



International
Labour
Organization



Co-funded by
the European Union



Informal economy diagnostic study in Egypt

With focus on agriculture, engineering, food industries, readymade garments and transportation sectors





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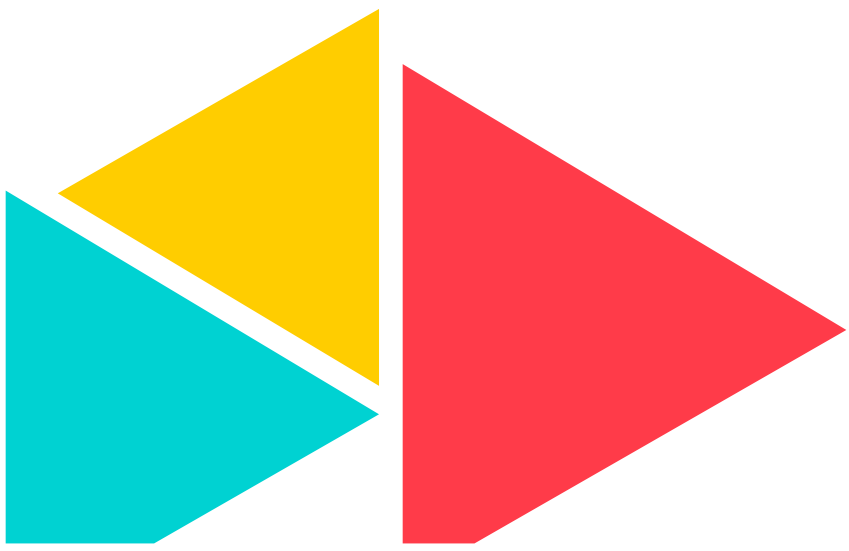
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We would like to express our sincere gratitude to all those who contributed to the successful completion of this diagnostic study on the situation of the informal economy in Egypt, with focus on Agriculture, Engineering, Food industries, Readymade Garments and Transportation Sectors; aiming to set the basis for national policy making to address the drivers of informality. Our deepest appreciation goes to Dcode Economic and Financial Consultancy for their dedicated efforts and invaluable expertise in conducting this study. We also extend our thanks to the ILO technical specialists team who provided their insights and support throughout the research process, namely Roland Sarton, Employment Specialist; Florence Bonnet, Informal Economy Data and Diagnostics Senior Specialist; Caroline O'Reilly, Social Dialogue Senior Specialist; and Samia Archella, SOLIFEM Technical Officer. Invaluable technical input was also provided by members of the ILO Decent Work Team for North Africa based in Cairo including ACTRAV and ACTEMP specialists and by specialists from the technical units in ILO Geneva. National coordination and management support was provided by Rihame Madbouli, Jaidaa Sakr and Iman Hakim, members of the SOLFIEM national team in Egypt.



Executive summary

Introduction and objectives

The «Informal economy diagnostic study in Egypt», conducted by the International Labour Organization (ILO) under the Social Dialogue for Formalization and Employability in the Southern Neighbourhood (SOLIFEM) project, co-funded by the European Union (EU), aims to provide a thorough analysis of informality within Egypt's economy, focusing on five key sectors: agriculture, engineering, food industries, ready-made garments (RMG), and transportation. The main objective is to equip national actors with the necessary evidence and insights to foster a common understanding of the profile of the informal economy, the drivers behind it, the challenges and opportunities related to informality in these sectors, and ultimately supporting the transition from informal to formal economy.

Methodology

The study utilized a mixed-methods approach, incorporating both quantitative and qualitative research. The quantitative analysis relied on official data sources, including the CAPMAS Economic Census and Labour Force Surveys. The primary research involved sectoral focus group discussions (FGDs) and key informant interviews (KIIs) with over 50 stakeholders. The findings were then validated in a workshop attended by 30 stakeholders, leading to revision and finalization of the report.

Global practices in formalization

The study explores international experiences in formalizing informal economies, drawing lessons from Latin America, Africa, and the OECD countries. These experiences highlight the importance of multi-faceted approaches that address economic, legal, and social dimensions. Key strategies identified include economic capacity , legislative adaptation, incentives and oversight, and building trust.

Egypt's macroeconomic overview

Egypt's macroeconomic landscape has been turbulent in recent years, exacerbated by external shocks such as the COVID19- pandemic, the Russia-Ukraine war, and internal structural weaknesses. The economy has experienced high inflation and interest rates, currency devaluations, and increased public debt, placing significant strain on businesses. Many firms, particularly smaller enterprises, have opted to remain informal to avoid the added burdens of formalization under these challenging conditions. Additionally, the ongoing challenges in the business environment, such as regulatory complexity and the heavy tax burden, deter businesses from formalizing, even though they recognize the long-term benefits.

Profile of informal economic units and workers

- **Informal workers:** With nearly 67% of workers engaged being informal, informal employment is prevalent among younger, less educated workers, and those in low-skill occupations. Agriculture has the highest rate of informal employment, with more than 97% of workers in this sector being informal. Informality is also widespread among part-time and seasonal workers.
- **Informal economic units:** Most informal economic units are micro-enterprises with fewer than five employees. These units often operate with limited capacity, outdated technology, and minimal access to finance, which constrains their ability to grow and formalize. The informal sector is particularly dominant in agriculture, trade, and manufacturing and accounts for 53% of establishment included in the last national economic census.

Drivers of informality

The study identifies several key drivers of informality in Egypt:

- **Economic pressures:** High costs of formalization, including taxes, social security contributions, and regulatory compliance, discourage businesses and workers from transitioning to the formal economy.
- **Regulatory complexity:** The complexity and inconsistency of regulations create barriers to formalization. Many businesses find it easier and more cost-effective to remain informal rather than navigate the bureaucratic requirements for formal registration and operation.
- **Social perceptions:** There is a widespread perception among workers that the immediate financial benefits of informal employment outweigh the long-term benefits of formal jobs, particularly given the low value of social security and pension schemes.

Sectoral analysis

1. Agriculture

- **Extent of informality:** Informality in the agriculture sector is nearly universal, with more than 97% of workers employed informally. The sector is characterized by small-scale, subsistence farming where formalization is rare.
- **Drivers of informality:** The seasonal nature of agricultural work, low skill requirements, and the absence of regulatory enforcement contribute to the high levels of informality. Many workers prefer informal employment due to the flexibility it offers, despite the lack of social protections.
- **Challenges and opportunities:** The sector faces significant challenges, including limited access to modern technology and finance, which hampers productivity and the potential for formalization. However, the adoption of digital platforms and mobile applications in agriculture presents opportunities to integrate more farmers into formal economic activities.

