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Addressing informality in Egypt

Key Messages

Labour market dynamics in Egypt have been characterised by three major trends since 1990:

- Rapid growth of the informal economy, which now employs over half of Egypt's workers;
- Sharp decline of the formal private sector up to 2004, when government policies directed at formalising informal sector enterprises resulted in some firms joining the formal economy; and
- Slow expansion of the public sector – despite the exigencies of structural adjustment – until 2000, when the government declared a hiring freeze.

Informality in Egypt has grown since 1990 because:

- The formal private sector has not generated a sufficient number of formal jobs to absorb Egypt's growing labour force - or even to replace the number of formal sector jobs being destroyed;
- Formal private sector employers are unwilling to hire certain groups of workers, owing to skills mismatches or because of prejudice; and
- Educated youth have not developed an appetite for private sector work or entrepreneurship.

The consequences of informality vary according to the level of aggregation of actors inhabiting the informal economy:

- Low (or no) pay and lack of social protection means that many informal workers suffer from working poverty and are unprotected in sickness or old age, or during market and employment transitions;
- Lack of access to government technical and financial support and formal credit sources prevents many informal enterprises from developing and fully contributing to economic growth, productivity and employment.

Therefore, removing the causes of informality means eliminating blockages to formal private sector growth, reducing impediments to formal private sector hiring, and reorienting graduates' aspirations towards the private sector, while reducing the consequences of informality means extending legal and social protection to informal workers and boosting the developmental potential of informal sector firms. Measures based on these themes need to be combined into a comprehensive set of policies aimed at addressing informality.

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I. Introduction

'Is it not strange that you should come to Cairo to work in a company that occupies a high-rise building with an elevator and uniformed office boys, only to find yourself hurled into a place underground where you take on the responsibility of hot and cold water, a black ful furnace that feeds on garbage, and a small workshop that makes jewelry? Your mother had thought you would become like a little moon that would light her way or a small sun that would warm her heart. Will you write to her and say: I finally found work in a ful furnace after ten days of continuous searching? Will you tell her that you sleep in a sticky place covered with water and soap and filled with naked men? That this was all you could find? Only this narrow dead end? That you were hungry and naked; that your underwear is filthy and that your shoes are worn out; that you want a hot meal with a lot of butter, and that you miss your days in Ismailiya; that spring will not return... and that you fear the winter?'

Ismail Wali al-Din, Hammam al-Malatili (as translated by Mehrez, 2010)

The above quote summarises the predicament of Ahmad, a fictional character in Ismail Wali al-Din's controversial novel, Hammam al-Malatili. Ahmad is a high school graduate who has failed to realise his dream of securing a well-paid office job in Egypt's bustling capital, Cairo. Instead he is forced into the country's underground economy, where he works a 'dead end' job under poor conditions for low pay. Wali al-Din's excerpt captures Ahmad's shame, growing hopelessness and fear that he will become trapped in poverty. Like most literary works, Wali al-Din's novel reflects reality.

Across Egypt, a growing number of young people have been unable to find good jobs utilising their skills and have instead ended up in the country's informal economy, often earning low (or no) wages and working under substandard and insecure conditions. The problem affects educated as well as uneducated youth and is a major issue for young

women. Escalating informality was one of the main drivers of the Arab Spring in 2011; it therefore represents a 'ticking time bomb' that must be carefully handled if Egypt is to enjoy a peaceful transition characterised by rapid, inclusive growth and poverty reduction. However, the hidden nature of the informal economy makes it difficult to locate and measure, and lack of accurate information poses a problem for policy makers struggling to tackle rising poverty, high unemployment and sluggish growth in the wake of the Arab Spring.

Recent research suggests that Egypt's informal economy has been increasing in size and complexity, which has repercussions for political stability, fiscal sustainability, law and order, economic growth, business productivity and innovation, and social welfare in the country. On the other hand, Egypt's informal economy is more dynamic, pro-poor, flexible and resilient than its formal economy, so may hold the key to correcting distortions in the country's labour market. Thus, addressing informality in Egypt means putting in place measures to unleash the informal economy's potential for generating growth, productivity and employment, combined with policies to temper informality's negative impacts at different levels of aggregation.

This paper proposes solutions for addressing informality in Egypt taking into account its disparate definitions as well as the various stakeholders involved in the issue. The paper is structured as follows. Section 1 introduces the concept of 'informality' and explains why it is a problem that demands government attention. The section also highlights the difficulties involved in addressing informality owing to definitional, data and measurement issues. Section 2 assesses the prevalence of informality in Egypt, while Sections 3 and 4 consider its causes, characteristics and consequences. Section 5 summarises the main policy options for addressing informality and critically analyses Egyptian government measures aimed at addressing informality. The final section provides a summary of the main findings and offers specific recommendations.

II. What is informality and why does it matter?

'Informality' is a blanket term that describes the characteristics and/or conditions of enterprises, workers and activities that fall outside the purview of a country's formal legal and regulatory framework¹. Informality is present in every country but is more prevalent in developing countries, where states and statistics tend to be weaker. This is largely a consequence of developing countries' colonial heritage: up to the mid-twentieth century, population censuses and labour force surveys in colonial territories tended to collate information on the demographic characteristics and economic activities of European and other ruling populations, while overlooking indigenous groups, who would carry out their daily activities removed from the oversight and intervention of the state (Subrahmanyam, 2004: 256-330). Although most developing countries have improved their statistical processes and methodologies since gaining independence, so that most social groups are now included in official accounts, significant populations continue to escape detection and quantification, and therefore avoid state taxation and regulation (Kanbur, 2013). This omission is often due to weak state capacity – for example, lack of funding, manpower and/or technical expertise – but also arises from informal enterprises and workers taking steps to remain invisible.

The economic space in which unregulated labour market arrangements and activities takes place is often referred to as the 'informal sector' – a term which, until recently, was considered synonymous with 'informality'. However, over the past few decades, the lines separating the unregulated informal sector and the regulated formal sector have become blurred, as formal sector enterprises have increasingly taken to hiring workers informally or engaging in informal activities to reduce their costs and increase their competitiveness (Piore and Sabel, 1984; Portes, Castells and Benton, 1989; Standing 1999)². A key aspect of informality, which makes it a complex phenomenon and accounts for its persistence, is that labour market actors continually adapt their activities to changes in the economic environment, seeking out new ways of 'beating the system' and evading government control.

To overcome these problems and ensure that official data captures the full extent of informality in countries, the International Labour Organisation (ILO) has advised governments to move away from an 'enterprise-based approach' to conceptualising informality, where the focus is on labour market arrangements and activities within informal sector firms, towards a more holistic model that captures the growing propensity for informal practices to occur both within and outside the informal sector, hence accounting for informality within formal sector enterprises (Hussmans, 2004). The ILO recommends the use of three separate but overlapping definitions (or approaches) for conceptualising informality. The first focuses on informal sector firms or enterprises; the second on informal employment, which can take place within formal sector as well as informal sector enterprises; and the third on informal activities, which can be undertaken by formal or informal sector workers (ILO, 2013).

Informality is therefore defined as follows:

- **Informal enterprises** are 'unregistered and/or small-scale private unincorporated enterprises engaged in non-agricultural activities with at least some of the goods or services produced for sale or barter' (ILO, 2013: 5)³. Informal enterprises may be owned and operated by single individuals working on their own account, or they may employ workers, including unpaid family workers. The key feature of informal enterprises is a lack of regulation – either because informal firms choose not to comply with legal requirements or because their size puts them beyond the scope of regulation. In most countries, businesses falling below a certain size threshold are exempt from registration procedures and enforcement of tax or labour laws.
- **Informal employment** is conceptualised in terms of workers' pay and conditions. Since informal employment takes place outside the scope of government regulation, informal workers are 'by law or in

¹ The term 'informality' is less widely known than the thirty or so 'synonyms' commonly used to refer to the phenomenon, including phrases such as 'black market', 'shadow economy', 'unorganised sector', 'subsistence economy', 'hidden sector' and 'extra-legal economy' (Lachaud, 1990).

² In developing regions for which estimates have been generated, informal employment outside the informal sector ranges between 13% and 16% of total non-agricultural employment (ILO, 2013a).

³ Agricultural activities tend to be excluded from definitions of informality, owing to informality's conceptual roots in the 'dual economy'. Development economists writing in the 1950s posited that selective modernisation under colonialism had produced two differentiated economic sectors within developing countries – a traditional rural subsistence sector and a modern urban industrial sector – and that postcolonial development processes would entail the transformation of stagnant traditional economies into growing modern capitalist, or formal, economies (Boeke, 1953; Lewis, 1954). Studies of informality therefore implicitly tend to treat agricultural production as informal and focus their attention on non-agricultural activities.

practice, not subject to national labour legislation or entitled to social protection and employment benefits' (ILO, 2013: 4). Workers deemed to be informally employed include not only own-account workers, employers in micro-enterprises and employees in informal sector firms, but also domestic workers employed by households and workers employed by formal sector firms on flexible (for example, temporary, part-time, casual or seasonal) terms (ILO, 2002: 2; Oviedo et al, 2009; Chen, 2012).

- **Informal activities** are 'all economic activities by workers and economic units that are – in law or practice – not covered or insufficiently covered by formal arrangements' (ILO, 2002: 2). Informal activities may take place for a variety of reasons: because laws are weakly applied or enforced, rendering activities de facto unregulated; because regulations are viewed as inappropriate, burdensome and/or excessively costly, so are evaded; and/or because firms or individuals deliberately conceal their activities, whether or not they are illegal (Hussmans, 2004: 9).

The hidden nature of the informal economy⁴ makes it difficult to detect and study. To overcome data issues that impede direct examination of informal actors and activities, researchers often use proxy variables to estimate the size and characteristics of the informal economy. A variety of indicators serve as proxies for each definition of informality. Proxy variables for informal enterprises include number of workers (since small firms generally escape regulation), size of capital (since firms with low capital often remain small), and non-compliance with formal legal requirements, such as business registration, obtaining licences and paying taxes (Hussmans, 2004: 1). Proxy variables for informal employment include lack of job contract, lack of access to social security or pension benefits, insecure or irregular working conditions (casual, short-term or seasonal employment; self-employment or own-account employment; or employment outside establishments), and low wages

(not subject to or paid below minimum wage)⁵. Informal activities are reported as a percentage of GDP and are estimated directly, through tax audits or voluntary sample surveys, or indirectly, by tracking the velocity of currency demand, assessing economic activity based on electricity consumption, or calculating the difference between national income and expenditure (Schneider et al, 2010; Smith, 1994: 18).

Depending on the definition of informality and proxy variable applied, estimates of the size of the informal economy can vary considerably (Guha-Khasnobis et al, 2006). This variability affects the accuracy of labour market information, which in turn limits government effectiveness, since public policies are based on uncertain data (Tanzi, 1999: 338-47; Schneider and Enste, 2000). Since there is no internationally approved standard for defining and measuring informality, governments often have to rely on data that are inconsistent across time and space. These issues could be resolved by agreeing national standards for defining and measuring the informal economy, but many countries have thus far failed to do this.

Informality, particularly when it is pervasive, can have grave consequences at macro, market and household levels (see Table 1). At macro level, tax avoidance by informal actors means that public goods are overused but underfunded, which can limit governments' capacity to deliver high-quality services and can threaten fiscal sustainability (Abdelhamid and El Mahdi, 2004: 7-8). When a large segment of the population refuses to pay tax – or 'free-rides' – those that are law-abiding are forced to fund a higher tax bill for goods and services that informal actors enjoy but do not pay for. Over time, this can foster resentment and encourage growth in non-compliance (Torgler and Schneider, 2007). The greater the incidence of informality, the more difficult it is for governments to enforce regulations, which can undermine law and order and further erode state capacity. Hence, 'informality begets informality' unless action is taken to stem its expansion.

⁴ The term 'informal economy' is a synonym for 'informality': it comprises all informal production units, activities and workers, as well as their output (Chen, 2012: 8).

⁵ Informal employment may also be determined via 'triangulation' – for example, by calculating the difference between employment figures reported in population censuses and those recorded in labour force surveys (Schneider and Enste, 2000).

Table 1: Why informality needs to be addressed

Level of aggregation	Main consequences of informality
Informal activities (macro level)	Free-rider problem - fiscal implications/encourages further informality
	Erosion of social norms - propensity toward lawlessness
	Inaccurate labour market information - limits effectiveness of public policies
Informal enterprises (market level)	Unfair competition by informal firms - encourages further informality
	Drive to remain 'under the radar' - deters growth and investment
	Lack of access to formal support - limits growth, productivity and innovation
Informal employment (household level)	Exploitation - low or no pay and insecure/poor working conditions for some
	Lack of legal recourse - workers unprotected by labour laws/trade unions
	Lack of social protection - most workers uninsured against income shocks

Pervasive informality also has negative impacts at market level. The existence of a large informal economy distorts market competition and encourages growth in informal practices by forcing formal sector firms to compete on tax and labour charge avoidance, rather than on innovation (Abdelhamid and El Mahdi, 2004). To avoid detection, informal sector firms often incur high costs, such as frequently changing locations or activities and paying bribes to corrupt officials (De Soto, 1989). Some informal enterprises deliberately restrict their size to remain 'under the radar' of government, which reduces their contribution to economic growth and employment (Kanbur, 2009). Because informal sector firms operate under uncertain conditions, they rarely invest in their businesses or employees, which limits their productivity and potential for innovation (Loeprick, 2009). Moreover, informal businesses often lack access to formal support mechanisms that could boost their growth, productivity and innovation potential, such as formal training opportunities, access

to formal credit channels and other factors of production, and the right to bid for public contracts (Loeprick, 2009).

However, the consequences of informality are most acute at household level. Freedom from regulation allows exploitative practices to take place unchecked. Informal employees may be subject to low (or no) wages and to unsafe and/or insalubrious working conditions (Jütting and de Laiglesia, 2009). Yet they have no legal recourse, because they are not covered by labour laws and often lack a job contract. They also lack representation by trade unions that can bargain on their behalf (Bonner and Spooner, 2011). Additionally, in most developing countries, informal workers are not covered by social safety nets, so are highly exposed to unforeseen shocks to their income⁶. For the poorest households, the impact of a family member losing his or her informal job will be harsh.

⁶ In most advanced industrialised countries, informal workers are covered by national labour laws and social security legislation, while in most developing and transition countries, informal workers do not enjoy legal and social protection, which is tightly linked to formal employment (ILO, 2002: 2; Oviedo et al, 2009).

Informality at household level triggered the Arab Spring. Mohamed Bouazizi was a young Tunisian street vendor whose produce was confiscated by police when he was found to be operating without a business licence. Bouazizi's death by self-immolation following this incident ignited the revolutions that spread across North Africa, including Egypt, in 2011. The reason why Bouazizi's plight provoked such widespread discontent is that many people across the region share his circumstances and his frustration (Volmar, 2012).

Informality thus represents a 'ticking time bomb' that must be carefully handled by policy makers, particularly in transition countries such as Egypt. Growth in informal arrangements and practices is one reason why Egypt continues to struggle with rising poverty, high unemployment

and sluggish growth – issues that have impeded its smooth recovery from the Arab Spring. Government action on informality therefore needs to be carefully considered and evidence-based if Egypt is to enjoy a peaceful transition to democracy characterised by rapid, inclusive growth and poverty reduction.

