specialists.

Support to Startups in Human Capital Development (HRD):

- International organizations are development partners who provide technical training for startups,
- They host several entrepreneurship summits that aim at boosting Egyptian small businesses.
- International organizations help build an accountability system inside startups where there is a clear reporting system of dissent and complaints.
- They can also provide a friendly space for entrepreneurs to work to improve team productivity.

Specialized Mentorship to Startups through a Human Capital Fund:

- Assign an expert mentor in the field of Human capital management to start ups.
- Create a situational analysis for the startup needs in Human capital management as (Creating team performance matrix, Salary scale, maintain a positive culture)
- Periodical review and assessment for the new startup phase.

Policy Option V: Upgrading and linking higher education curriculum to entrepreneurship market needs

Higher Education Curriculum Development

Achieving significant changes in higher education curriculum and continuously updating it according to:

- The economic situation
- Entrepreneurship updates, aligned with the entrepreneurial skills and characters of the potential candidates.

The Establishment of University Training Hubs:

The Ministry of Higher Education and Scientific Research (MoHESR) needs to establish and strengthen incubators and accelerators for startups, working as decentralized training hubs in all universities across Egypt, that will offer:

- Education, mentoring, and a friendly space to work.
- Long-term capacity development programs such as financial training, marketing, legal advice, hiring strategies, planning HR needs and salary grading system.
- Provide research opportunities with the purpose of providing context-fit solutions with reasonable prices to address challenges facing startups especially in other governorates.
- Developing a tool to measure the progress in developing the human resources inside startups, such as the ESG "Environmental, Social and Corporate Governance" where the Social component indicates the human resources management and development, which is measured by indicators and a scoring system. If the score is low, then an improvement plan must be set.

These training hubs will have monitoring and evaluation and impact focused studies to provide data on the sustainability of businesses after the entrepreneurship education and capacity building programs, identify the lessons learned, the success stories and the challenges for future developing the research lab on entrepreneurship in Egypt.

Internships and Scholarship Opportunities:

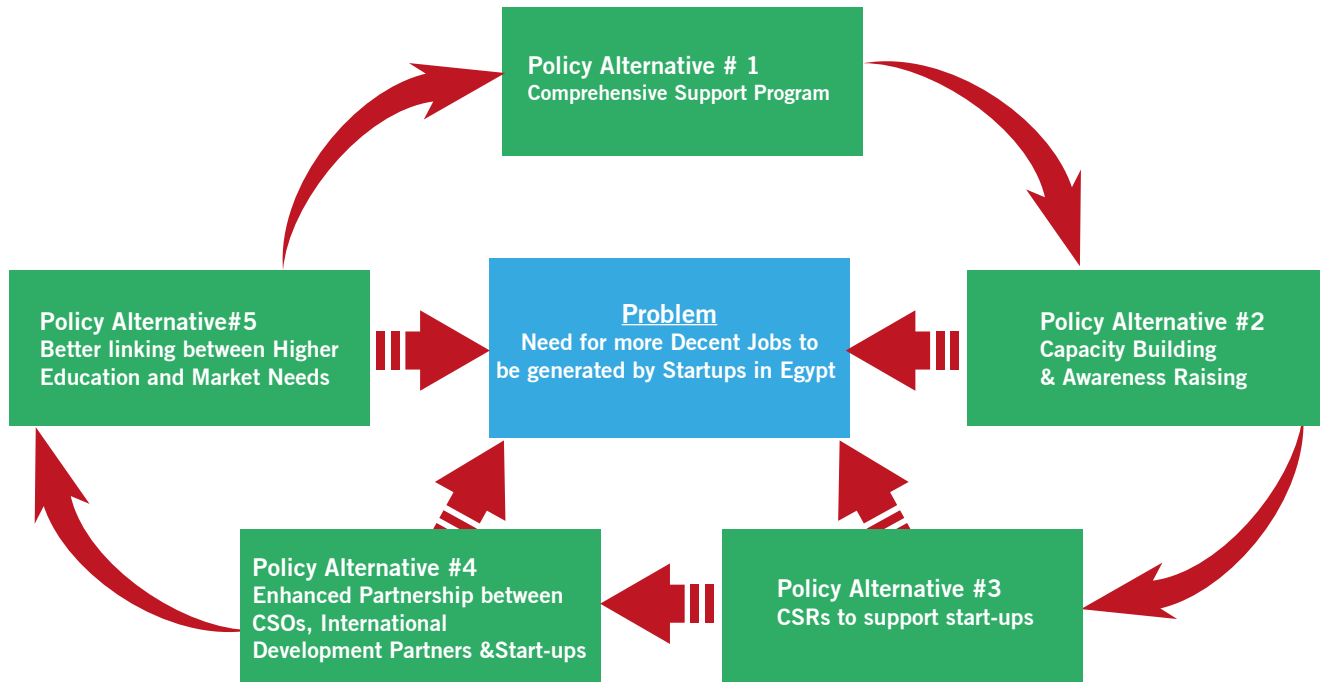
- Students are to apply to internships in startups. This will be further strengthened by giving startups an opportunity to join university career fairs to attract more students and normalize working in startups;
- Provision of scholarship programs for university students to be equipped with the entrepreneurship, technical and operational knowledge to help improve the startup scene.



Conclusion:

It is recommended that we start by the Government placing the issue of the role of startups in creating decent jobs high on its agenda and initiating the recommended Comprehensive Support Program (Policy Alternative # 1) and be willing to provide tax holidays, paid leaves and grants to change the startups ecosystem into being a friendlier one.

Next we should move to Capacity Building and Awareness Raising for startups about Human Capital Management functions and procedures. To overcome the inhibiting potential costs entailed, this should be an effort coordinated by the government but relying mostly on funds allocated through the multinational organizations, civil society organizations and international development partners (Policy Alternatives 2,3 &4). Finally, Policy Alternative # 4, regarding the better sync between Higher Education and market needs can be pursued as a long term goal.



The Public Policy HUB Where Rigour Meets Creativity

The Public Policy HUB is an initiative that was developed at the School of Global Affairs and Public Policy (GAPP) in October 2017. It was designed to fill in the policy research gap. It provides the mechanism by which the good ideas, plausible answers, and meaningful solutions to Egypt's chronic and acute policy dilemmas can be nurtured, discussed, debated, refined, tested and presented to policymakers in a format that is systematic, highly-visible and most likely to have a lasting impact.

The Public Policy HUB provides a processing unit where policy teams are formed on a regular basis, combining experienced policy scholars/mentors with young creative policy analysts, provide them with the needed resources, training, exposure, space, tools, networks, knowledge and contacts, to enable them to come up with sound, rigorous and yet creative policy solutions that have a greater potential to be effectively advocated and communicated to the relevant policy makers and to the general public.

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