2. Ready-made garments (RMG)

- **Extent of informality:** The sector includes a significant proportion of small workshops and home-based enterprises operating outside the formal economy.
- **Drivers of informality:** High competition, low profit margins, and the prevalence of short-term contracts encourage businesses to remain informal. The sector's labour-intensive nature and reliance on seasonal and part-time workers further exacerbate informality.
- **Challenges and opportunities:** The sector is heavily impacted by global supply chain disruptions and increasing input costs. However, the demand for exports necessitates compliance with international standards, which could drive formalization efforts. Initiatives like vocational training and better access to finance could help integrate informal units into the formal sector.

3. Food industries

- **Extent of informality:** Informality in the food industry is widespread, particularly among micro and small enterprises. These units often operate with minimal regulation and oversight.
- **Drivers of informality:** The food industry is dominated by small-scale producers who prefer to remain informal due to the perceived complexity and cost of formalization. Additionally, the sector is characterized by high levels of underutilization of capacity.
- **Challenges and opportunities:** The rising cost of raw materials and the need for compliance with food safety standards are significant challenges. However, formalization could provide better access to markets, especially for businesses aiming to export their products. Informal business intentionally producing counterfeit products, on the other hand, represent a food safety problem that needs to be addressed differently.

4. Engineering

- **Extent of informality:** The engineering sector shows a lower level of informality compared to the other sectors, but still significant, especially in small and medium-sized enterprises.
- **Drivers of informality:** The sectors complexity and the high costs associated with formal compliance (such as obtaining licenses and meeting safety standards) discourage businesses from formalizing. Informal units often struggle with access to finance and technology.
- **Challenges and opportunities:** The sector faces challenges related to competition from informal units, which often operate with lower costs. However, formalization could enhance competitiveness, especially for businesses looking to participate in large-scale infrastructure projects or government contracts. The adoption of new technologies and government support for skill development could drive formalization.

5. Transportation

- **Extent of informality:** Because formal registration, licensing, is required for the transportation businesses, informality is particularly among smaller operators and gig economy workers like those working with ride-hailing services.
- **Drivers of informality:** Informality is concentrated in certain types of vehicles, where there are regulatory gaps and informal practices.
- **Challenges and opportunities:** The transportation sector is impacted by rising fuel costs and regulatory pressures. However, the expansion of technology-based platforms, which require formal registration, presents opportunities for increased formalization. The implementation of the Technology-based Transport Law could further drive formalization in this sector.

Conclusion and recommendations

The report concludes that tackling informality in Egypt requires a holistic approach that addresses macroeconomic, regulatory, and social dimensions. Key recommendations include:

- **Simplifying regulatory frameworks:** Simplifying business registration processes and reducing the costs of formalization.
- **Enhancing incentives:** Providing financial incentives, such as tax breaks or access to credit, could make formalization more attractive to small and medium-sized enterprises.
- **Promoting social dialogue:** Strengthening social dialogue between the government, businesses, and workers is essential to building trust and ensuring that formalization efforts are effective and inclusive.
- **Leveraging technology:** Expanding the use of digital platforms and e-governance tools could streamline regulatory processes and reduce the burden on businesses, encouraging formalization.
- **Building trust:** The study emphasizes that building trust between the government and the private sector is critical to the success of formalization efforts.

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List of acronyms

B2B	Business-to-Business
BDS	Business Development Services
CAGR	Compound Annual Growth Rate
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CDA	Community Development Association
EGP	Egyptian Pound
ERRADA	Egyptian Regulatory Reform and Development Activity
ETUF	Egyptian Trade Union Federation
FAO	Food and Agriculture Organization
FEI	Federation of Egyptian Industries
FGD	Focus Group Discussion
FX	Foreign Exchange
FY	Fiscal Year
G2G	Government-to-Government
GAFI	General Authority for Investment and Free Zones
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GOEIC	General Organization for Export and Import Control
HIECS	Household Income and Expenditure Survey
HSE	Health Safety and Environment
ICLS	International Conference of Labour Statisticians
IDSC	Information and Decision Support Center
ILO	International Labour Organization
IMF	International Money Fund
ITUC	International Trade Union Confederation
KII	Key Informant Interview
KPI	Key Performance Indicator
LFS	Labour Force Survey
LTRA	Land Transport Regulatory Authority
M&E	Monitoring and Evaluation
MCIT	Ministry of Communications and Information Technology
MFI	Microfinance Institutions

MoF Ministry of Finance
MoL Ministry of Labour
MoSS Ministry of Social Solidarity
MoTI Ministry of Trade and Industry
MPED Ministry of Planning and Economic Development
MSEs Micro and Small Enterprises
MSMEDA Micro, Small and Medium Enterprises Development Agency
MSMEs Micro, Small and Medium Enterprises
NFA Net Foreign Assets
NGO Non-Governmental Organizations
OECD Organization for Economic Co-operation and Development
OPT Occupied Palestinian Territories
OSH Occupational Safety and Health
PMI Purchasing Managers' Index
RMG Ready-made Garments
SLLC Sierra Leone Labour Congress
SME Small and Medium Enterprise
SOLIFEM Social Dialogue for Formalization and Employability in the Southern
Neighbourhood Project
SOP Standard Operating Procedures
SPUs Service Provision Units
TUC Trades Union Congress
TVET Technical and Vocational Education and Training
USD United States Dollar

Definitions

The concept of informality is intricate and often involves related terms and concepts such as informal economy, informal productive activities, informal employment, and informal sector. To navigate this complexity and provide a nuanced understanding of informality, **our study adheres to the comprehensive framework outlined by the International Labour Organization (ILO)**, which encapsulates diverse elements. While the ILO's definition provides a global perspective, our study recognises the importance of contextual understanding as each national organization and law has its own definition(s) and these are not always consistent with the ILO's. Presented in this section is an explanation for the different definitions being adopted internationally and nationally to provide context to the study.

ILO definitions according to the 21st International Conference of Labour Statisticians (ICLS), 2023¹ :

Informal productive activities: all productive activities carried out by persons or economic units that are – in law or in practice – not covered by formal arrangements. Coverage by formal arrangements in law and in practice does not merely imply having legal coverage by the formal arrangements but means that the arrangements should be effectively accessed in practice by the worker and the economic unit by fulfilling procedures that entail duties and obligations for all parties involved.

Informal economy: “informal economy” comprises all informal productive activities of persons or economic units, whether or not they are carried out for pay or profit. Illegal and illicit activities, where the goods and services are forbidden by law, are excluded from the informal economy. Activities where the goods and services produced are usually legal but become illegal when carried out by unauthorised producers are to be included together with other informal productive activities in the informal economy.