The remainder of this paper seeks to strengthen the evidence base by synthesising findings from a number of recent studies to provide an aggregate picture of the size, characteristics, causes and consequences of informality in Egypt. This information is later applied in critically analysing Egyptian government policies for addressing informality. The next section reviews evidence regarding the size and development of the informal economy in Egypt.

III. Prevalence of informality in Egypt

Egypt faces the same definitional, data and measurement issues in gauging informality as most other developing countries. There is no single source of statistical information, either official or private, on Egypt's informal economy and no single, uniformly applied definition of informality. Egypt's Central Agency for Public Mobilization and Statistics (CAPMAS) adopts an 'enterprise-based approach' to informality in its economic census. The informal sector – or the 'unorganised private sector', as CAPMAS refers to it – is defined as retail trading firms with less than five workers, manufacturing industries and repair services with less than ten employees, and business entities that are unincorporated, unregistered and do not maintain regular accounts (Abdelhamid and El Mahdi, 2004: 16-17)⁷. Another data source, the Egyptian Labour Market Panel Survey (ELMPS), which is co-produced by the Economic Research Forum⁸ and CAPMAS, defines informality on the basis of non-compliance. According to the ELMPS, informal enterprises are active, non-governmental, non-agricultural businesses with one or more workers that do not fully comply with their four main legal requirements (obtaining a licence, registering as a business, paying taxes and keeping regular accounts), while informal employment is private sector work not covered by a legal contract or social security (Abdelhamid and El Mahdi, 2004: 17)⁹. The ILO applies both size and compliance criteria in defining informal employment, which comprises non-agricultural private sector workers not covered by basic social or legal protections or unemployment insurance (ILO, 2013)¹⁰. Some studies gauge informality by triangulating available data

rather than by defining proxy variables. For example, a recent African Development Bank study estimates informal employment by calculating the difference between the total number of formal workers (reported in the establishments section of the general census) and the total active labour force (AfDB, 2009). Myriad other methods, indicators and data sources have been applied in defining and measuring informality in Egypt.

But whatever assumptions are adopted, the informal economy in Egypt is judged to be substantial, ranging between 37% and 93% of the overall economy, depending on the definition of informality and proxy variable applied (see Table 2). Between 77% and 93% of all private enterprises in Egypt are informal, depending on whether legal compliance or size criteria are applied as proxies¹¹. In terms of informal employment, between 48% and 70% of Egypt's non-agricultural private sector workers are subject to informal arrangements – that is, employed outside establishments (48%), not subject to national labour legislation or entitled to social protection or employment benefits (51%), casually employed (63%) and/or paid below minimum wage (70%)¹². Informal activities account for between 37% and 68% of GDP, depending on whether the currency demand method or the electricity consumption method is applied. These findings suggest that informality is more prevalent in Egypt than in most other MENA countries, with Egypt's levels closely approximating those of East and Southeast Asia or Sub-Saharan Africa (see Table 4).

⁷ However, CAPMAS does not provide detailed data on the informal sector in the census; it only provides statistics on the formal private sector (AfDB, 2009).

⁸ The Economic Research Forum is an independent, non-profit, non-governmental organisation.

⁹ The ELMPS definition includes informal and formal private sector employees, employers and own-account workers, but excludes workers informally employed by the public sector.

¹⁰ Included in this category are own-account workers, employers of establishments employing less than ten workers, employees in establishments employing less than ten workers, and unpaid family workers.

¹¹ The minimum percentage (77%) is calculated on the following basis: 78% of micro-and-small-sized enterprises (MSEs) in Egypt failed to comply with at least one legal requirement in 2011, and MSEs account for 99% of all firms in Egypt (see Table 3). On size criteria, 93% of Egypt's firms may be deemed informal, since minimum wage legislation does not apply to Egyptian firms with fewer than ten employees (Beinin, 2012). However, the upper range is perhaps overstated: a recent African Development Bank study estimates that only 70-80% of MSEs in Egypt are informal (AfDB, 2009: 68).

¹² Informal employment also affects 94% of Egypt's agricultural and mining workers and 11% of public sector workers (Angel-Urdinola and Tanabe, 2012: 14).

Table 2: Prevalence and characteristics of informality in Egypt using different statistical definitions and proxy variables

% of informal enterprises based on:	
Firm size - maximal interpretation*	93% of enterprises in 2008 were micro or very small, employing fewer than 10 employees (Nasr, 2010: 7).
Firm size - minimal interpretation	92% of enterprises in 2006 were micro, employing fewer than 5 employees (Loewe et al, 2013).
Failure to comply with at least one legal requirement**	78% of MSEs in 2011 failed to comply with at least one legal requirement (Ghanem, 2013: 15)***
Formal registration status	30% of MSEs in 2011 did not register as commercial/industrial establishments (Ghanem, 2013: 15)***
Lack of financial accounts	72% of MSEs in 2011 did not keep regular accounts (Ghanem, 2013: 15)***
Lack of tax card	27% of MSEs in 2011 failed to obtain a tax card ((Ghanem, 2013: 15)***
Lack of business licence	34% of MSEs in 2011 failed to obtain a business licence (Ghanem, 2013: 15)***
% of informal employment based on:	
Low-paid (paid below minimum wage)	70% of non-agricultural private sector workers in 2011 were paid below the minimum wage (Ghanem, 2013: 13)
Casual employment	63% of Egypt's 27 million workers are casual day labourers (Al-Tawy, 2013)
Lack of basic social or legal protections or employment benefits	51% of all non-agricultural workers lack basic social or legal protections or employment benefits (ILO, 2012)
Employment outside establishments	48% of private sector workers (including agriculture) in 2008 were employed outside establishments (Nasser, 2011: 9)
Lack of job contract and social security benefits	44% of all non-agricultural workers in 2006 were not covered by a legal contract or social insurance (Wahba, 2009)
% of informal activities based on:	
Electricity consumption indication of economic activity	68% of GDP in 1989-90 (Schneider and Enste, 2000)
Currency demand method	37% of GDP in 2006 (Schneider et al, 2010: 21)

* Minimum wage legislation does not apply to enterprises with fewer than 10 employees (Beinin, 2012).

** 18% of MSEs in 2011 failed to comply with all four main legal requirements - that is, registering as a business, maintaining regular financial accounts, acquiring a business licence or obtaining a tax card (Ghanem, 2013: 15).

*** MSEs account for 99% of all private enterprises in Egypt (Loewe, 2013: 54).

Table 3: Distribution of businesses in Egypt, by size, in 2006 (based on CAPMAS data)

Category	Size	Share of all enterprises	Contribution to total employment	% of national-value-added
Micro enterprises	1-4 employees	91.9%	58%	75%
Small enterprises	5-49 employees	7.8%	22%	
Medium-sized enterprises	50-99 employees	0.1%	3%	
Large enterprises	Over 100 employees	0.1%	17%	

Source: Loewe (2013: 54)

Table 4: Share of informal employment in total non-agricultural employment, by region

Region	Point estimate	Range estimate
South Asia	82%	62-84%
Sub-Saharan Africa	66%	33-82%
East and Southeast Asia	65%	42-73%
Latin America	51%	40-75%
Middle East and North Africa	45%	31-57%
Eastern Europe and Central Asia	10%	6-16%
Egypt	61%	51-70%

Source: ILO (2013a); data for Egypt taken from Table 1

Informality has not always been so prevalent in Egypt¹³. In 1960, informal employment – proxied by the share of self-employed and unpaid family workers in total employment – was high at 41%, but then fell steadily over the next 16 years, reaching 24% in 1976 (Hansen and Radwan, 1982: 66). The main reason for the decline was an expansion in formal sector job opportunities owing to Law N°. 14 of 1964, which promised all university and secondary school graduates public sector jobs in government or state-owned enterprises within three years of completing their studies (Harati, 2013). This policy, which

was supplemented by increased government investment in education, produced a rapid growth in gross secondary and tertiary educational enrolments, which expanded from 16% to 49% and from 5% to 14%, respectively, between 1960 and 1980 (UNESCO, 1983: 96). Public sector employment grew in tandem, and by 1981 the public sector employed one-third of all workers in Egypt (Elbadawi and Loayza, 2008: 32; Angel-Urdinola and Semlali, 2010). By 1986, the public sector accounted for 53% of total non-agricultural employment (World Bank, 1991). However, the promise of controlled non-market wages

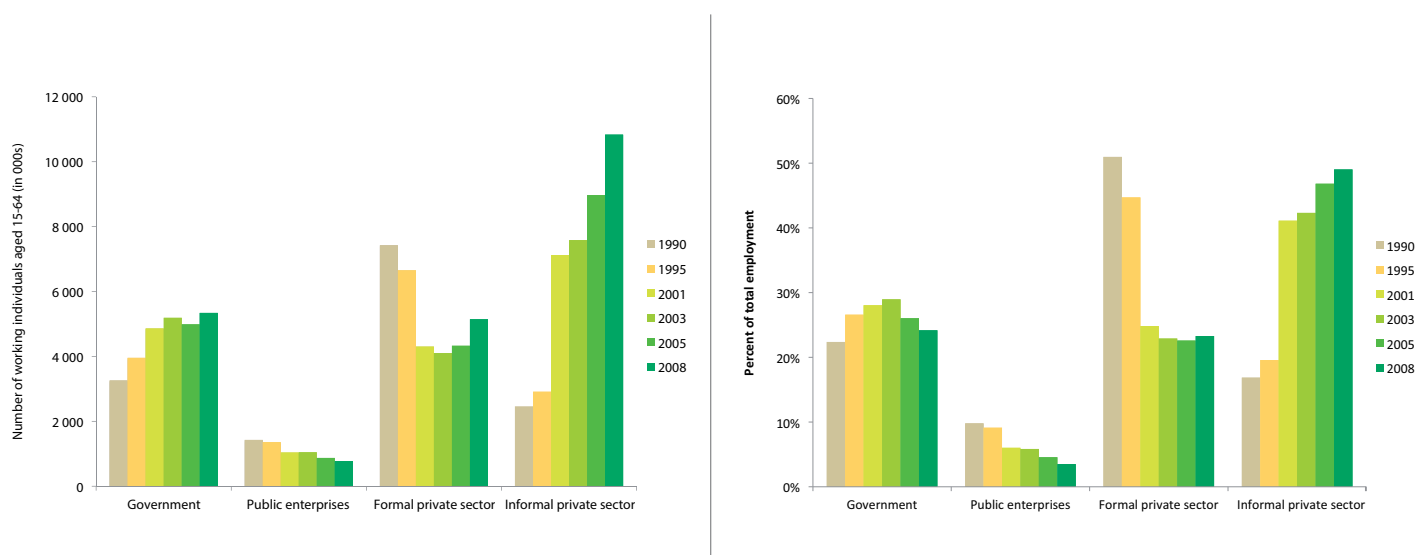
¹³ However, historical trends are difficult to ascertain, given inconsistencies in estimation methodologies.

to a growing number of graduates put pressure on public finances, and by the end of the 1980s Egypt's fiscal situation became unsustainable (Harati, 2013). In 1991 Egypt was forced to adopt an economic reform and structural adjustment package from the International Monetary Fund and World Bank.

Since Egypt accepted structural adjustment, its informal sector has grown rapidly. As Figure 1 illustrates, there have been three broad trends in Egypt's labour market. First, despite privatisation being a key requirement of economic reform, there has been no reduction in the size of Egypt's public sector, although the government ceased automatically hiring graduates in 2000. In fact, government employment has grown at a rate more than offsetting declines in public enterprise

employment, resulting in an overall expansion of the public sector¹⁴. Second, the formal – or regulated – private sector has shrunk considerably since 1990. Whereas it used to supply over half of all jobs in Egypt, it now provides less than one-quarter. Third, informal private sector employment – as measured by the number of workers outside establishments and those working in establishments with less than five workers, exclusive of agriculture – has increased very rapidly, from 2.5 million workers in 1990, to 7.1 million in 2001, to 10.8 million in 2008, or from 17% of total non-agricultural employment in 1990 to 49% in 2008 (Nasser, 2011). The informal private sector has further expanded since 2008 and now accounts for over half of all jobs in Egypt (ILO, 2012). Meanwhile, the public sector is once again – as it was in the 1980s – Egypt's main formal sector employer.

Figure 1: Labour market outcomes in Egypt by sector, 1990-2008



Source: Nasser (2011: 41)

The current situation places Egypt in a hazardous predicament, because its informal economy has relatively unrestricted upside potential. Any decrease in the size of the public sector is likely to produce an increase in informal employment, since the stagnancy of the formal private sector means that displaced workers have nowhere to go except the informal sector. Yet long-term reliance on the public sector to provide jobs for the labour force can threaten Egypt's fiscal sustainability, not to mention its productivity and competitiveness, while prevalent informality has

numerous consequences at each level of aggregation. So unless the formal private sector can be 'kick-started', Egypt's future development is in jeopardy.

To address informality in Egypt, it is necessary to establish why the formal private sector has failed to generate sufficient jobs to absorb the labour force and why public sector employment has failed to decline in line with expectations connected to structural adjustment. This

¹⁴ In 2008, the public sector employed 6.1 million people, compared to only 4.7 million in 1990 (Nasser, 2011). 'Public sector' includes both government and public enterprise employment.

information will allow policies to be put in place to remove blockages to formal private sector growth, as well as easing pressure on the public sector to supply jobs. However, it is also important to examine the characteristics of groups inhabiting the informal economy and the

factors that have led them there. As will be shown in the next section, informality is the result of forced exclusion from the formal sector for some groups and voluntary exit to more lucrative opportunities in the informal economy for others.

IV. Causes and characteristics of informality in Egypt

Recent research has generated insights into the causes of informality, both in Egypt and in other developing countries, using a freedom of choice perspective (Chen, 2012; Oviedo et al, 2009; Maloney, 2004). These explanations are summarised in Table 5. According to the freedom of choice perspective, some people freely choose to operate informally,

because informality offers them greater benefits than formality and/or because the benefits of operating formally do not outweigh its costs; while others are forced into informality, because there are too few available formal sector job opportunities and/or because they are excluded from the formal sector for other reasons¹⁵.

Table 5: Main causes of informality, by level of aggregation and freedom of choice

Level of aggregation	Free choice	Forced choice
Informal activities (macro level)	Weak rule of law	Exclusion from formal sector
	Low trust in government	
	Weak enforcement of regulations	
Informal enterprises (market level)	Higher profits in informal sector	Low access to credit
	Formality: costs>benefits	High barriers to entry in formal sector
	Preference for self-employment	Self-employment only option
Informal employment (household level)	Higher wages in informal sector	Shortage of formal sector jobs
	Social protection: costs>benefits	Lack of skills required by employers
		Exclusion from formal sector

Informality becomes a ‘forced choice’ when vulnerable groups that need to work are excluded from the formal sector due to lack of opportunities, lack of resources and/or discrimination (Hart, 1973; ILO, 1972). The reasons why formal sector opportunities may be scarce include rapid labour market growth, slow job creation and/or formal sector redundancies during periods of economic downturn, crises, reforms or transitions (Klasen and Pieters, 2012; Bosch and Maloney, 2008). In some cases, individuals lack the resources needed to obtain formal

sector positions – for example, the skills required by employers or the capital needed to run their own businesses – which is especially a problem where barriers to entry in the formal economy are high (Gerxhani and Van de Werfhorst, 2013; DeSoto, 1989). In some cases, discrimination prevents groups from gaining inclusion in the formal economy. For some vulnerable groups, self-employment in the informal sector may be the only option for earning an income to survive (Hart, 1973; ILO, 1972).