“Informal productive activities of persons” include informal tasks and duties carried out by persons in:

- a. Informal employment;
- b. Formal employment, carrying out partly informal activities, tasks and duties; and
- c. Unpaid trainee work, volunteer work, own-use production work and other work activities.

“Informal productive activities of economic units” include informal production carried out by:

- a. Economic units in the informal sector,
- b. Households producing for own final use, including direct volunteer work, and production by non-formal non-profit organizations.

¹ILO (2023). Resolution concerning statistics on the informal economy, 21st International Conference of Labour Statisticians (Geneva, 20–11 October 2023)

Informal market economy is defined as all production for pay or profit in the informal sector and all productive activities of workers in employment that are – in law or in practice – not covered by formal arrangements.

Informal units

Depending on the formal status of the economic unit and the intended destination of the production, **economic units can be allocated mutually exclusively to one of the following sectors:**

(a) **The formal sector**, comprising **economic units** that are **formally recognised** as distinct producers of goods and services for the **consumption of others** and whose production is mainly intended for the **market** with the purpose of generating an **income or profit, for a non-profit purpose, or non-market production for use by other economic units** (corporations, quasi-corporations, government units, formal non-profit institutions serving households and formal household unincorporated market enterprises).

(b) **The informal sector**, comprising **economic units** whose production is mainly intended for the **market** with the purpose of generating **income and profit**, but that are **recognised as producers of goods and services distinct from the own-use production of the owner operators' household (informal household unincorporated market enterprises)**.

These informal household unincorporated market enterprises («informal sector economic units») are characterised by the fact that they produce mainly for the market with the purpose of generating an income and profit for the owner or owners of the enterprise but they do not have a formal status as a market producer, by: (i) not being owned or controlled by the government; and (ii) not being recognised as separate legal entities from their owners; and (iii) not keeping a complete set of accounts for tax purposes; and (iv) not being registered in governmentally established system of registration; and (v) not employing one or more persons to work as an employee with a formal job; (b) the intended destination of the production being mainly for the market with the purpose of generating an income and profit for the owner or owners of the enterprise.

(c) **Household own-use production and community sector**, comprising **economic units** that are **not formally recognised** as producers of goods and services for the consumption of others, whose production is either mainly for the **household's own final use**, or for the **use of other households**, without the purpose of generating **income and profit** for the producing household or households or the members of the non-formal non-profit organisation (**households and non-formal non-profit organisations**).

Informal employment

Any activity of persons to produce goods or provide services for pay or profit that is -in law or in practice - not covered by formal arrangements such as commercial laws, procedures to report economic activities, income taxation, labour legislation and social security laws and regulations providing protection against economic and personal risks associated with carrying out the activities. Informal employment comprises activities carried out in relation to informal jobs held by:

- a. Independent workers who operate and own or co-own an informal household unincorporated market enterprise;
- b. Dependent contractors who do not have a formal status in relation to the legal administrative framework or whose activities are not effectively covered by formal arrangements;
- c. Employees, if their employment relationship is not, in practice, formally recognised by the employer in relation to the legal administrative framework of the country or not associated with effective access to formal arrangements; and
- d. Contributing family workers whose work relationships are not formally recognised in relation to the legal administrative framework of the country or not associated with effective access to formal arrangements.

Decent work

In addition to defining informality, it is crucial to define decent work as well.

Decent work² refers to productive work for women and men in conditions of freedom, equity, security and human dignity. Work is considered decent if it:

- Pays fair compensation.
- Provides job security.
- Maintains safe and healthy working conditions.
- Grants the potential for personal development.
- Guarantees social protection.
- Ensures equal opportunity and treatment for all.
- Allows workers and employers freedom to organize and engage in social dialogue.
- Does not involve child or forced labour.

National definitions of informality:

CAMPAS defines the informal sector as the production units that carry out an economic activity, (industrial, commercial, service ... etc.) without administrative registration, or practising their activities without holding a permission/licence from the concerned official authorities. In addition, they do not have any legal entity in accordance with the necessary procedures to practise such activities.³

²ILO (2023), Productivity Ecosystems for Decent Work. Glossary of frequently used terminology.

³CAMPAS (2019). Result of Fifth Economic Census 2017/2018 for Egypt by Economic Activity and Governorate.

CAPMAS indicates the counting unit to be the “establishment” where an economic activity is being carried out and is held by a natural or legal person.⁴ The criteria for the establishment to be considered include: a fixed place, implementing an economic activity such as providing goods or services for others, and the establishment’s holder to be a single person or group of partners or legal person.⁵

The Egyptian MSME Development **Law No. 152 of 2020 defines informal MSMEs** as the micro, small, or medium enterprises that perform without a building or operational licence, or other required licences or approvals recommended by MSMEDA and stipulated by a decree from the Prime Minister.⁶

As for informal employment, described as irregular workers according to Social Insurance Law No. 148 of 2019, falls under the following categories⁷:

- Landlords/landladies with income below the minimum bound (min. subscription wage),
- Intermittent construction workers
- Self-employed workers, such as street vendors and mobile workers
- Domestic workers
- Islamic religious instructors (in mosques)
- Christian religious instructors/chanters (in churches)
- Inheritors of deceased entrepreneurs, with certain conditions.
- Intermittent agricultural workers (less than six consecutive months or if the job is not by nature part of the employers’ activity)
- Agricultural land tenure holders who have less than one “feddan” of land tenure (owners and rent holders).
- Agricultural landowners (who do not hold the tenure) of less than one “feddan”.

Workers among these categories must be own-account workers (independent workers with no employees) or working in a fixed workplace that has a business registration or some form of licensing. They also need to show the above occupations as their cited occupation on their national identity cards, which poses a serious hurdle because these occupations allow for no proof to be presented at the time of issuing the national identification card.⁸

⁴Ibid

⁵Ibid

⁶ Egyptian Micro, Small, and Medium Enterprise Development Agency (MSMEDA) (2020). Egypt’s MSME Development Law No. 152 of 2020, Article 12.

⁷اللائحة التنفيذية لقانون التأمينات الاجتماعية والمعاشات رقم 148 لسنة 2019 ص 11-13

⁸Barsoum, G. and Selwaness, I (2022), Egypt’s reformed social insurance system: How might design change incentivize enrolment?, The American University in Cairo, Egypt; Cairo University, Giza, Egypt

1. Background & introduction

The regional ILO project Social Dialogue for Formalization and Employability in the Southern Neighbourhood (SOLIFEM), co-funded by the European Union, aims at supporting a transition from the informal to the formal economy, through social dialogue, in Algeria, Egypt, Lebanon, and the Occupied Palestinian Territories (OPT). This objective is being pursued through strengthening the capacity of ILO constituents to act, through social dialogue, on two fronts:

1. Development of integrated strategies on formalization in line with ILO Recommendation 204 on the transition from the informal to the formal economy (Outcome 1).