¹⁵ The degree of choice or control exercised by individuals may fall between these two extremes.

On the other hand, labour market participants may freely choose to join the informal economy if it offers them greater benefits with fewer restrictions than the formal economy (Chen, 2012; Oviedo et al, 2009; Maloney, 2004). Entrepreneurs may choose to operate ‘under the radar’ of government because of the potential for higher profits when taxes, labour charges and formal regulations are avoided (Sassen-Koob, 1989). They may also exit the formal sector if they judge the benefits to be gained from operating formally to be meagre compared with the costs, time and effort of compliance (DeSoto, 1989). Workers may consent to being informally employed if they perceive the costs of social protection to outweigh the expected future benefits or if they prefer a higher take-home wage in lieu of employer social security contributions (Chen, 2012: 6)¹⁶. For some workers, the informal sector may offer better wages and perquisites than the formal sector; this is particularly true for those engaged in illicit activities. Individuals’ propensity to engage in informal (including illegal) activities increases when rule of law is weak, trust in government is low, and/or regulations are weakly monitored and enforced, or are tightly enforced by corrupt officials demanding payments for getting things done formally (Torgler and Schneider, 2007).

Applying these ideas to Egypt provides an insight into why informality has grown in the country since 1990. First, the costs of formally doing business in Egypt outweigh the benefits for most firms. Starting and

formally operating a business is expensive and time-consuming (see Table 6). In Cairo, business registration involves seven steps, takes eight days, and costs the equivalent of 9.7% of per capita income – that is, over twice the OECD High Income average and more than thirty times the cost of registration in Ireland, New Zealand and South Africa (World Bank, 2013: 19-20)¹⁷. Associated start-up costs are also high: obtaining a construction permit in Egypt involves 21 procedures, takes 179 days and costs 109% of per capita income, making it expensive for firms to establish a fixed place of business. Enforcing a contract takes 2.7 years (on average), costs 26% of the claim value and involves 42 procedures. Employing labour formally is also costly: firms pay over one-quarter of their profits in social insurance contributions, and companies firing workers incur costs equivalent to 128 weeks in wages – one of the highest dismissal costs in the world (Malak, 2011)¹⁸. More onerous than the costs of formally hiring labour is the rigidity of labour laws concerning firing: firms must notify and get approval from the Ministry of Manpower and Migration if they wish to terminate even one worker (Angel-Urdinola and Semlali, 2010). Firms often respond to these pressures by hiring fewer workers or by hiring them informally to avoid these costs, which explains the stagnation in formal private sector employment seen in Figure 1. According to a recent study, if restrictions on hiring and firing were abolished, manufacturing firms, service firms and hotels in Egypt would hire a net of 21%, 9%, and 15% more workers, respectively (Angel-Urdinola and Semlali, 2010).

¹⁶ There are several reasons why workers may not expect benefits in line with social security contributions: because social security systems are poorly managed, because they are not transparent or because workers do not understand them (Chen, 2012).

¹⁷ Moreover, the further one moves away from Cairo, the more time, money and effort it takes to start a business.

¹⁸ At the time of writing, Egypt’s minimum wage applies only to state employees. However, if the policy is rolled out to the private sector, as some groups are demanding, it will add to firms’ costs of hiring labour.

Table 6: Costs of formally doing business in Egypt in 2014

Costs of compliance for firms not employing labour			
Legal requirements	Steps (number)	Time required	Costs involved
Business registration (Cairo)	7 procedures	8 days	9.7% per capita income
Getting construction permit	21 procedures	179 days	109% per capita income
Enforcing a contract	42 procedures	2.7 years	26% of claim value
Paying corporate tax	17 payments	227 hours	16.8% of profits
Additional costs and constraints for firms employing labour			
Legal requirements	Steps (number)	Time required	Costs involved
Social security contributions	12 payments	165 hours	25.8% of profits
Paid annual leave (average)			24 working days
Firing workers (equivalent cost)			128 weeks' wages
Notification and approval by Ministry of Manpower and Migration even if only one worker is fired			

Source: World Bank (2014)

Moreover, despite these high costs, most firms receive few benefits from operating formally. Most entrepreneurs in Egypt do not have sufficient personal funds to meet the steep costs of formally doing business, so require access to credit. However, credit via formal channels is available to very few firms. Egyptian banks set high collateral requirements, totalling 131% of the loan amount, and the vast bulk of businesses and individuals in Egypt – estimated at 90% in 1998 – cannot meet these requirements because they lack formal legal titles to the real estate that they hold (World Bank, 2007; De Soto, 2001). Hence, less than 6% of businesses in Egypt – mainly large firms – have a bank loan, so most entrepreneurs must borrow money through their friend-family networks (Subrahmanyam, 2013)¹⁹. Since 2004, the Egyptian government has extended technical support to businesses – including start-up and growth services through the Industrial Modernisation Centre, research and development support through the Egypt Technology and Innovation Centres, and assistance in attracting foreign investment through the National Supplier Development Programme – but MSEs have not been the main

beneficiaries of these policies (OECD and European Union, 2010: 5). Instead, government technical assistance has mainly benefited well-established, medium-sized industrial enterprises in the Greater Cairo and Alexandria urban regions. Large and medium-sized businesses make up less than 0.3% of all firms in Egypt (see Table 3), so formality does not benefit most firms²⁰.

The evidence suggests that high business costs and lack of access to credit is a major deterrent to formality; therefore it is surprising to discover that a recent survey of 90 informal sector employers in the Manshiet Nasser area of Cairo concludes that the time and work involved in complying with legal regulations is more pivotal than costs in explaining why many Egyptian firms choose to operate informally (see Figure 2). Complex procedures provide the space for corruption to take place and, according to the World Bank (2013), the complexity of regulations for starting and running a business, combined with lack of transparency regarding procedures and costs, have created a conducive environment for corruption in Egypt. This is especially true

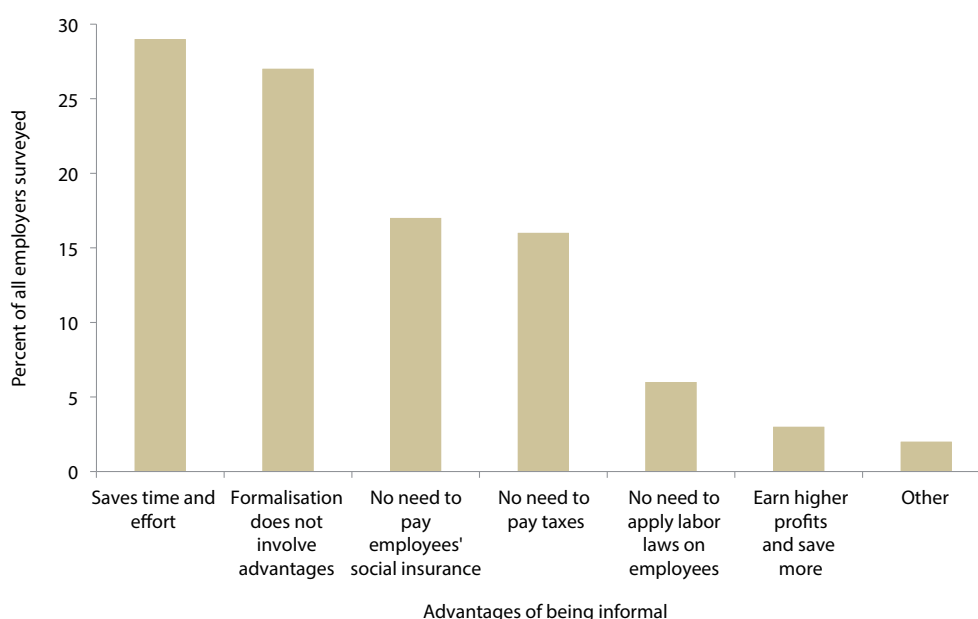
¹⁹ Large firms are over six times more likely to obtain loans than small firms in Egypt (Nasr, 2011).

²⁰ It is worth noting that most large enterprises in Egypt started out large, having been created by wealthy domestic or foreign investors; they did not grow to be large (Loewe et al, 2013).

in the area of construction permitting (Kenny, 2007). 45% of Egyptian firms responding to the World Bank’s 2008 Enterprise Surveys²¹ identified corruption as a major constraint to doing business – a statistic that has purportedly risen to 85% since the Arab Spring (Stone et al, 2012). Entrepreneurs report having to establish personal contacts with public officials and/or to make informal gifts or payments to get things done (Chekir and Diwan, 2013). Because larger firms and wealthier individuals are better able to afford these additional costs of doing

business, they enjoy privileged access to public services and the benefits of operating formally. Groups that cannot afford to – or do not wish to – pay these costs are at a comparative disadvantage, which affects their trust in government and willingness to remain in the formal economy. 29% of the entrepreneurs/employers responding to the Manshiet Nasser survey said they exited the formal economy to escape bureaucracy, while 27% indicated that formalisation offered them no advantages.

Figure 2: Reasons for being informal in Egypt – employers’ view



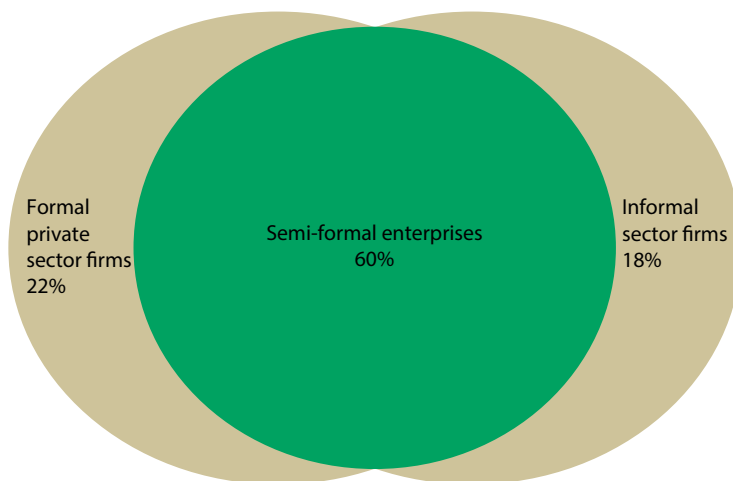
Source: El-Fattah (2012)

However, while many Egyptian firms disregard the formal rules, very few ignore all of them (see Figure 3). Companies in Egypt must comply with four main legal requirements: registering as a business, maintaining regular financial accounts, acquiring a business licence, and paying taxes. Although non-compliance is high among firms, most (60%) partly comply with the rules and may therefore be deemed semi-formal. Only 22% of businesses in Egypt comply with all of their main legal

requirements, so may be considered fully formal, while 18% do not comply with any of the rules, so may be deemed fully informal. An understanding of the enterprise landscape in Egypt is crucial to designing effective policies for addressing informality. After all, the evidence suggests that the Egyptian government has information on most firms operating in the country and can use this data to cross-reference which businesses are fully compliant and which are not.

²¹ See <http://www.enterprisesurveys.org/Data/ExploreEconomies/2008/egypt>

Figure 3: Enterprise landscape in Egypt, 2011



Source: Ghanem (2013)

Second, the benefits of formal employment outweigh the costs, suggesting that most individuals working informally in Egypt have been forced into informality. The main costs of formal employment are social security contributions and income tax, which together add up to between 25% and 40% of income²². Social insurance contributions in Egypt are higher than in most other middle-income countries; however, formal sector workers' salaries more than cover these costs. Formal sector workers in Egypt earn higher salaries than informal sector workers - 44% more in 2006 (Harati, 2013: 9)²³. The highest paid workers in Egypt are public sector workers: public sector wages in 2011 were 80% higher than formal private sector wages (Murata, 2014). Government employees also work shorter hours and have lighter workloads than other workers in Egypt and are the main beneficiaries of the country's social insurance system (Sieverding, 2012: 4). Social insurance in Egypt is stratified, with four separate schemes for different categories of workers: a non-contributory scheme for members of the armed forces, secret services and high-level ministries, which is financed from the government budget; a contributory scheme for wage workers in the public and private sectors; a voluntary contribution scheme for employers and the self-employed; and a basic subsidised scheme for workers not covered under the other schemes. Workers in the first two schemes - in particular, state employees - qualify for a wide range of benefits, including generous pensions, sickness, disability and maternity pay, private health care and

unemployment benefits, while self-employed and non-wage workers receive only a basic pension and elementary medical care in the lower-quality public healthcare system. Thus, payouts from the system are not equitably distributed, with higher-paid workers receiving 80% of social protection benefits (World Bank, 2007).

However, although pay and working conditions in the informal economy are inferior compared to those in the formal economy, some individuals realise a net benefit from operating informally (Harati, 2013: 13). One way of estimating the proportion of workers who are better off in the informal sector than in the formal is to examine the movement of workers between the two sectors. The ELMPS 2006 data shows that 32% of formal sector workers in Egypt were previously employed in the informal sector, while 3.5% of informal sector workers were previously employed in the formal sector (Harati, 2013: 9). The latter percentage comprises both individuals who were forced out of the formal sector (for example, due to redundancies) and people who willingly left the formal economy. It therefore indicates that only a small proportion of workers willingly exit the formal sector. For the bulk of the workforce, the informal sector is the inferior sector of employment: most informally employed workers (54%, according to a recent survey of 5200 youth) would like to change their employment situation, compared to only 14% of formal sector workers (see Table 7).

²² Formally-employed workers in Egypt pay 14% of their monthly base salary and 11% on any variable earnings (for example, bonuses) in social security contributions up to a government-specified ceiling (Loewe, 2013). They also pay personal taxes of 10% to 25% on earnings above EGP 5000 (Ernst and Young, 2013: 340).

²³ Moreover, the wage gap between the formal and informal sectors has widened since 2006 (Harati, 2013: 9).

Table 7: Distribution of employed Egyptian youth, according to desire to change employment situation, in 2012

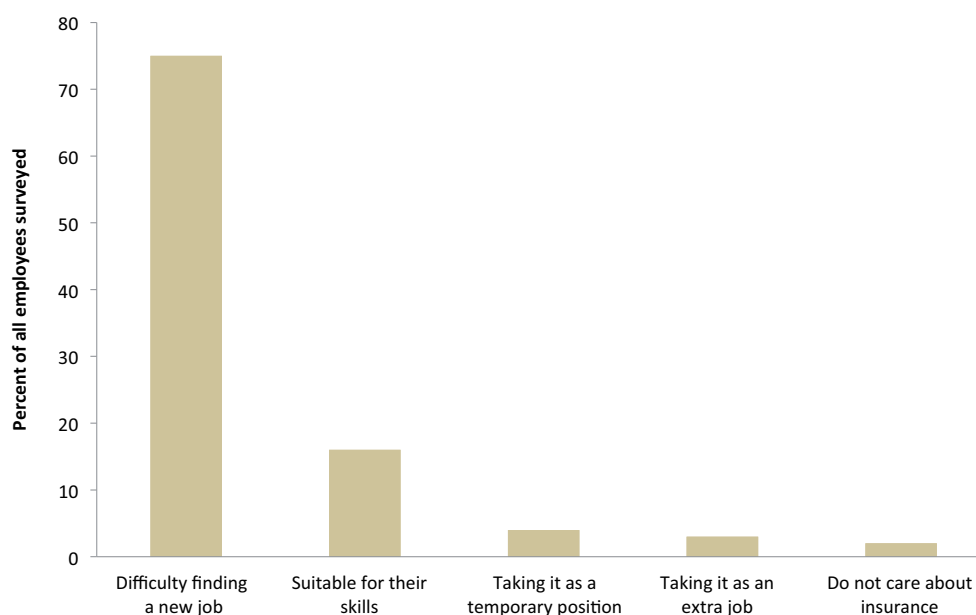
Desire to change employment :	Employed in informal sector	Informal job in formal sector	Total informal employment	Formal employment
Wants to change employment situation	54	53	54	14
Does not want to change employment situation	46	47	46	86
Total	100	100	100	100

Source: Shehu and Nilsson (2014: 66)
'Youth' here refers to young people aged 15-29
Numbers shown in the table represent percentages

The results of the Manshiet Nasser survey corroborate these findings and indicate that the majority (75%) of the 180 informal employees surveyed were forced into informality owing to a lack of formal job

opportunities. Only a small proportion (2%) said they willingly exited the formal sector because of issues surrounding social insurance (see Figure 4).