2. Strengthen skills and recognition systems, to enable young people and women to access formal employment (Outcome 2).

Under outcome 1, and in view of informing the design and development of an integrated formalization strategy, ILO SOLIFEM and the social partners in Egypt [the Federation of Egyptian Industries (FEI) and the Egyptian Trade Unions] agreed to conduct a **diagnostic study for the informal economy in Egypt**, providing a comprehensive mapping and analysis of factors, characteristics, causes and circumstances of informality in specific sectors: Agriculture, engineering industries, food industries, readymade garments; and transportation.

The diagnostic's main objective is to provide the necessary facts and evidence to allow national actors to come, as far as possible, to a common understanding of the situation of workers and economic units in the informal economy (in the selected sectors) in their diversity of constraints and gaps to be addressed. Thus, the study provides a comprehensive mapping and analysis of factors, characteristics, causes and circumstances of informality in the targeted sectors.

To reach the objective of the study, the ILO **methodology** was followed. The secondary research relied on official sources. Thus, as indicated in the limitations, the quantitative analysis relied on CAPMAS (the economic census for the economic units data the labour force surveys for the workers' data). The primary research included four sectoral focus group discussions⁹ and key-informant interviews with a total of more than 50 stakeholders. The research was followed by through quantitative and qualitative analysis, drawing recommendations and a validation workshop with 30 participating stakeholders. In light of the feedback and discussions of the workshop, the draft report was revised and finalized. The figure below depicts the steps undertaken to conduct the study.

⁹Covering the food, transportation, ready-made garments and engineering sectors. The agricultural sector was covered through interviews due to its distinctive nature.

SCOPE OF WORK



The study is divided into chapters that are organized in a way to identify global best practices and success stories as well as the key factors behind their success. The study then goes on to relate those factors to the situation in Egypt giving a detailed overview of the employment landscape and how that relates to the macroeconomic and microeconomic environment. The study offers an in-depth view of the legal and regulatory framework and how it contributes to informality or formalization with a deep dive into specific sectors namely food industries, ready-made garments, agriculture and transportation. Based on the analysis, a full framework of challenges and actionable recommendations are outlined identifying key stakeholders for each action item.

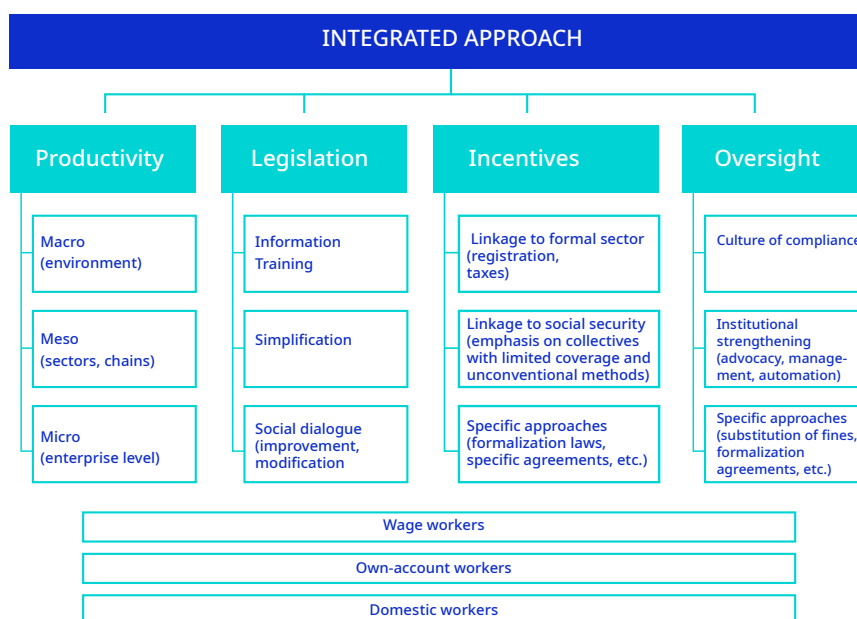
In conducting the study there were certain limitations that need to be taken into consideration:

- Definitions adopted by the various national entities are not always consistent, nor are they consistent with the ILO definitions. Accordingly, whenever the data allowed, ILO definitions were used, such as in the analysis of informal employment as per the Labour Force Survey, whereas the analysis of informal economic units used CAPMAS definition since the micro data were not available to apply ILO's definition.
- The quantitative analysis relies on the most recent official national statistics; the micro data of 2021 LFS, the publicly available CAPMAS data of Q2 2023 LFS, and the 2017/2018 CAPMAS Economic Census.
- It was unfeasible to include informal economic units as part of the primary research due to the fact they are not represented under any organization and were reluctant to meet with the team as they continue to be hidden. Instead, the team met with formal MSMEs and business representative organizations who were able to describe the challenges they face that would deter an enterprise from becoming formal.

2. International good practices in formalization

Informality is a globally widespread phenomenon that is present in both developed and developing countries. The informal economy comprises more than half of the global labour force constituting 61.2% of global employment and more than 90% of Micro and Small Enterprises (MSEs) worldwide.¹⁰ Based on pre-pandemic averages, informal employment made up approximately 2bn workers worldwide, representing 6 in every 10 workers, excluding agriculture. Informal employment represents 89% of the total employment in low-income countries, 82% in lower-middle income countries, and 50% in upper-middle income countries, and finally high-income countries stand at 16%. Despite these statistics, the portion of informal jobs in formal enterprises is nearly three times higher in high-income countries than in lower-income countries.¹¹

To support the transition to formality, countries often implement a combination of specific policies but do not necessarily use an integrated approach in all cases. For example, **some countries prioritise certain areas over others** that align with the context and specific circumstances of each country. According to an **integrated approach**, supported by the ILO, countries should prioritise aspects such as economic growth with quality employment; improvement of the regulatory environment; promotion of organization, representation and social dialogue; promotion of equality and the fight against discrimination; support to entrepreneurship, skills and finance; extension of social protection; and promotion of local economic development¹². Although most of the countries do not use this integrated approach, as a group, they could employ some of these strategies for facilitating the transition to formality systematically.¹³ The integrated approach is illustrated in the chart below.



Source: ILO.

¹⁰ILO (2017), Transition from the Informal to the Formal Economy Recommendation, 2015 (No.204),

¹¹ILO (2023). Women and men in the informal economy: a statistical update (English edition), International Labour Office, Geneva

¹²ILO (2013). Transitioning from the informal to the formal economy. Report V.103 .1rd Session of the International Labour Conference, 2014. Geneva: ILO.

¹³ILO (2014), Recent experiences of formalization in Latin America and the Caribbean, Regional Office for Latin America and the Caribbean

2.1. Latin America and The Caribbean experience

During the period from the early 2000s extending to 2012, capitalising on favourable economic conditions, several countries in the region made important policy efforts to reduce informality. Informality in Latin America and the Caribbean has been a pressing issue for decades, whereby around half of the region's population are employed in the informal economy,¹⁴ totalling to more than 150 million workers. With no legal coverage and reduced productivity, the presence of such a prominent informal economy poses substantial threats to society. Despite efforts exerted to help combat informal employment, the problem persists. The informal economy, compounded by a lack of sufficient job opportunities, together with disparities in equality all feed into one another. Failure to comply with legislation, insufficient access to information, constrained economic capacity, and a weak labour inspection system, are all factors that allow the informal economy to further perpetuate within the region.¹⁵

Despite informality's lingering presence in the region, there have been few solutions which have led to improvements to help grow the formal sector. Improvement was observed particularly during times when the region experienced advances in international trade, an inflow of resources, and an increase in cash flows. Solutions include reducing the lack of knowledge associated with setting up a formal enterprise, simplifying registration procedures of enterprises and workers in the formal economy, extending social protection to groups that are typically difficult to cover such as own-account workers or workers in micro-enterprises, and finally focusing on creating proper foundations within institutions responsible for labour inspection.¹⁶

In some cases, informality declined sharply, which is important given that it occurred in a region with growing informal employment that has accumulated for decades.¹⁷ The Programme for the Promotion of Formalization in Latin America and the Caribbean (FORLAC) conducted a series of studies to determine whether the policies implemented by these countries could be associated with the reductions observed in informal employment. Specific studies were carried out, mainly of public policies, in 10 countries: Argentina, Brazil, Colombia, the Dominican Republic, Ecuador, Jamaica, Mexico, Paraguay, Peru and Uruguay. Non-agricultural informal employment in Latin America and the Caribbean fell from 50% in 2009 to 47.7% in 2012, although the magnitude and pace of this reduction varied in the countries analysed.¹⁸ A combination of economic factors associated with the region's growth period and the application of specific policies made this achievement possible.¹⁹

¹⁴ ILO (2023). Women and men in the informal economy: a statistical update.

¹⁵ Xirinachs, J. and Chacaltana, J. (2018), Informality in Latin America and the Caribbean: Why does it persist and how can it be addressed

¹⁶ Ibid

¹⁷ ILO (2014), Recent experiences of formalization in Latin America and the Caribbean, Regional Office for Latin America and the Caribbean

¹⁸ Ibid

¹⁹ Ibid

2.1.1. Improving economic capacity (productivity)²⁰

The economic capacity of both enterprises and workers plays a pivotal role in formalization efforts. Productivity, especially job productivity, serves as a crucial indicator in this context. However, the region faces challenges as its output per worker has increased at a slower pace than the world average due to factors such as lack of investment, outdated technology, infrastructure gaps, and educational deficits.

There are three main levels at which these countries operated to enhance productivity and formalization:

Macroeconomic policies: The observed reduction in informal employment took place during periods of strong economic growth compared to previous decades. Many countries in the region learned from past crises, combining a **favourable global environment with careful monetary and fiscal policies**. During crises, some nations controlled crucial factors like inflation and utilised proactive monetary strategies. This involved employing countercyclical approaches to handle economic expansion, ensuring stability and safeguarding formal employment opportunities.

Mesoeconomic level: Productivity improvements can be achieved at the meso-economic level. Even during periods of strong economic growth, interventions at this level are crucial. Their impact on employment relies on the **labour absorption intensity in key sectors** and the presence of **value chains that stimulate labour demand**, particularly in sectors employing a higher number of workers. Specific programmatic mechanisms are essential for enhancing productivity. For example, Mexico has implemented an updated online system and a national skills system (CONOCER) that establishes standards with input from social actors, linking these standards directly to productivity. **Brazil has established research institutes to monitor performance in key economic sectors. Feedback from national tripartite councils** guides their programs and helps social actors effectively use the tools provided. Additionally, Brazil, Ecuador, Mexico, and Peru have **integrated government procurement with formalizing employment** in supply firms at this level. This integration often focuses on value chains, aiming to connect informal segments within these chains to the formal sector. Local economic development **initiatives with a geographic focus** also contribute significantly to this area.

Microeconomic level: At the level of individual economic units, efforts focus on **enhancing technology, human capital, and organizing production**. Initiatives like Mexico's Simapro and the international SCORE program aim to boost enterprise productivity. Additionally, there are programs nurturing management and technological skills among workers and small to medium-sized enterprises, such as Colombia's National Learning Service (SENA) and Brazil's National Industrial Learning Service (SENAI) and Micro and Small Enterprise Support Service (Sebrae).

²⁰Ibid

2.1.2. Legislation²¹

The analysis of various countries' experiences reveals interventions in three key areas concerning legislation and formalization efforts:

Information dissemination: Many economic units lack a clear understanding of what formality entails. Countries like Colombia and Argentina have implemented strategies to disseminate information about formality among sectors with high informality rates. For instance, Colombia's «Colombia Works Formally» initiative spreads **awareness** through formalization networks. Argentina conducts campaigns to **educate the public about the benefits of formal employment.**

Regulation and procedure adaptation: Countries have adapted or **simplified regulations** and procedures to encourage formalization. Examples include Chile's Law to facilitate procedures and the «Your Business in One Day» program, Colombia's Anti-procedure Decree and Business Services Centers, Panama's «Entrepreneurial Panama,» and Guatemala's «Easy Service Window» and «Procedure Simplification Programme.» Some countries **streamlined procedures related to social security affiliation** and worker registration. Uruguay standardised social security retirement-pension contributions across sectors and made accessing benefits more flexible. Reforms included changes in health insurance, unemployment insurance, special subsidies, and pension benefits. Simplifications like **integrating worker contributions into a single payroll and facilitating electronic deposits** were also implemented, as seen in Colombia (PILA system) and Brazil (eSocial). In the context of extension of social coverage in particular, the lessons include being part of a comprehensive integrated strategy for social insurance, prioritising the needs and adapting solutions to them, raising awareness of employers and workers on the benefits of social insurance, building trust, amendment and simplification of regulations, and taking into account the financial capacity of informal workers.²²

Social dialogue and consultation channels: establishing channels for dialogue, negotiation, and consultation is vital to improve standards and regulations. social dialogue adds legitimacy and sustainability to changes. uruguay, for instance, utilises national dialogues to address modifications in social security and labour policies.