Figure 4: Reasons for being informal in Egypt - employees' view



Source: El-Fattah (2012)

Third, demographic trends, combined with public policies, have produced distortions in the Egyptian labour market, which have forced young workers into informal employment or encouraged formal sector firms to hire them informally. Since the early 1980s, Egypt has been in the midst of a demographic transition, where a slowdown in mortality and fertility rates has produced an increase in the country's prime-age

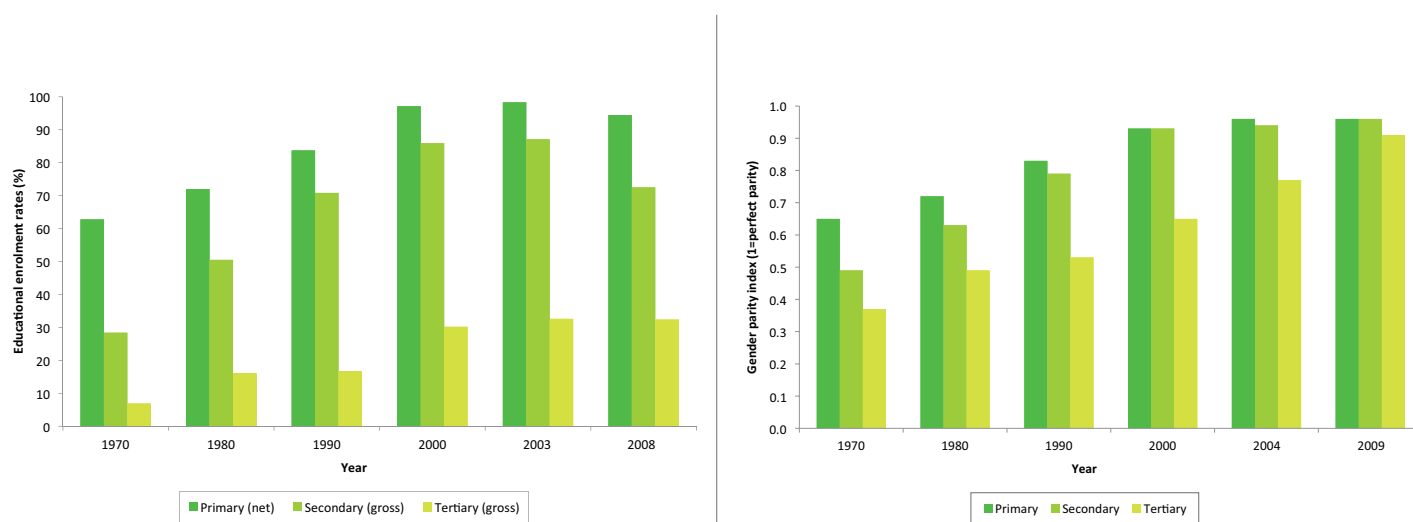
working population relative to other age groups (Mirkin, 2013). Egypt's 'youth bulge' reached a peak in 2005, when young people aged 15-29 accounted for 38% of its labour force (Hassan and Sassanpour, 2008). The decrease in formal private sector jobs since 1990 (see Figure 1) has meant that there are fewer opportunities for a larger number of workers and greater competition for the jobs that exist. The diminishing

supply of formal sector jobs has especially affected new entrants to the labour market: between 2000 and 2005, 75% of new entrants were forced to take up informal employment (Assaad, 2007). As a result, by 2012, 91% of Egyptian youth aged 15-29 worked informally (Shehu and Nilsson, 2014: 10).

Past policies have also affected labour market outcomes. The Egyptian government's promise of public sector jobs for graduates, although rescinded, continues to influence current education policy. The educational curriculum, initially designed to prepare students for public sector work, has not altered to fit the post-structural adjustment environment, so does not provide students with the skills required by private sector firms. The curriculum emphasises rote learning rather than problem solving or application of knowledge (Subrahmanyam and

Castel, 2014: 6-7). The quality of education is also low, partly because of the need to accommodate more students – both male and female – at all levels of education (see Figure 5, which illustrates the immense growth in student enrolments since 1970)²⁴. Skills mismatches have resulted in high unemployment among first-time jobseekers aged 15-29 (see Figure 6), while lack of an adequately skilled workforce has acted as a disincentive to formal private sector growth and investment, including foreign direct investment, which has been a key driver of private sector-led growth in other regions (Subrahmanyam, 2013; Nasser, 2011: 8-9)²⁵. This in turn has prevented a movement up the value-added ladder and the creation of a sufficient quantity of skilled jobs in the formal sector to absorb the growing supply of educated youth entering the labour market each year (AfDB, 2012). As a result, 95% of Egypt's unemployed have intermediate or higher qualifications (see Figure 6).

Figure 5: Educational enrolments and gender parity index by level of education in Egypt, 1970-2009

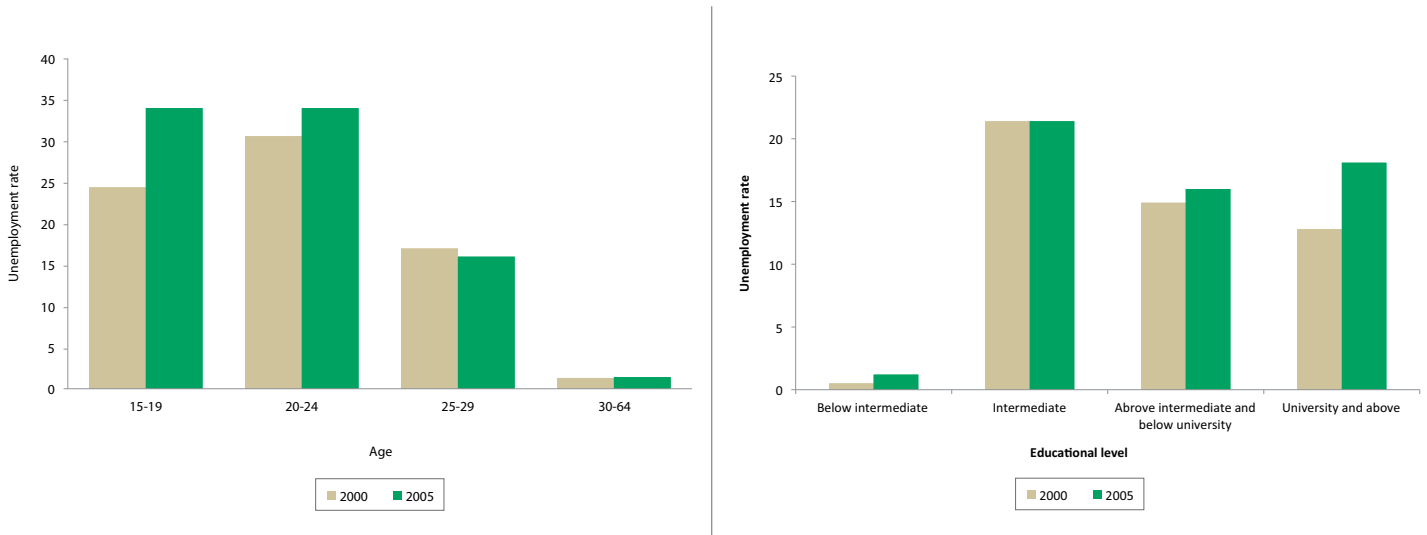


Source: World Bank (2008); World Bank Databank; UNData

²⁴ Egyptian students perform below the global average in international exams, such as the Trends in International Maths and Sciences Study and the OECD Programme for International Student Assessment (World Bank, 2007a: 5).

²⁵ 50% of Egyptian firms responding to the World Bank Enterprise Survey 2008 identified 'an inadequately educated workforce' as a major constraint to doing business in the country (see <http://www.enterprisesurveys.org/Data/ExploreEconomies/2008/egypt#workforce>).

Figure 6: Unemployment rate in Egypt, by age and education



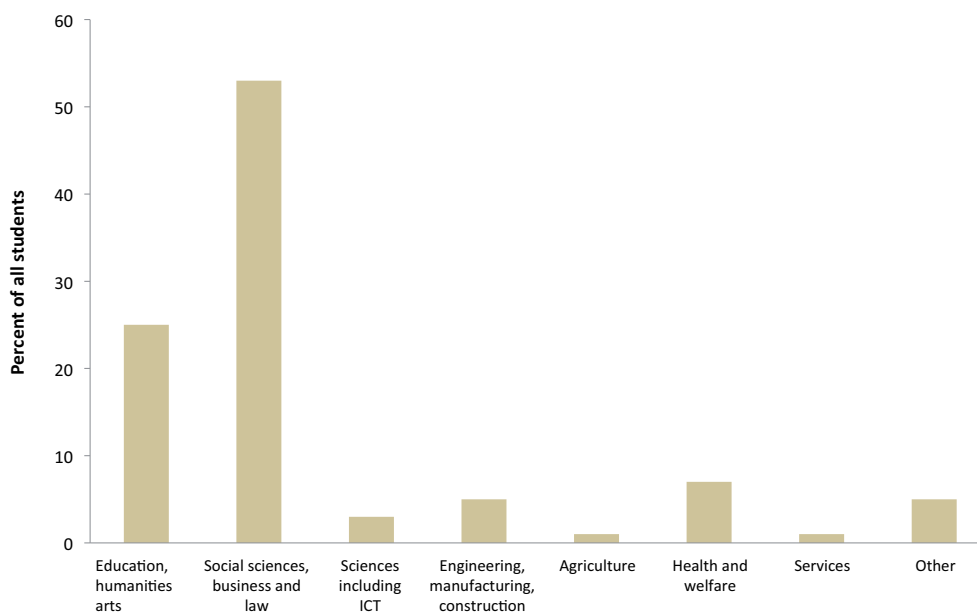
Source: Hassan and Sassanpour (2008)

To reduce educated youth unemployment in an environment where the formal private sector is not generating enough skilled opportunities, the Egyptian government has periodically created public sector posts for young graduates, despite its stated commitment to privatisation. Policies such as the National Youth Employment Programme, which ran from 2001 to 2009, help to explain why the public sector has not shrunk since 2000 (see Figure 1). While public sector job creation provides a short-term solution to educated youth unemployment, it also perpetuates the problem by relaying a misleading message – that the government continues to guarantee jobs for graduates.

Employment policies influence young people's educational and career decisions, which in turn affect labour market outcomes. Because public sector jobs are better paid, offer more generous benefits and are less demanding than private sector positions, many young people adopt

strategies to increase their chances of obtaining them. Hence, most university students pursue social science and humanities degrees, which are suitable for public sector careers, while few study engineering, science and technology – the subjects most demanded by private sector firms (see Figure 7). Some graduates 'queue' for public sector positions, remaining wilfully unemployed until a government post becomes available – a tendency that raises educated youth unemployment levels, producing a vicious circle. Because most educational institutions in Egypt do not provide young people with early, effective career guidance informing them of limited job opportunities in the public sector and the skills required for private sector jobs, many graduates continue to display a strong appetite for public sector jobs (Sultana and Watts, 2008). 62% of Egyptian graduates surveyed in 2010 said they would rather work in the public sector than in the private sector or self-employment (Silatech-Gallup, 2010: 45).

Figure 7: Distribution of Egyptian university students by field of study, 2008-2010



Source: African Economic Outlook data; UNESCO Higher Education data

Table 8: Share of youth in informal employment, and sector of youth informal employment in 2012

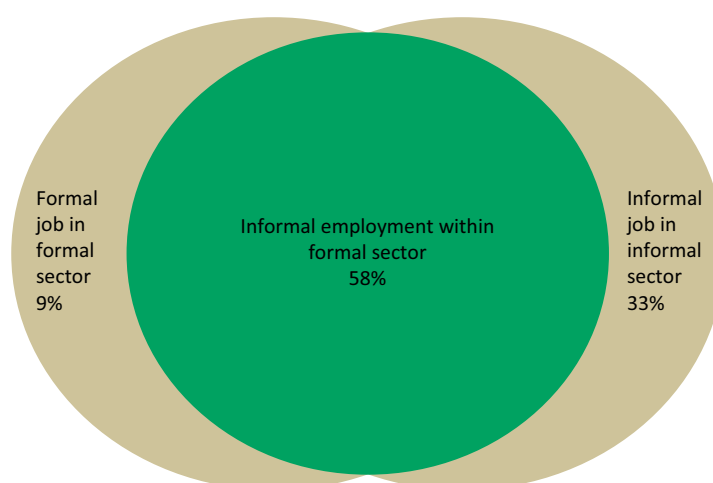
Country/income group	Share in youth employment		Share in informal employment	
	Informal employment	Formal employment	Employed in informal sector	Informal job in formal sector
Egypt	91	9	37	64
Aggregate - 7 low-income countries	91	9	81	19
Aggregate - 6 lower-middle income countries	81	19	63	38
Aggregate - 7 upper-middle income countries	62	38	44	56
Aggregate - 20 countries surveyed	75	25	55	45

Source: Shehu and Nilsson (2014: 10)
 'Youth' here refers to young people aged 15-29
 Numbers shown represent percentages of total employment within that category

The existence of a large labour force with inadequate skills has had implications for formal sector hiring processes. To minimise the risks associated with skills mismatches, most formal private sector firms in Egypt now hire new entrants to the labour market informally rather than formally. A 2014 ILO school-to-work transition survey (SWTS) of 5,200 Egyptian youth aged 15-29 indicates that 58% of young workers are informally employed within the formal sector – that is, 91% are informally employed and, of these, 64% work in the formal sector (see Table 8

and Figure 8). This means that formal sector firms are in fact creating jobs but are just unwilling to bear the costs of formally hiring poorly skilled graduates who lack work experience. Thus, very few young Egyptians (just 9%) are formally employed, while 33% work in the informal sector. Informal employment in the formal sector may be more difficult to detect than informal sector employment, which may pose problems for government efforts to design effective policies to address informality.