2.1.3. Incentives²³

The focus of political discussions on formalization often centers around the costs involved, with limited attention given to the associated benefits. In the region, simplified tax regimes have been introduced to tackle tax administration challenges and formalize taxpayers engaged in informal economic activities.

²¹ILO (2014), Recent experiences of formalization in Latin America and the Caribbean, Regional Office for Latin America and the Caribbean

²²ILO (2021), Extending social security to workers in the informal economy. Lessons from international experience.

²³ILO (2014), Recent experiences of formalization in Latin America and the Caribbean, Regional Office for Latin America and the Caribbean

Key incentives and policies:

Brazil: Implemented various programs like Simples Federal, Simples National, MPE Law, and the «Individual Microentrepreneur» program, allowing **workers to pay a reduced rate for tax registration**. This facilitated access to essential benefits such as retirement pensions, healthcare, and maternity leave.

Argentina: Implemented **tax simplification, e-government initiatives, and single-service window** programs at municipal and provincial levels, promoting ease of tax processes and formalization.

Peru: Offered sales **tax discounts to MSEs, accelerated depreciation for small enterprises**, and introduced **simplified tax regimes** like the New Simplified Single Regime (RUS) and the Special Income Tax Regime (RER) with fixed payment options and exemptions.

Uruguay: Reduced Business Income Tax (IRAE) to stimulate investment, resulting in a significant increase in investments in projects and SMEs. **Incentives were provided for labour hiring, vocational training, profit reinvestment, and exemptions for research and development**. Affiliation of active enterprises to the Social Protection Bank increased substantially under the single tax regime.

Social benefit access: Countries introduced measures to **simplify eligibility requirements for social benefits**, encouraging formalization of contracts. For instance, Argentina implemented sector agreements (Union Co-Responsibility Agreements) to formalize rural employment and simplify social security payments.

Unconventional affiliation methods: **Unconventional methods** were employed for groups with limited coverage, **like own-account workers** and domestic workers. These methods aimed to extend benefits and formalize workers in the informal economy.

Considerations for optimal implementation: Measures promoting formalization through benefit extensions need careful consideration of **time limits, gradual migration** to general regimes, and non-discrimination to avoid precarious labour relations. These regimes should be seen as tools for inclusion and formalization, especially for workers in the informal economy.

2.1.4. Oversight²⁴

Public awareness campaigns: Paraguay's Ministry of Justice and Labour initiated the Decent Work Operative, involving sectors like public transport, construction, agriculture, and tourism since 2008. Peru launched the «Challenge Plan» through labour inspection brigades, while Ecuador conducted media campaigns like the «Dignified Domestic Work» initiative and extended oversight to various forms of employment in coordination with the Ecuadorian Social Security Institute.

²⁴Ibid

Strengthening inspection capacity: Peru significantly increased formalization by **cross checking information** between labour and tax administrations via e-payroll. Peru also established the National Labour Supervision Office (Sunafil) in 2008, leading to a substantial rise in supervised workers. Argentina **bolstered labour inspection through increased human and technology resources** and introduced the National Programme for Labour Regularization.

Specific inspection schemes: Brazil expanded the structure of Labour Justice and organized specialised groups to eradicate child labour, forced labour, and discrimination. It also provided **financial incentives for labour auditors linked to formalized work**. Ecuador **restructured and reinforced labour inspection offices**, implementing proactive management models and hiring new inspectors. Mexico **disseminated formalization actions** among employers and workers through labour inspectorates, while Uruguay enhanced the efficiency of collection agencies, including the General Tax Directorate and the Social Protection Bank.

2.2. African experience

African countries employed certain strategies that facilitated the transition to the formal economy, which Egypt can learn from and apply.²⁵

- **Identify targeted groups and issues:** Determine the specific informal economy demographic and understand their challenges comprehensively.
- **Define services:** Clearly outline the services that can be offered to effectively address these challenges.
- **Raise awareness:** Launch awareness campaigns **to inform and engage informal economy workers, ensuring they are aware of available support and benefits.**
- **Organise and enhance skills:** Assist workers in organizing themselves and **enhance their negotiation skills**, empowering them in the formalization process.
- **Promote success stories: Market successful cases**, highlighting benefits, to attract more participants and inspire confidence in the formalization process.
- **Advocate and engage in dialogue:** Participate in **advocacy** efforts and conduct social dialogues with the government and employers. This ensures decent working conditions for informal economy workers and encourages collaboration among stakeholders.

Ghana

The Trades Union Congress (TUC) made significant strides in **educating and organizing** members of the informal economy. Their efforts extended to international and national **dialogues** on formalization, focusing on **trade union perspectives**. Additionally, the TUC conducted research on formalization, emphasising trade union viewpoints, and worked to enhance state competency, removing bureaucratic hurdles. On the other hand, the Ghana Employers' Association (GEA) facilitated **agreements between workers and local governments**, addressing critical issues like **taxation, registration, and certification**. The **GEA and TUC collaborated on a joint project advocating for the formalization** of the informal sector, emphasising the **importance of partnership** in driving formalization efforts.²⁶

Sierra Leone

The Sierra Leone Labour Congress (SLLC) has actively supported informal economy workers in protecting their rights and amplifying their voices. With the SLLC's assistance, ten trade unions representing informal workers, totaling 279,856 members out of 2 million, were registered.²⁷ These unions spanned diverse sectors like agriculture, trade, and entertainment. Sierra Leone implemented a notable strategy for formalization, encompassing several key elements²⁸:

- Recruitment initiatives: The SLLC **aided in the registration and formalization of trade unions** within the informal economy.
- Social protection: Ensuring **social security measures** for informal economy workers.
- Financial support: **Informal economy members obtained funds** from various sources to initiate or sustain their businesses. The registration of informal economy unions, along with government and bank support, facilitated **low-interest loans for informal economy operators** through their organizations.
- Representation and dialogue: The SLLC advocated for **improved workplace conditions** and addressed other issues to maximise benefits for IE workers.
- Training and skill development: **Informal economy workers benefitted from workshops and training sessions** designed to enhance their skills and capabilities.

2.3. International experiences in building trust

One of the main findings of the primary research was the lack of trust between the business community and the government, leading to the ineffectiveness of incentives schemes offered and the streamlined laws and regulations in place. Accordingly, this section focuses on international experience in building trust specifically, as it is an inherent root cause for reform ineffectiveness, as identified by stakeholders during the primary research.

²⁶ LO/FTF Council. (2015, August). Paving The Way for Formalization of The Informal Economy.

²⁷ Radwa Abo Shady (2018), Echoing the passive voice: Women in the informal small business sector: Challenges and solutions, The Public Policy Hub, AUC.

²⁸ Ibid

OECD

The OECD has identified the main public governance drivers of trust in government institutions and below are the main categories under which these drivers are:

- The degree to which institutions are **responsive and reliable** in delivering policies and services;
- The degree to which institutions act in line with the values of **openness, integrity and fairness**;
- **Cultural, socioeconomic** and political drivers; and
- Government's capacity to address global and **intergenerational issues**.

Norway²⁹

Norway has built and maintained high levels of trust through a combination of cultural, political, and economic factors, along with specific institutional characteristics. Here are key aspects contributing to the establishment and sustenance of trust in Norway:

- High levels of public sector **integrity, minimising corruption and ensuring ethical conduct**.
- **Economic prosperity** instills confidence in the public about the sustainability of public finances. Economic well-being is often associated with trust in government and public institutions.
- **Effective, inclusive, transparent political decision-making procedures contribute** to citizens' belief in the capacity of their government to make informed and responsible choices.
- The widespread availability of **quality public services** plays a key role in trust-building. Having access to essential services contributes **to a sense of well-being and social cohesion**.
- **Political and economic stability** provides a conducive environment for trust. Citizens' confidence in their political institutions is supported by the country's stable political landscape and sound economic management.
- **Citizen empowerment** contributes to a sense of trust, as citizens believe they have the ability to participate and influence governmental decisions.

New Zealand³⁰

Examining the experience of New Zealand can be summarised in the below highlights as drivers of trust:

- Reliance on **high expertise** in the government, indicating **informed decision-making**.
- Emphasis on **shared goals**.
- The functioning of a **politically neutral, effective, and trusted public service** that works in a **coordinated** manner.
- **Responsiveness** of public institutions addressing people's concerns at the central and local level.
- **Satisfaction with administrative services**.
- **Government values**, reliability, fairness, integrity, and openness to public feedback.
- **Trust in Parliament**. The extent to which people think they have a say in what the government does has a relatively high potential impact on trust in the parliament.
- **Preparedness** for future crises.

Brazil³¹

In the 2022 OECD Trust survey carried out in Brazil, only 26% of people indicated high or moderate levels of trust in the federal government, 20% trusted the local government and 24% trusted civil service. Consequently, a study was developed to better understand the drivers of trust and guide public policy as such. The results can be summarised in the following:

- Improving the **delivery and responsiveness of public services**, through measures such as targeted communication and awareness with the citizens on their rights, strengthened feedback loops, and delivery of user-centred services.
- Improved **foresight, planning and preparedness** to address long-term challenges.
- Effective **communication and engagement** between government and population. This includes adopting transparency, inclusive communication, and enhanced levels of participation.
- Strengthening **public integrity and reducing perceptions of corruption**, focusing on civil servants' integrity and ethics, coordination between government agencies, and adopting whistle-blowing regulations.
- Promoting **fairness across public institutions** including through diversity and inclusiveness of civil servants and in providing them with fair opportunities, training, and data sharing.
- Continuous measurement of trust levels in public institutions and their drivers.

2.4. Takeaways

Considering all of the international experiences examined, the key takeaways on a broad level can be summarised as follows:

³⁰Drivers of Trust in Public Institutions in New Zealand. (2023).

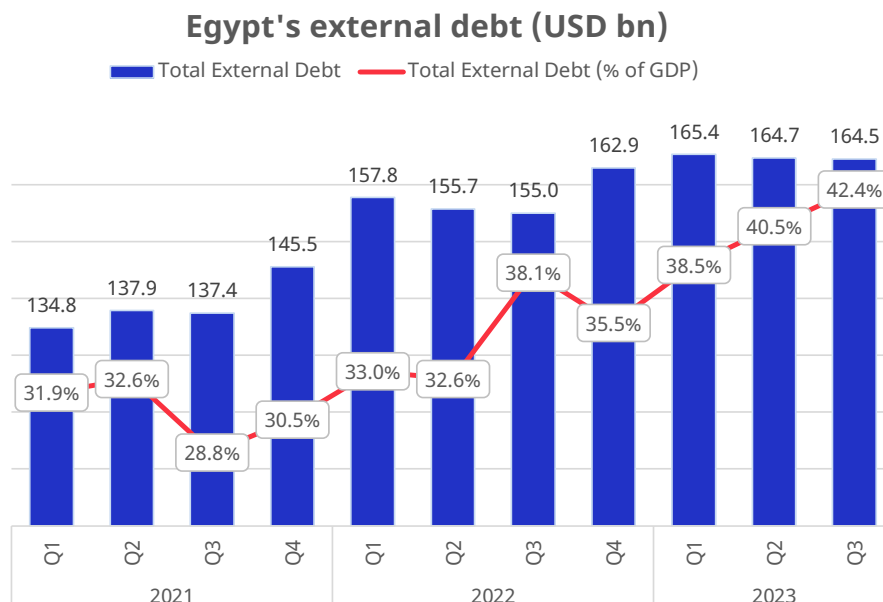
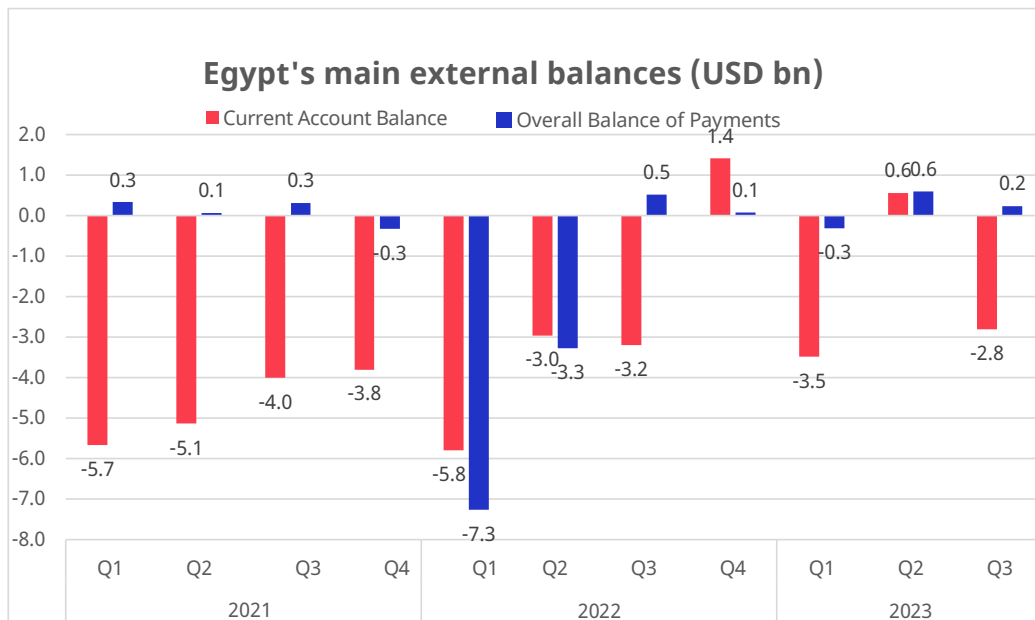
³¹OECD (2023), Drivers of Trust in Public Institutions in Brazil.