Figure 8: Employment landscape for young people in Egypt



Source: Shehu and Nilsson (2014)

While informality is a widespread phenomenon in Egypt, it is not necessarily a permanent state of being. For some young people, the informal economy serves as a ‘stepping stone’, a place where they can gain practical experience and overcome skills mismatches on the road to formal employment (Wahba, 2009). SWTS data suggests that the

average Egyptian youth begins his/her transition from school to work in the informal sector at age 22, then progresses to informal employment in the formal sector at age 23, and then – once s/he has gained sufficient experience to overcome his/her skills deficiencies – ‘graduates’ to formal employment at age 25 (see Table 9).

Table 9: Average age of economically active youth in Egypt in 2012, by labour market status and sex

Sex	Employed in informal sector	Informal job in formal sector	Total informal employment	Formal employment	Unemployed (strict)
Female	21.8	22.3	22.2	25.3	23.1
Male	22.6	23.3	23.0	25.4	23.5
Total	22.5	23.1	22.9	25.4	23.2

Source: Shehu and Nilsson (2014: 54)
‘Youth’ here refers to young people aged 15-29

However, ‘graduation’ to formal employment is not open to all workers; for some workers, the informal sector constitutes a ‘dead end’ (Wahba, 2009). Just how many workers get ‘trapped’ in informality is unclear. What is known is that only 32% of formal sector workers surveyed in the ELMPS 2006 reported having previously worked in the informal sector, while 33% of young people surveyed in the SWTS said that

they began their careers in the informal sector. So the proportion of Egyptians that spend their entire working lives in informal jobs seems to be substantial.

Who gets trapped in informality? Women, the less educated, young people whose parents are not wealthy and/or well-connected, and

those living in rural areas are among the least likely to escape the informal economy and eventually secure a formal sector job (World Bank, 2012). The reasons why these groups get trapped in informality relate to formal sector hiring practices, which explicitly or implicitly discriminate against specific groups. Public sector jobs tend to be reserved for the highly educated (Murata, 2012)²⁶. Men have an advantage over women in the Egyptian labour market because of obsolete social attitudes and/or concerns about maternity leave or childcare (European University Institute, 2010: 37; Barsoum et al, 2009)²⁷. Young people with wealthy and/or well-educated parents generally have strong social networks, so have a higher chance of

obtaining formal sector positions than youth from poorer households (World Bank, 2012). This is because, to avoid skills mismatches, many formal sector employers in Egypt now base their hiring decisions on personal references rather than on skills assessments (Murata, 2014). Urban areas in Egypt generate more formal private sector jobs than rural areas, partly as a result of uneven public investment over long time periods (Subrahmanyam and Castel, 2014)²⁸. Disadvantage in employment tends to be cumulative: therefore, uneducated poor young women living in rural areas in Egypt are more likely to be trapped in informality than all other segments of the population (World Bank, 2007).

²⁶ Hence, the slowdown in public sector hiring after 2000 has resulted in higher unemployment among university graduates relative to other groups (see Figure 6).

²⁷ Hence, nearly half of all working women in Egypt are informally employed (Nasr, 2010: 11-12).

²⁸ Thus, 70% of rural workers in Egypt are informally employed, compared to 43% of urban workers (Angel-Urdinola and Tanabe, 2012: 10).

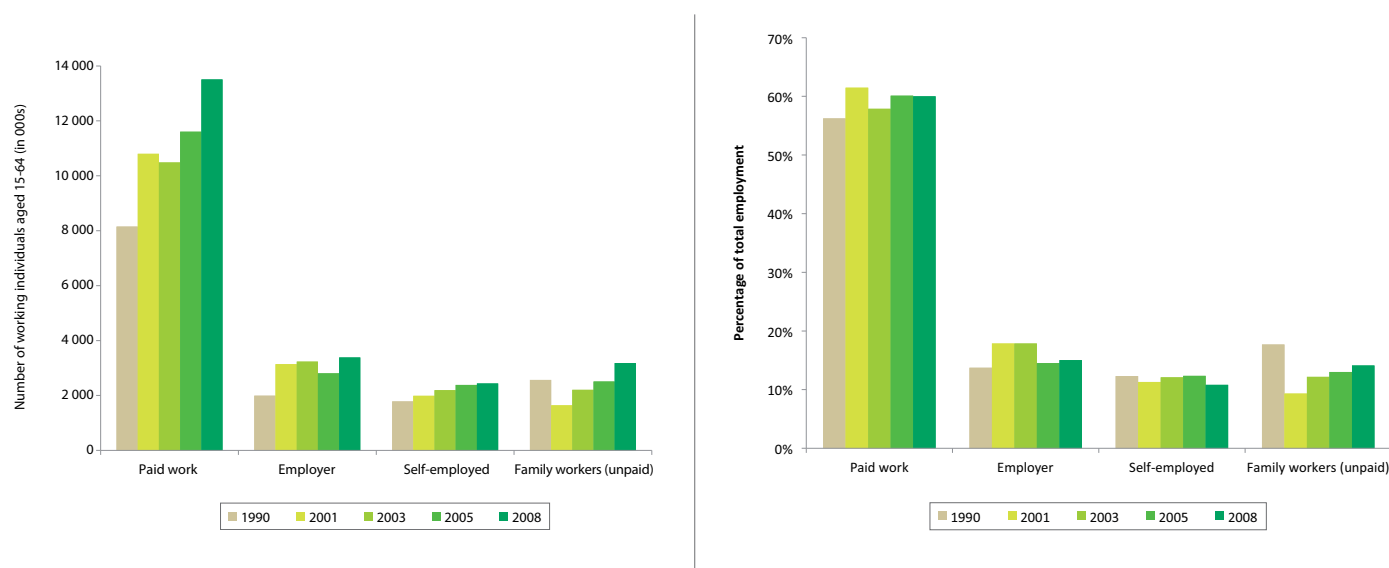
V. Consequences of informality in Egypt

The consequences of informality are most severe for groups that lack freedom of choice. After all, individuals who have freely chosen to join the informal economy likely have a route out – they can simply ‘graduate’ to more secure jobs in the formal sector whenever they find informality to be too insecure or not lucrative enough (Fields, 1975; Ingram et al, 2007). By contrast, the options available to vulnerable groups who have been forced into informality are limited: the choice is often between working low-paid, insecure jobs in the informal sector, becoming unemployed, or dropping out of the labour market entirely. For individuals from poor households who need to work to survive, the latter two options are in practice unavailable. For these workers, employment in the informal sector is most likely a permanent state of being and generally an unpleasant one.

The pay and working conditions for groups trapped in informality are often grim. Take, for example, the situation of informally employed women in Egypt. Their average wages are around half those of informally employed men, even though the women work longer hours and more days per

week (El Mahdi and Amer, 2005; Nasr, 2010: 12-14). Moreover, a large percentage of informal female workers – 63% in 2008 – are unpaid family workers, so earn nothing (Nasr, 2010: 11-12)²⁹. Because of gender discrimination, women are often excluded from training opportunities, such as informal apprenticeships, that could help them to earn better wages and improve their working conditions (El Kholy, 2002: 222). They also face higher obstacles getting hired by informal sector (and also formal sector) firms. Hence, for many women, self-employment is the only way that they can support themselves and their families. Around one-quarter of all female workers in Egypt are self-employed, and the bulk of self-employed women are located in rural areas (Nasr, 2010: 12). But women entrepreneurs in Egypt experience greater difficulties than male entrepreneurs. They have lower access to resources that they can use as collateral for loans and more restricted access to markets and networks (Viswanath et al, 2010; GEM, 2007). This would explain why most successful entrepreneurs in Egypt are older educated males (Elbadawi and Loayza, 2008).

Figure 9: Labour market outcomes in Egypt by pay status, 1990-2008



Source: Nasser (2011: 42)

²⁹ The number of unpaid family workers in Egypt has doubled since 2001, coinciding with the downturn in formal sector hiring (see Figures 1 and 9).

Because pay and working conditions in the informal economy are so dire, many workers would rather drop out of the labour market than continue to work informally. This is certainly the case for female workers in Egypt: 45% of women who were informally employed in 1998 had exited the labour market by 2006 (Wahba, 2009: 5). Similar trends are apparent for less educated youth, young people from disadvantaged backgrounds and young people living in rural areas (Wahba, 2009). Groups that cannot afford to drop out of the labour market often suffer from working poverty. The percentage of Egyptians living below the poverty line has risen since the revolution, from 22% in 2009/10 to 26% in 2012/13. Poverty rates in some regions of Egypt now exceed 50% (Ahram Online, 2013).

Pervasive informality has also had the expected negative effects at market level. 62% of Egyptian firms participating in the World Bank's Enterprise Survey 2008 reported unfair practices by informal competitors as a major constraint to doing business (World Bank, 2013). Unfair competition by informal sector firms may also explain why formal sector firms in Egypt have begun to adopt informal practices, such as informal hiring, at a much higher rate than most other countries throughout the world (see Table 8)³⁰. The need to cut costs to remain competitive in an environment where informal practices are widespread may explain why entrepreneurs in Egypt do not invest much in their businesses or employees. According to the Enterprise Survey 2008, only 22% of firms in Egypt offer their employees any kind of formal training; this level is far below the global average of 38%.

There is reason to believe that non-decent employment in the informal economy is more of an issue for Egypt than rising unemployment. A recent World Bank study shows that the number of registered jobseekers in Egypt exceeds labour force survey data on the number of unemployed by a factor of 3.5 (Angel-Urdinola et al, 2012). This finding indicates that many registered jobseekers in Egypt may in fact be informally employed (or are inactive). A similar finding is evident from the data in Table 9: the average age for unemployed youth is higher than the average age for informally employed youth, suggesting that many individuals categorised as unemployed are instead working informally.

These statistical anomalies highlight the high level of distortion that prevalent informality has introduced to labour market information in Egypt and demonstrate the difficulties of formulating effective social

policies based on official data. Moreover, the evidence suggests that informality in Egypt has now reached such high proportions that it poses a potential challenge to Egypt's fiscal sustainability. Hence, informality needs to be addressed to restore macroeconomic stability in the country.

On the other hand, Egypt's informal economy provides an antidote to many of the dysfunctions of the formal economy:

- **It is fast-growing and dynamic:** creating more than double the number of jobs as the formal private sector and contributing a large share of GDP (see Figure 1 and Table 3).
- **It is pro-poor:** offering a refuge to non-wealthy workers and entrepreneurs who would be unable to survive if it did not exist and providing affordable goods and services to low-income groups (Abdel-Fadil, 2000: 37).
- **It is inclusive:** Informal employment, even at low wages, can empower vulnerable groups. Working in Cairo's small informal workshops has enabled some uneducated Egyptian women to accumulate savings, which has increased their household bargaining power and protected them against divorce and maltreatment (El Kholy, 2002: 221-2).
- **It is market-driven.** Unlike formal sector salaries which are determined by minimum wage laws and collective bargaining arrangements, informal wage rates are determined by the laws of supply and demand. Absence of patronage networks in informal hiring means that skills mismatches tend to be less pronounced, with fewer under-educated workers (see Table 10). A significant proportion (16%) of informal workers consider their current job to be more suited to their skills than any formal sector position (see Figure 4).
- **It is flexible:** The informal economy operates free from the burdensome regulations that characterise Egypt's formal economy. Hence, informal workers do not contribute to social protection systems from which they are unlikely to reap any future benefits, and firms can hire and fire workers according to their needs (Fields, 1975).

³⁰ Table 8 shows that the level of informality in Egypt is more akin to that of low-income countries, rather than other middle-income countries.

- **It is resilient:** The informal economy has thrived despite lack of government support. Moreover, its domestic focus renders it more resilient than the formal economy and less vulnerable to external shocks (Subrahmanyam, 2013).

These characteristics mean that Egypt's large and growing informal economy may offer a pathway for the future by resolving the widening social inequalities and tensions that caused the Arab Spring and continue to pose challenges for Egypt.

Table 10: Match of education level to job among employed Egyptian youth, by sector, in 2012

Match of education level to job	Employed in informal sector	Informal job in formal sector	Total informal employment	Formal employment
Over-educated	8	11	10	6
Under-educated	37	27	31	41
Well-matched	56	62	60	53

Source: Shehu and Nilsson (2014: 71)

'Youth' here refers to young people aged 15-29

Numbers shown in the table represent percentages

Informality in Egypt needs to be addressed, both to mitigate its negative effects and to unleash its potential benefits. However, the heterogeneity of informal arrangements and activities mean that a one-size-fits-all approach will never be effective. After all, the causes and consequences of informality at different levels of aggregation call

for a comprehensive set of solutions, which address the main issues but are coordinated and synthesised into an effective overall policy. The next section sets out the main policy options for addressing informality and critically analyses Egyptian government measures for addressing informality.

V. Options for addressing informality and recent public policy in Egypt

Addressing informality means removing the causes and reducing the consequences of informality. Additionally, it means removing the distortions that block private sector growth, productivity and innovation, as well as reducing dualism in the labour market, so that all groups have access to formal sector opportunities, adequate pay and income protection – thereby rendering outcomes more equitable and inclusive. However, it does not necessarily mean reducing the size of the informal economy – at least as an initial goal. Instead, it means reconciling the formal and informal economies, so that there is less of a gap between the two sectors and that a single set of rules applies equally and impartially to everyone, rendering unsavoury and/or unsafe practices less likely to take place.

Governments around the world have adopted four main approaches to addressing informality: (1) retaining the status quo; (2) ‘formalising’ the informal sector; (3) ‘informalising’ the formal sector; and (4) unleashing the developmental potential of the informal economy. These options should not be viewed as distinct policies – although sometimes governments implement them as such – but should ideally be combined to achieve greatest policy effectiveness. The reasons why governments may emphasise one policy option over another reflects both their attitudes towards the informal sector and their ideas about what actions would best secure the interests of labour market participants. Each policy option is discussed below in brief.

Option 1: Retaining the status quo

Retaining the status quo means doing nothing per se to address informality. Governments choosing this policy route usually do so because they believe that the informal economy is comprised of very small-scale producers and retailers (for example, street vendors) who are not worth regulating, since the costs of enforcement outweigh the amounts that these groups could contribute to the public purse; or because they believe that the informal sector provides these groups with the flexibility they need to pursue their survival activities (WIEGO, 2001). Hence, this policy option has been referred to as ‘deliberately

leaving small businesses relatively unregulated space to grow’ (Abdelhamid and El Mahdi, 2004: 3)³¹. Doing nothing to address informality may make sense in an environment where informality is not widespread so does not lead to high distortions in market competition, where the wage gap between the formal and informal sectors is not large, and where informal actors are able to transit to formality on a relatively smooth, regular and permanent basis. However, this policy is not viable or desirable in cases where the informal economy is large, where there are wide inequalities in pay and/or working conditions between the informal and formal sectors, and where transitions to formality are not open to a substantial proportion of informal actors. Otherwise doing nothing allows the status quo of unequal opportunities and sub-optimal outcomes to persist at macro, market and micro levels³².

Option 2: Formalising the informal sector

‘Formalising’ the informal sector means taking steps to reduce the size of the informal economy by strictly enforcing tax laws and regulations. Governments selecting this policy option often equate informality with illegal or criminal behaviour or with wealthy individuals actively seeking to avoid regulation and taxation (WIEGO, 2001). Hence, this policy option has been referred to as ‘bringing small business informal entities inside the fabric of the legal economy’ (Abdelhamid and El Mahdi, 2004: 3)³³. The main methods that governments have adopted to formalise the informal sector include: imposing sanctions and controls to deter undeclared work; joining forces with private sector actors (for example, trade unions) to detect and close down informal enterprises; offering a tax amnesty or other incentives to encourage firms to formalise; and increasing information flows and cooperation between administrative agencies to aid monitoring and enforcement (Abdelhamid and El Mahdi, 2004). The potential benefits of policies focused on formalisation include: higher tax revenues for government; more accurate labour market information as a result of higher registrations; more regulated business competition; lower opportunities for firms to engage in illegal or harmful practices; improved

³¹ In other words, this approach targets informal enterprises, rather than informal employment.

³² These issues were outlined in the previous section.

³³ This policy option also focuses on informal sector firms, rather than informal employment, but could be designed to apply to informal practices – including informal hiring – by formal sector firms.

firm access to markets, credit and infrastructure; better pay and conditions, as well as legal and social protections, for workers; and greater equity³⁴.

Measures towards formalisation are most appropriate in countries where the informal economy is large and growing and where a significant number of entrepreneurs have willingly chosen to operate informally to avoid laws and regulations and pursue higher profits. However, they are not suitable in situations where informal actors have been forced into informality, since in such cases they will leave those individuals, as well as the economy, in worse shape – that is, unless the issues blocking access to formal sector opportunities are removed in parallel. The following conditions should be met if formalisation measures are to yield net benefits. First, transitioning firms must be able to afford the costs of formalisation and still survive; otherwise previously viable enterprises will fold. Second, formalisation must offer advantages that are widely available to firms of all sizes and characteristics; otherwise some firms may not be willing to formalise, regardless of the incentives offered or costs imposed. Third, transitioning firms must be able to afford the costs of formally employing workers; otherwise firms will maintain lower staff levels, and workers will be negatively affected by the transition. Fourth, there must be an adequate supply of formal sector jobs to absorb the transitioning workforce; otherwise workers will move from informal employment to joblessness.

Option 3: Informalising the formal sector

In some cases, the costs of operating formally are so prohibitive that informality is the only option for many firms and workers. In such cases, governments may opt to ‘informalise’ the formal sector to bring the formal economy closer to the cost structure and flexibility of the informal economy and to reduce barriers to entry, operation and exit in the formal economy. Governments choosing this policy route generally do so because they acknowledge that formal rules and regulations are too rigid and/or restrictive and therefore force some labour market participants into informality while providing others with incentives not to comply. Some of the measures that different countries have put in place to informalise their formal economies include: simplifying or streamlining legal and/or administrative procedures; lowering the costs of registration – for example, creating one-stop shops or introducing electronic methods of payment and registration; reducing income taxes and/or VAT; decreasing social security costs; and increasing the flexibility of employment contracts and/or other labour market arrangements

(Abdelhamid and El Mahdi, 2004)³⁵.

The main benefits of lowering the costs of compliance, including the time and effort involved, are that fewer entrepreneurs and workers would likely be forced into informality, while some firms and individuals operating informally may decide to formalise. Decreasing costs would also reduce the cost advantages that informal sector firms have and could therefore lead to better functioning markets by removing incentives for formal sector firms to adopt informal practices. While lower tax rates would initially result in decreased government revenues, over time – if enough firms and individuals were persuaded to formalise – the tax base would increase and remain at higher levels. Moreover, law-abiding firms and individuals would no longer be punished for their compliance by bearing a greater share of the tax burden. Greater transparency and less room for bureaucratic discretion – for example, because information on administrative and legal procedures are widely publicised and/or fees are collected online – would reduce opportunities for corruption and raise trust in government, thereby increasing the equity of labour market outcomes.

Option 4: Unleashing the developmental potential of the informal economy

Some governments have recognised the developmental potential of their country’s informal economy in terms of its potential to generate income and employment. They have therefore implemented policies to boost informal firms’ contribution to growth, productivity and employment, as well as informal workers’ capabilities and resilience to economic shocks³⁶. Measures that governments have adopted to boost the developmental potential of the informal economy include: providing informal enterprises with access to training, raw materials, technology and marketing assistance; providing microcredit guarantees or other tailored measures to increase informal enterprises’ access to credit; offering entrepreneurship education; facilitating interlinkages between formal and informal sector firms; including the informal sector in national development plans; extending social protection to informal workers; encouraging the formation of informal labour organisations; and providing targeted support to disadvantaged groups or regions. Governments that wish to support the growth and resilience of informal firms and workers will need to consider how to gradually incorporate informal entities into the formal economy, so that labour market dualism is minimised or eliminated, and how to build sustainability into policy measures, so that government support is required only for a fixed time

³⁴ For example, a narrower wage gap between male and female employees as a result of stricter enforcement of equal opportunities legislation.

³⁵ This policy option therefore targets both informal firms and workers.

³⁶ Hence, this policy option targets both informal enterprises and workers.

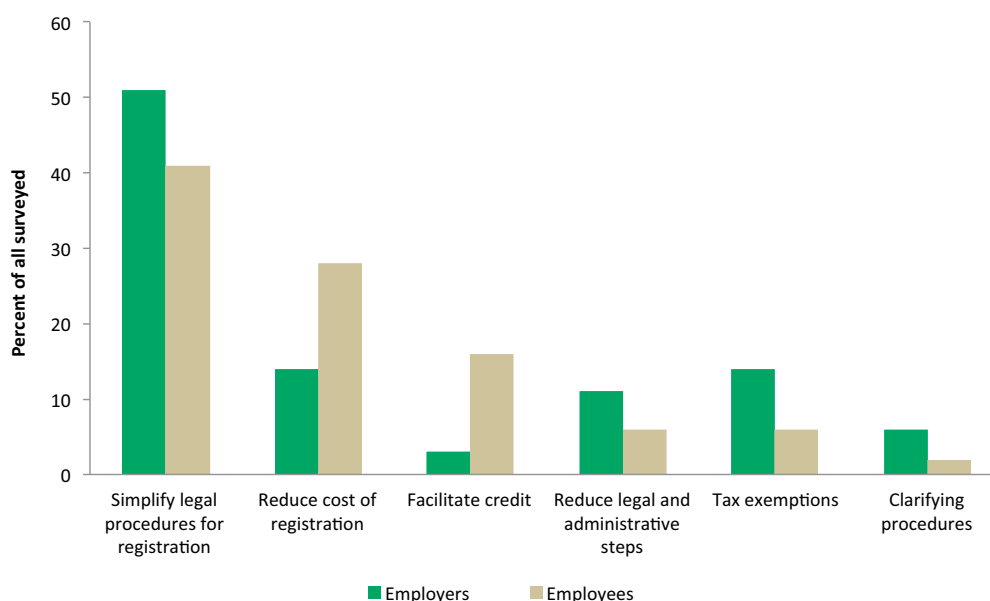
period. This is particularly vital in cases where the informal economy is large and participants require high levels of support. Therefore this policy cannot be implemented in isolation of the other options presented in this section.

Measures required for addressing informality in Egypt

Considering the above policy options in light of Egypt’s labour market profile provides the following insights. First, informality has reached such high levels in Egypt that doing nothing to address informality is not a viable option – particularly given growing inequalities, social tensions, and the urgent need to achieve political stability and fiscal sustainability in the aftermath of the Arab Spring. Second, measures to formalise the informal economy are likely to be successful only in the small number of cases where individuals opportunistically choose to operate in the informal sector. However, informality in Egypt is characterised more by informal work within formal sector enterprises than by informal employment within informal sector firms; hence, formalisation measures may be stymied by the difficulties of detecting informal workers located outside the informal sector. Moreover, even if informal workers in formal sector firms could be detected, imposing sanctions and controls on informal employment – without also reducing the costs of formally hiring labour – may result in formal sector firms simply dismissing staff, rather than formally employing them, leaving these workers – many of whom

are already vulnerable – worse off. The same is true for informal workers in the informal sector, especially those excluded from formal sector opportunities as a result of discrimination: unless formal private sector growth is kick-started and jobs are available to absorb informal workers displaced by formalisation measures, these workers will end up jobless and even more hopeless. Third, policies focused on informalising the formal sector are likely to be successful in curbing informality, given that nearly one-half of informal employers in Egypt said they had exited the formal economy to avoid burdensome regulations and high taxes (see Figure 2), while two-thirds indicated that they would likely join the formal sector if registration procedures were simplified and costs of registering reduced (see Figure 10)³⁷. Moreover, simplifying and clarifying procedures provides fewer opportunities for corruption. Fourth, workers excluded from the formal sector owing to discrimination are unlikely to benefit from informalisation measures, since the reasons why firms do not hire them have little to do with costs and procedures. These workers therefore require targeted interventions that boost their financial and technical capabilities and contribute to their resilience. Egyptian women and disadvantaged youth would especially benefit from entrepreneurship training and support, as well as access to social security and health benefits. Offering all informal actors these benefits on a time-limited basis may persuade them to formalise, once they have reached a certain level of security, if only so that they can continue to enjoy government support in future.

Figure 10: Actions required to attract informal enterprises and workers in Egypt to the formal sector



Source: El-Fattah (2012)

³⁷ Two-thirds of informal Egyptian employees also said they would join the formal sector if the procedures and costs of registration were minimised (see Figure 10).

In addition to the policy options outlined above, Egypt requires specific measures for curtailing formal firms' propensity to informally hire young workers, as well as for refocusing graduates' career expectations away from the public sector. Policies aimed at minimising skills mismatches – such as educational reforms, extending access to and raising the quality of vocational training programmes, involving the private sector in the design and implementation of active labour market programmes, and providing incentives to firms to invest in staff training – may have a positive impact on both of these issues. Introducing incentives – such as quotas or rewards – could persuade formal sector employers to hire youth formally and, if well designed, may encourage them to hire young people from disadvantaged backgrounds. However, labour market regulations – in particular, restrictions on hiring and firing – would need to be simultaneously eased to encourage employers to hire workers formally, and in some cases sanctions and controls would need to be put in place to prevent firms – in particular, large firms – from avoiding paying workers' social insurance costs (see Figure 2). Hence, the social insurance system would need to be reformed in parallel, so that the benefits to be gained from the system outweigh the costs – both from employers' and employees' perspectives.

To direct graduates' expectations away from the public sector, a three-pronged strategy is required. First, incentives should be introduced to encourage young people to acquire the skills needed to contribute to private sector productivity and innovation. Second, stronger career guidance and counselling should be provided to inform young people about both the limited opportunities for employment in the public sector and the skills requirements of the private sector (Angel-Urdinola and Semlali, 2010). Third, the government needs to curtail its tendencies to create public sector jobs for graduates as a quick-fix solution to youth unemployment and instead take decisive steps towards kick-starting private sector growth – for example, by streamlining legal and administrative procedures, providing targeted assistance to firms to raise their productivity and growth potential, and offering well-designed active labour market programmes focused on entrepreneurship and practical skills development. An information campaign confirming the change in government hiring policies would also be required. In addition, the pay and benefits gap between the public and private sector needs to be narrowed, so that the public sector is not the only employer providing decent work. Policies to assist the private sector's role in creating decent jobs should be prioritised.

These various measures need to be combined into a comprehensive set of policies aimed at addressing informality in Egypt. Additionally and vitally, policy design must be evidence-based – that is, founded on solid data and analysis – so that findings from small-scale surveys are not the basis of large-scale policies. After all, information on the informal

economy in Egypt, while improving, is still fractional and has tended to be based on surveys with small sample sizes. A key focus of government policy should therefore be to gather information or commission further research on the size and characteristics of the informal economy.

Critical analysis of public policies in Egypt

Comparing the policy imperatives outlined above to the measures that have been put in place by the Egyptian government to address informality sheds light on the steps that must be taken in future. The Egyptian government currently lacks a comprehensive set of policies for addressing informality and, until 2004, did not have any measures in place specifically targeting the issue (Semlali and Angel-Urdinola, 2012). The main intervention that loosely targeted informality was the Productive Families Scheme, launched in 2000, which provided small family-owned businesses with access to resources, raw materials and training (AfDB, 2009). However, in 2004 the government passed Law N^o. 141 – commonly known as the Promotion of Small Enterprises Law – which provided an institutional framework for assisting the growth and development of MSEs. Since most MSEs in Egypt are informal, the law implicitly addresses informality, but only in terms of informal enterprises. The Social Fund for Development (SFD) was given the role of coordinating and promoting MSEs, and measures were put in place both to formalise informal enterprises and to informalise the formal economy. Thus far both of these policies have had limited success in curbing informality because of inefficiencies, high costs and an overly narrow policy focus. In addition, measures were passed to boost MSEs' contribution to growth, productivity and employment, but these policies have failed to achieve their aims because MSEs have not been the main beneficiaries of the policies.

A central aim of Law N^o. 141 was to encourage MSEs to formally register. The SFD's National Strategy for Micro and Small Enterprises Development included a target to reduce the proportion of informal enterprises among MSEs from 82% to 41% within five years (OECD and European Union, 2010: 18). In line with this aim, the 2004 law provided a three-year tax exemption (beginning one year after registration) for new businesses and offered open tax forgiveness for existing firms leaving the informal economy (AfDB 2009). In parallel, penalties for tax evasion were increased. To make the process of incorporation easier, faster and cheaper, and thereby remove a barrier to formalisation, procedures for business registration were streamlined and simplified (World Bank, 2013: 18). One-stop shops were set up, minimum capital requirements were eliminated, and flat fees were introduced. Tax reforms passed in 2005 reduced the income and corporate tax rates. The 2004 law and associated measures partially met SFD's target: the number of businesses formally registering in Egypt grew 35% between 2005 and 2012 (World

Bank, 2013: 17). Moreover, despite the tax cuts, tax revenues as a percentage of GDP increased year-on-year during the same period (Oxford Business Group, 2012). However, inefficiencies in the registration process – including lack of progress on e-registration; too many departments and agencies being involved in the process, instead of one centralised agency; and too few one-stop shops located outside of the main urban centres – have deterred many firms from formally registering. Over 50% of informal employers surveyed in 2012 said that registration procedures would need to be simplified further to attract them to the formal sector (see Figure 10). Finally, because the reforms target informal sector firms, rather than informal workers, they have not been applied to the majority of young informal workers employed in the formal sector (see Table 10). In fact, it is likely that formalisation measures resulted in the displacement and transfer of some informal workers from the informal sector and to the formal sector under informal arrangements. This would explain why informal employment has increased at a much faster rate than formal private sector employment since 2005 (see Figure 1).

The Egyptian government has also increased the level of technical and financial support available to small and medium sized businesses, but MSEs have not been the main beneficiaries of these policies. SFD provides comprehensive support to assist business growth and development, including start-up and growth services through the Industrial Modernisation Centre, research and development support through the Egypt Technology and Innovation Centres, and assistance in connecting firms with foreign investment through the National Supplier Development Programme (OECD and European Union, 2010: 5). However, the main beneficiaries of these policies have been well-established, medium-sized industrial enterprises rather than younger, smaller service-oriented companies with a high growth potential³⁸. Moreover, programmes have not been specifically targeted to youth entrepreneurs, although they are a priority group, and have implicitly excluded rural entrepreneurs, since most support services are located in the Greater Cairo and Alexandria urban regions³⁹. The 2004 Law contained a provision for helping MSEs to obtain financing, with trust funds providing microfinance to be established in each governorate. However, these trust funds were still not established as of 2009, and credit availability in Egypt has become more restrictive since the onset of the global financial crisis and in the aftermath of the Arab Spring (AfDB 2009; Subrahmanyam, 2013). Lack of access to credit and limited

access to business support explain why the ‘self-employed’ and ‘employer’ categories of employment in Egypt have decreased relative to the ‘paid work’ and ‘unpaid family workers’ categories (see Figure 9).

To assist entrepreneurship by marginalised groups, the Egyptian government has charged the Ministry of Local Development with improving women’s access to loans and assisting them with business start-up procedures, while SFD has been working to increase women’s access to micro and small loans (UNDP, 2010). However, access to credit continues to be a problem for women entrepreneurs, given women’s low ownership of property owing to cultural norms, combined with banks’ risk aversion for lending to smaller firms in light of Egypt’s weak creditors’ rights, low auditing and reporting standards, and weak contract enforcement laws (Allen et al, 2011: 3; World Bank, 2013: 35-37). Additionally, prospective female entrepreneurs from less-privileged backgrounds with lower levels of education often lack the skills needed to apply for loans – for example, the ability to prepare a business plan, loan application and financial statements (Nasr, 2011).

To tackle youth unemployment, the government has implemented a number of active labour market programmes – sometimes in conjunction with non-public partners – to increase young people’s employability, place young people in jobs, and assist young people in creating their own businesses. However, owing to design flaws, most of these programmes have had a limited effect on increasing young people’s access to formal private sector opportunities. Vocational training programmes focused on correcting skills mismatch issues are often fragmented, low quality, and place too much emphasis on in-class training and hard skills, rather than on on-the-job training and soft skills (Semlali and Angel-Urdinola, 2012: 4)⁴⁰. Programmes aimed at assisting youth entrepreneurship suffer from a number of flaws: they offer microfinance rather than comprehensive support; emphasise in-class training over practical skills development; are available only during the start-up phase, rather than on an ongoing basis; and are not rigorously evaluated to assess their effectiveness (Angel-Urdinola and Semlali, 2010: 17). Labour market intermediation services designed to place young people in jobs are also beset by difficulties, ranging from inadequate labour market information systems, lack of coordination across labour offices, and a lack of fit between jobseekers – who are

³⁸ Additionally, regardless of its stated commitment to supporting MSEs, during the global financial crisis the Egyptian government supported large export-oriented firms more than small domestically-oriented enterprises, despite MSEs being worse affected by loss of sales during the crisis (Subrahmanyam, 2013).

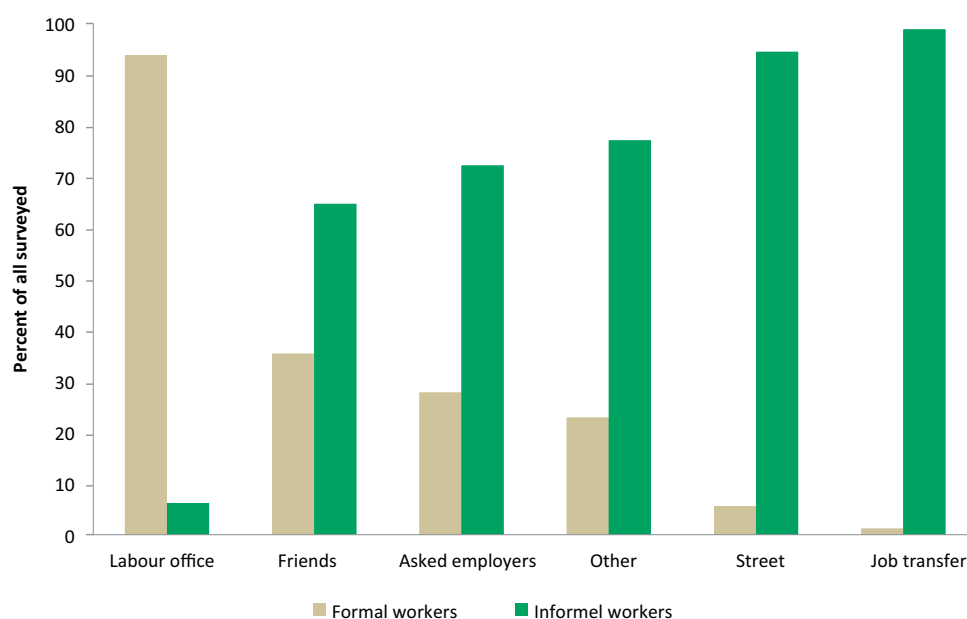
³⁹ The policies are also expensive, with government bearing most of the costs. Limited success in formalising MSEs, combined with high outgoings on business support services, has had fiscal implications for Egypt.

⁴⁰ Moreover, attempts to reform the country’s general education system have been impeded by inadequate spending: education in Egypt is mainly publicly provided, yet the amount of money allocated to education is one of the lowest in the MENA region – just 3.5% of GDP (Feteiha, 2011).

mainly university-educated – and listed vacancies – which are mainly blue-collar (Semlali and Angel-Urdinola, 2012). Therefore, public employment agencies' job placement rates are low – just 40% in 2003

(Gobbi and Nesperova, 2005: 18). Therefore, most jobs in Egypt are informal and are obtained via informal methods – by word-of-mouth and/or through previous employers (see Figure 11).

Figure 11: Methods of finding work in Egypt



Source: Semlali and Angel-Urdinola (2012)

Finally, little progress has been made in stemming graduates' propensity to queue for public sector positions. In fact, the government's policy response to external shocks over the past decade has strengthened graduates' determination to secure a public sector post (Subrahmanyam, 2013). Following the world food crisis, the government raised public sector wages and pensions by 30% and 20%, respectively. This measure accounted for 89% of Egypt's crisis-related budget, while food disbursements through the country's ration card scheme comprised only 11% (Egypt Ministry of Finance, 2009: 3). Following the Arab Spring, public sector wages and pensions were increased an additional 15%, and 450,000 temporary public sector employees were given permanent contracts, despite the freeze in public sector hiring (World Bank, 2011: 29-31). These policies have increased the wage gap between the public and private sectors, and made graduates want public sector jobs even more (Tzannatos, et al, 2011).

In summary, Egyptian government policies for addressing informality were only put in place in 2004 – that is, three years after the informal economy overtook the formal private sector as Egypt's largest employer (see Figure 1). Public policies have tended to focus on informal enterprises – in line with CAPMAS's 'enterprise-based approach' to

defining informality – rather than on informal employment, which focus would have prompted policymakers to consider ways of regulating formal sector firms' tendency to hire workers on an informal basis. Hence, policies to reduce informality have had limited success: informalisation measures have not fully removed the barriers to formalisation, while formalisation policies likely resulted in the transfer of workers from the informal sector to the formal sector under informal arrangements. Policies aimed at boosting the developmental potential of informal sector firms have also been unsuccessful, because they have not tightly targeted MSEs and have not removed the barriers that vulnerable groups face in accessing credit. The government has put in place a large number of active labour market programmes designed to increase young people's employability and place them into jobs, but key design flaws have limited the success of these measures; moreover, the failure to rigorously evaluate these programmes has meant that errors have not been recognised and corrected. Finally, government policies regarding public sector pay and benefits have increased distortions in the labour market, since they have widened the wage gap between public sector workers and all other workers, which has bolstered graduates' determination to queue for public sector positions.

The fact that Egypt's informal economy has thrived, despite lack of government support, demonstrates the resilience of informal sector firms; on the other hand, the fact that paid and unpaid work in Egypt is increasing relative to more entrepreneurial forms of informal employment signals a dangerous trend that must be reversed. It indicates that informal employees lacking decent pay and social protection are the fastest growing segment of the informal economy – and therefore

of the overall labour market in Egypt. Planned reforms to Egypt's social insurance system, which were scheduled to be implemented on 1 January 2012, were disrupted by the revolution (Sieverding and Selwaness, 2012). At the time of writing, the status of these reforms is unclear. What is clear is that measures need to be put in place to address informality, and these policies need to target the distinct issues facing each of the groups inhabiting the informal economy.

VII. Conclusion

Main conclusions

Labour market dynamics in Egypt have been characterised by three major trends since 1990:

- Rapid growth of the informal economy, which now employs over half of Egypt's workers;
- Sharp decline of the formal private sector up to 2004, when government policies directed at formalising informal sector enterprises resulted in some firms joining the formal economy; and
- Slow expansion of the public sector – despite the exigencies of structural adjustment – until 2000, when the government declared a hiring freeze.

The overall reduction in the size of the formal sector, combined with a swelling of Egypt's labour force owing to its youth bulge, has meant that most new entrants to the labour market have been forced into informality. Egypt is currently in a situation where its informal economy has relatively unrestricted upside potential, because its formal private sector continues to generate very few jobs, while its public sector looks set to contract, given Egypt's fiscal issues and the limited capacity of government to provide jobs for the growing number of young people entering the labour market. Egypt's labour force is forecast to expand from 27 million people in 2010 to 34 million in 2020 (European University Institute, 2010: 19). Egypt's fiscal deficit has been growing steadily since the Arab Spring and was forecast to reach US\$49 billion, or 14.5% of GDP, by July 2014 unless major structural reforms were undertaken (Daily News Egypt, 2014).

Informality in Egypt needs to be addressed because widespread informality has repercussions for political stability, law and order, fiscal sustainability, economic growth, business productivity and innovation, and social welfare. The enormity of Egypt's informal economy not only limits the effectiveness of government policies and prescriptions, but also results in wasted resources, as informal firms restrict their size and incur high costs to avoid detection, instead of investing in their businesses and paying taxes, which could be used to fund economic reforms and essential social programmes. Moreover, the growing gap in pay and working conditions between the formal and informal sectors

has led to widening social inequalities, which were a main factor in the onset of the Arab Spring. If Egypt is to enjoy a peaceful transition characterised by rapid, inclusive growth and poverty reduction, then its informal economy cannot be ignored.

On the other hand, Egypt's informal economy has grown as a result of dysfunctions in the formal economy, which lacks the dynamism, flexibility and resilience of the informal economy. Restrictively high costs and burdensome procedures for registering and operating in the formal economy have blocked many entrepreneurs and workers from entering the formal sector, while low access to finance in an inhospitable investment climate has impeded business creation and growth. Inadequate and/or irrelevant skills produced by Egypt's failing education and training systems have meant that many employers are not willing to pay the high costs of formally hiring workers, while weak rule of law and corruption have meant that the benefits of formalisation are available to only a few firms and individuals. Freedom from the constricting laws, regulations and norms of the formal economy make the informal labour market more market-driven, flexible and egalitarian than the formal labour market, while lack of government support has forced informal firms and individuals to become more resilient and innovative. In addition, low entry requirements and lack of patronage have allowed businesses and workers relatively easy entry into the informal economy. Egypt's informal sector therefore holds the key to correcting distortions in the formal economy.

However, in recent years – as a result of government formalisation measures, as well as firms' response to skills mismatch issues – the character of informality in Egypt has changed. Nearly twice as many informally employed young people now work in the country's formal sector, rather than in the informal sector, and the fastest-growing segment of employment in Egypt is currently informally employed individuals, many of whom lack decent pay and social protection. This situation highlights the complexity of informality – that its character alters in response to changes in the economic environment, as well as people's desire to avoid regulatory restrictions – and the importance of continually collecting data to keep up with trends in informality. After all, public policies for addressing informality in Egypt have had limited success to date, because the government has targeted informal enterprises within the informal sector, rather than informal employment across all sectors of the labour market.

The growth in low-paid, insecure employment in Egypt, which affects some groups more than others and results in many vulnerable individuals becoming trapped in poverty, will continue to persist unless policies are put in place to raise the quality of employment for all workers. Measures are also needed to correct the dysfunctions of the formal economy, so that the informal economy is not the only sector of the labour market able to absorb Egypt's expanding labour force. In parallel, the potential of Egypt's informal economy to generate growth, productivity and employment should be harnessed. Finally, policies to modify the skills sets and career aspirations of workers need to be put in place, so that Egypt's labour market operates smoothly and without the distortions of unrealistic expectations and ambitions. These measures need to be combined into a comprehensive set of well-designed and coordinated policies that target the distinct issues facing each of the different groups inhabiting the informal economy.

Implications and recommendations

Addressing informality means removing the causes and reducing the consequences of informality. It means removing the distortions that block private sector growth, productivity and employment, as well as reducing dualism in the labour market, so that all groups have access to formal sector opportunities, adequate pay and income protection. Informality in Egypt has grown since 1990 because:

- The formal private sector has not generated a sufficient number of formal jobs to absorb Egypt's growing labour force - or even to replace the number of formal sector jobs being destroyed;
- Formal private sector employers are unwilling to hire certain groups of workers, owing to skills mismatches or because of prejudice; and
- Educated youth have not developed an appetite for private sector work or entrepreneurship.

The consequences of informality vary according to the level of aggregation of actors inhabiting the informal economy:

- Low (or no) pay and lack of social protection means that many informal workers suffer from working poverty and are unprotected in sickness or old age, or during market and employment transitions.
- Lack of access to government technical and financial support and

formal credit sources prevents many informal enterprises from developing and fully contributing to economic growth, productivity and employment.

Therefore, removing the causes of informality means eliminating blockages to formal private sector growth, reducing impediments to formal private sector hiring, and reorienting graduates' aspirations towards the private sector, while reducing the consequences of informality means extending legal and social protection to informal workers and boosting the developmental potential of informal sector firms. Measures based on these themes need to be combined into a comprehensive set of policies aimed at addressing informality. Additionally and vitally, policies must be evidence-based – that is, founded on solid data and analysis. A key aspect of government policy must therefore be to improve knowledge and understanding of the informal economy. The recommendations below are organised according to these policy imperatives.

Removing blockages to formal private sector growth

- **The legal/administrative procedures and costs of starting and running a business need to be minimised and made more transparent.** In other words, formal rules need to be informalised. Government policies to make registration faster, easier and cheaper have not gone far enough to have had a significant impact on the size of the informal economy, so further actions in this direction are required. In addition, the procedures and costs of other business legal requirements – for example, obtaining a construction permit – need to be minimised and clarified, so that formalisation becomes affordable for MSEs and opportunities for corruption are reduced. One way of achieving both of these goals is to fully implement e-registration and extend the system to cover all legal requirements for businesses, so that information on procedures and costs is made available online and businesses are able to fill in forms and make payments electronically. Such a system would standardise costs and procedures across Egypt, leading to more egalitarian outcomes, and save the government money while generating revenues, which would improve Egypt's fiscal balance. In cases where face-to-face contact is required, remote areas could be reached via mobile one-stop shops, such as those used in Pakistan during the 2011 floods (UNDP, 2011). Granting tax exemptions to MSEs until they reach a certain size could encourage firms to formalise while supporting their growth⁴¹.

⁴¹ One objection to such a measure is that it could act as a disincentive to growth, encouraging firms to remain small to continue to avail of this benefit. However, this problem could be overcome by limiting the timeframe for tax exemptions. In any case, informal entrepreneurs in Egypt seem to be more concerned with saving time and effort than with avoiding tax and labour charges (see Figure 2).'

- **Rule of law needs to be strengthened.** Weak creditors' rights, weak contract enforcement legislation, and low auditing and reporting standards have made banks and investors wary of lending to or investing in small, less established businesses in Egypt, while uneven application of laws and regulations has excluded many MSEs from accessing public services. Stricter monitoring and enforcement of regulations would create a fairer, more predictable business environment, raising trust in government. Informality is related to trust in government: a recent study shows that taxpayers evade regulations 'as soon as they perceive the possibility to do so' when they consider authorities to be powerful but untrustworthy, but tend to comply when they perceive authorities to be trustworthy as well as powerful (Wahl et al, 2010)⁴². Strengthening investor protections, lowering business costs, and simplifying and clarifying legal procedures helped post-transition Estonia to reduce informal employment from 20% in 1998 to 7% in 2004, as well as promote the development of dynamic new start-up companies (Subrahmanyam, 2013). This mix of measures could also kick-start formal private sector growth in Egypt.

Reducing impediments to formal private sector hiring

- **Labour laws need to be made more flexible to encourage firms to formally employ staff.** In particular, regulations governing the hiring and firing of workers in Egypt need to be relaxed. According to a 2010 study, if restrictions on hiring and firing in Egypt were abolished, manufacturing firms, service firms and hotels would hire a net additional 21%, 9%, and 15% workers, respectively (Angel-Urdinola and Semlali, 2010). While employer contributions to social insurance may also need to be reduced to encourage formalisation, policies in this direction must be carefully designed so as to balance out employers' desire to avoid high costs against workers' need for adequate income protection. Reforms to labour regulation must ideally involve some form of collective representation and bargaining, so that formal sector employment is expanded in a manner that benefits both firms and workers.
- **Education and training systems need to be upgraded to overcome skills mismatches.** School and university curricula need to be

reformed to provide skills that are valued in the labour market. Involving private sector firms in curriculum design and class activities, and placing a greater emphasis on problem solving and creative group work are some ways of achieving this goal. For groups outside the formal education system, public-private partnerships in vocational training and the design of active labour market programmes can improve workers' technical and core skills and increase the success of initiatives, so long as efforts are well coordinated (Subrahmanyam, 2011). To address skills deficiencies of workers already in employment, as well as foster business productivity and innovation, policies should be put in place to persuade firms to invest in staff training. This may be achieved via government subsidies or tax incentives.

- **Measures should be put in place to encourage formal sector firms to hire youth, particularly those from disadvantaged backgrounds.** To overcome discrimination against youth, young people should be given more opportunities to gain practical work experience. This can be achieved through apprenticeship schemes, work shadowing, internships, capstone projects, volunteer placements, corporate presentations and projects undertaken in partnership with businesses. Quotas, incentives (such as wage subsidies), and equal opportunities initiatives (such as the Gender Equity Model Egypt) may encourage firms to formally hire disadvantaged youth and women⁴³.

Reorienting graduates' aspirations towards the private sector

- **Career guidance and counselling based on forward-looking and accurate labour market information should be offered to young people from an early age.** Labour market information needs to be communicated early and widely to inform young people about the limited opportunities for employment in the public sector and the skills requirements of the private sector. Career guidance and counselling should be tied to job placement and support services to assist young people in building networks and gaining work experience. In addition, young people should be encouraged to acquire the skills required for the jobs of the future, such as green jobs. Use of ICT can widen access to career guidance and counselling at a fairly low cost (see Box 1).

⁴² Furthermore, if authorities are perceived as trustworthy but powerless or untrustworthy and powerless, then individuals' propensity to evade is not affected.

⁴³ The Gender Equity Model Egypt was a certification programme designed to improve women's economic participation by making working conditions within firms more female-friendly. Participating firms' existing policies were audited, and training was provided to assist firms in upgrading their practices to become more female friendly. Firms passing the audit were awarded a Gender Equity Seal. While the programme was effective in achieving its aims of increasing gender awareness, it was rolled out to only a small number of large firms – hence had limited impact (Vishwanath, 2010: 23).

BOX 1: Using ICT to overcome capacity constraints in career guidance and counselling

Career guidance and counselling programmes at a higher secondary school in Kerala, India had faced capacity constraints due to the large number of students wishing to access these services. To boost capacity, the school introduced a new pilot called Project SMART (Study Materials Accessed or Readily Transferred), which enables wider access to services through use of ICT. Project SMART works as an edu-kiosk: students can access and store digital information regarding their courses, prospects, skills acquisition, scholarships and training programmes, as well as any learning materials.

Source: UNESCO-UNEVOC (2013)

- Policies should be put in place to encourage young people to acquire the skills required to contribute to private sector productivity and innovation. Funded scholarships and other incentives should be offered to encourage university students to pursue scientific and technical degrees. However, these measures would need to be tied to reforms in the links between general education and subject specialisation. Measures should also be put in place to raise the quality and image of vocational training programmes, so that more Egyptian students pursue this educational path (see Box 2).

BOX 2: Measures for raising the quality and image of technical and vocational education and training

A promising practice for upgrading the status of technical and vocational education and training (TVET) has emerged from Finland – a country that has been systematically working to improve the image of TVET over the past ten years.

The country's efforts have paid off. Today:

- Over 50% of Finnish youth apply to TVET programmes.
- Parents no longer object to TVET as a first choice option, since students can complete the year-12 matriculation exam in the TVET track and have equal access to higher education.
- TVET programmes are more competitive than general education programmes. Last spring, 70% of applications to the TVET track were successful, as against 94% to the general education track.

Finland's success is based on the following features:

- Equivalence to general education institutions: In Finland, both TVET and general education tracks provide equal access to further studies at university level or applied sciences level. TVET institutions also benefit from generous basic and developmental funding on an equivalent basis to general education institutions.
- Focus on employable skills: Finland's TVET curriculum emphasizes real-world competences and lifelong learning.
- Public promotion of TVET: TVET schools across Finland promote their services to parents by arranging visits and parents' evenings on a regular basis.

Source: UNESCO-UNEVOC (2013)

- Government employment promotion policies should support long-term goals, rather than providing short-term solutions to youth unemployment. Graduates persist in queuing for public sector posts, because the government continues to create jobs for educated youth and raise public sector wages and pensions. Instead policies need to support and assist young people's entry into private sector employment. Social dialogue between government, business and young people is necessary for creating a more diverse set of aspirations. Policies that support the private sector's role in creating decent jobs and which build young people's appetites and capacities for entrepreneurship should be prioritised.

Extending social and legal protection to informal workers

- The social insurance system should be reformed so that workers in the informal economy have access to social security and health benefits⁴⁴. Egypt's social insurance system is underfunded, because a large percentage of the population does not contribute to the system. Meanwhile, there is high demand for payouts from aging contributors, who had paid into the system during their productive years. From this angle, extending social insurance to informal workers – many of whom are young and will not draw a pension for many years – makes economic sense. The most appropriate social insurance vehicle for the majority of informal workers would be a simple yet flexible contributory scheme that takes into account their

inconsistent income streams. This may be provided by government, which could match workers' contributions or subsidise premiums when informal workers are unable to make payments as a means of extending social protection to the poor. Another option would be to encourage private providers – for example, cooperatives, unions or NGOs – to offer micro-insurance tailored to the needs of low-income groups. Both options would offer informal workers a means of accumulating savings in the event of unemployment, illness, old age or death. Linking social insurance to health insurance would narrow the inequalities between formal and informal workers while extending extra protection.

- Informal labour organisations should be promoted as a means of empowering, assisting and integrating informal workers. Encouraging the formation of informal labour organisations, such as those created in Shanghai in the 1990s (see Box 3), would enable government to implement policies targeting informal workers in formal sector firms, as well as those in the informal sector, and would provide informal workers with a voice to demand fair pay and better working conditions in a safe and supportive environment. These informal organisations could be used as a medium for offering assistance – including finance, training and social insurance – to informal workers, as well as a means of creating decent work opportunities. They could also provide a route for workers' eventual incorporation into the formal economy.

BOX 3: Informal labour organisations in Shanghai

BACKGROUND:

To address the shifts in employment and economic organisation associated with its overall economic liberalisation efforts – particularly the high unemployment associated with the reform of state-owned sector in the 1990s – the Chinese Government has sought means to address the country's large informal economy. Some of the country's most successful policies to ease and encourage workers' transition from the informal to the formal sector have been initiated by the Shanghai Municipal Government.

POLICY INITIATIVES:

In 1996, to address the high unemployment resulting from the closing of state-owned enterprises (SOEs) – 985,000 Shanghai citizens lost jobs due to SOE closings from 1996 to 2000 – the Shanghai Municipal Government initiated a series of policy measures to provide general economic support for the newly unemployed and facilitate workers' transition into the formal economy. As part of the municipality's larger adjustment assistance program, the Shanghai Government created a policy whereby workers in the informal

⁴⁴ The information included under this bullet summarises measures proposed by Barsoum (2013).

sector could associate to form a novel economic classification deemed informal labour organisations. During the six years following the creation of the new classification, 14,364 informal labour organisations were formed. In 2001, the organisations employed 154,839 workers, 97% of which had been unemployed prior to the initiative.

While informal labour organisations remained technically outside of the formal economy, they received government assistance to encourage their growth and eventual incorporation into the formal sector. The policy was supplemented by a public works program, which provided employment to a portion of informal labour organisations in public services such as street cleaning, security, and the maintenance of public facilities. The Shanghai government provided additional assistance to the informal economy by offering of training, social insurance, preferential tax treatment, and subsidized credit to informal ventures.

The success of Shanghai's adjustment assistance program is illustrated in the drastic reduction in unemployment since the initiative. The Shanghai Labour Bureau found that, of the nearly one million citizens laid off due to SOE closings, only 16,200 remained unemployed in 2001.

Source: Howell (2002)

Boosting the developmental potential of informal sector firms

- Targeted technical and financial assistance should be offered to boost MSEs' capacities to contribute to economic growth, productivity, innovation and employment. The programmes that SFD has been offering in terms of start-up and growth services, research and development support and financial assistance are broadly appropriate; however, the means by which support has been offered is more suited to the needs of larger industrial

enterprises, rather than small service-oriented firms – so new measures should be tailored to the needs of MSEs. Other areas of technical assistance that would boost MSEs' capabilities include marketing, management and technology support. Fundamentally, informal firms' access to capital needs to be improved: strengthening private property rights and increasing the availability of low-collateral loans are two ways of facilitating this. In some developing countries, such as Ghana, mobile banking services have been offered as a way of overcoming credit risk issues while providing accessible business services to disadvantaged groups in rural areas (see Box 4).

BOX 4: Mobile bankers in Ghana

In some districts in Ghana, rural banks have set up 'mobile banking' - a daily "door-step" financial service modelled on the traditional door-to-door money collectors. Rural bank collectors go out every morning into the community and collect savings from clients, returning to the bank in the afternoon to deposit the money. The mobile banker also facilitates the process of micro-enterprises getting access to formal credit. Due to the daily personal contact they have with their clients, they are well placed to inform the bank on that client's suitability for receiving a loan, thus breaking down the information asymmetry and some formal collateral requirements that hinder usual formal financial extension to micro-enterprises. However, these mobile bankers might be well placed to provide more than just financial services. If they were provided with further training themselves, each mobile banker could, in theory, become a mobile business development services unit; providing additional training services to their clients (including basic book keeping, business skills). Having mobile bankers/business advisors would greatly increase outreach to the entrepreneurs that need advice.

Source: Palmer (2007)

- **Effective entrepreneurship initiatives focused on disadvantaged groups can provide decent jobs and produce positive multiplier effects.** Disadvantaged groups require special initiatives to overcome blockages to their employment, and entrepreneurship programmes can provide them with decent jobs. Moreover, these programmes can produce positive multiplier effects. A recent study has shown that female-owned firms in Egypt hire a higher proportion of women workers than male-owned companies, and that these women workers are better able to rise up to higher professional and managerial positions under female employers than under male employers (Nasr, 2010: 17-18; World Bank, 2013a). Furthermore, assisting female entrepreneurs is one way of addressing rural informality and unemployment, since most women business owners are located in rural areas (Nasr, 2010: 12). Effective entrepreneurship assistance means providing access to finance, markets and networks, as well as dedicated training and ongoing support.
- **Facilitating linkages between formal and informal sector firms can hasten private sector growth and employment.** Establishing centre-satellite systems, where MSEs act as subcontractors to a large principal factory or company can create backward linkages and upgrade the technological and management capabilities of MSEs. Such systems of cooperation between informal and formal enterprises are not novel in Egypt: a 1980 study of a Cairo neighbourhood suggests that small informal firms regularly supplied finished or partly-finished products to formal sector firms (El Kholi, 2002: 164). Another way that government can assist the development of informal sector firms would be to encourage MSEs involved in the same business area to form 'clusters', so that they can exchange knowledge, collaborate on products, share marketing and distribution costs, and attract buyers to a single location. This would mean creating a small-scale, localised version of the export processing zones and science-based industrial parks that were a key factor in Taiwan's rapid economic growth between 1970 and 2000 (Wu and Huang, 2003: 5).

Improving knowledge and understanding of the informal economy

- **The official definition of 'informality' on which public policies are based needs to be updated.** A new definition, which captures informal employment in the formal sector as well as in the informal sector, is required. Government policy to date has been based on CAPMAS's 'enterprise-based' economic census definition, while the ELMPS or ILO definitions – which measure informal private employment – would be more appropriate. Given that informal

employment arrangements also apply to 11% of public sector employees, who are excluded from all of these definitions, there is a need to consider how to deal with this category of workers. Moreover, definitions of informality need to be continuously monitored and updated to reflect shifts in the character of the informal economy.

- **Standards for measuring the informal economy should be agreed across different communities of researchers involved in tracking the phenomenon.** If this is done, it will be easier to track the prevalence of informality, as well as establish its causes and consequences. The data reported in the figures and tables in this paper have relied mainly on three studies – those by Nasser (2011), El-Fattah (2012) and Shehu and Nilsson (2014) – all of whom report trends relating to informal employment, but measure this variable in different ways. While the findings of these studies appear to match up and 'triangulate', this may be by accident rather than by default – so care must be taken even in relying on this paper's results. Adopting a more standardised approach to defining and measuring informality – one which is continuously reviewed and updated – is the best approach to studying a phenomenon that is by its nature difficult to detect.
- **Further data and analysis on the informal economy in Egypt is required.** Information on Egypt's informal economy, while improving in quantity and quality, is still fractional and has tended to be based on surveys with small sample sizes. A key focus of government policy should therefore be to gather information or commission further research on the size and characteristics of the informal economy. Because of the 'underground' nature of informality, private sector partners should carry out research that ensures the anonymity of participants, so that results of studies and surveys are more likely to be accurate and reliable.

Government reports, academic studies and news commentaries that characterise Egypt's informal economy in predominantly enterprise-based terms – that is, focusing on informal enterprises within the informal sector, rather than informal employment across all sectors of employment – ignore the most important aspect of informality today. Informality in Egypt is more difficult to detect than ever before, because formal firms of all sizes hire workers informally – workers who are easily overlooked amidst the formal personnel that these registered companies also employ. While workers like Ahmad – the fictional character in Wali al-Din's novel, mentioned at the beginning of this paper – have a prospect of graduating out of informality, given their intermediate or higher qualifications, informal workers from less

privileged backgrounds require government support to prevent them from chronic poverty and a hopeless future. For these workers, a living wage, protection from poor working conditions, access to social

security and health benefits, and mechanisms that allow them to be recognised and/or heard are of greater concern than licencing and registration procedures.

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