- Tripartite social dialogue is a key component for developing relevant policies that tackle the root causes of the problem and to ensure buy-in. This includes communication and public awareness-raising.
- Identification and prioritisation of the objectives of formalization is essential in order to adequately develop the policies targeting these priorities. (e.g. addressing key sectors or value chains or certain geographical locations)
- Addressing the macro, meso and micro level dimensions is imperative.
- Macro level policies lead to a conducive business environment and serve as an enabler for formalization.
- Simplified regulations and procedures for business registration and workers' social insurance are key factors and could be more lucrative than financial incentives.
- Taxation policies that ensure reduced income tax rates and the simplification of tax regulations are essential in formalizing MSMEs and workers. Provision of low-interest loans to informal economic units will act as a catalyst in the formalization process.
- Incentives to employers for formal labour hiring and vocational training need to be designed.
- Adoption of unconventional and flexible methods for formalizing workers (e.g. own-account workers or seasonal workers).
- Use of technology and digitisation to ensure the simplification of procedures and cross-checking of data.
- Data collection and dissemination are essential tools for performance monitoring and feedback.
- Raising awareness of employers and workers on the benefits of social insurance is key.
- Take into consideration the financial capacity of informal workers when developing regulations.
- Provide incentives for labour auditors linked to formalized work.
- Building trust between the government, employers and workers through:
 - Ensuring political and economic stability, hence reducing uncertainty.
 - Reliable implementation of policies and programs.
 - Inclusive decision-making processes and responsive social dialogues.
 - Promoting good governance principles such as transparency, integrity, accountability and fairness.
 - Tackling intergenerational issues.
 - Improving trust in Parliament.
 - Preparedness for future crises.
 - Continuous measurement of levels of trust and their drivers.
 - Fairness across public institutions and among civil servants.

3. Egypt's macroeconomic overview

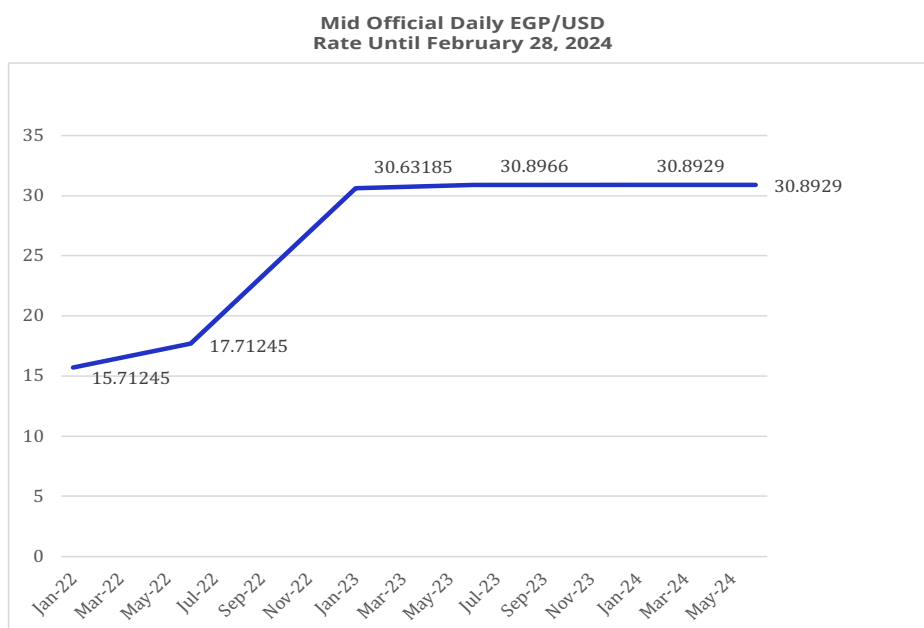
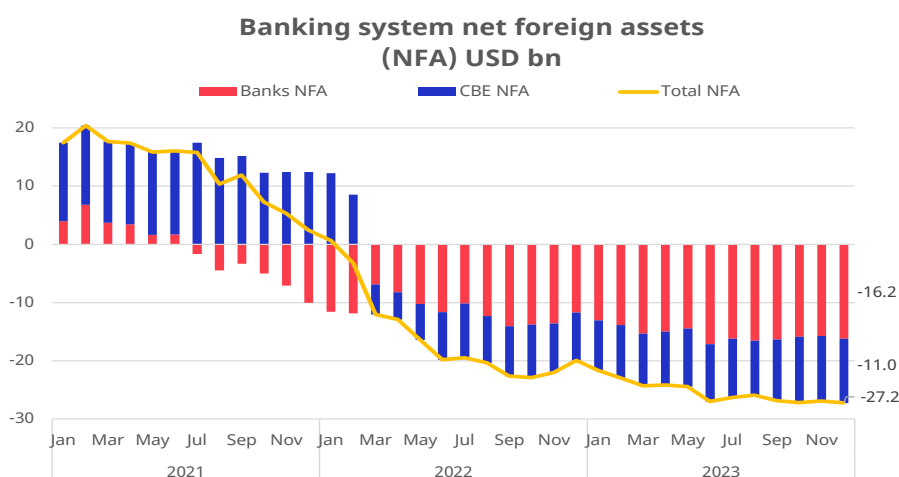
3.1. Macroeconomic snapshot

- egypt's economy was hit hard by external shocks over the last four years starting with the pandemic and significantly exacerbated by the Russia-Ukraine and Gaza wars. The external shocks exposed the economy's structural imbalances and external vulnerability driven by a wide current account deficit (reaching as high as USD -18.6 bn in 2021), fixed exchange rate regime, rising external borrowing (almost doubled in 5 years), with total external debt reaching 40.3% of the GDP in Q2-2023, and high reliance on foreign portfolio investments due to the lucrative real interest rates offered - helped by low inflation levels and fixed exchange rate - in addition to the expansion of the role of the state and and public sector in the economy, in contrary to private sector development playing that role.

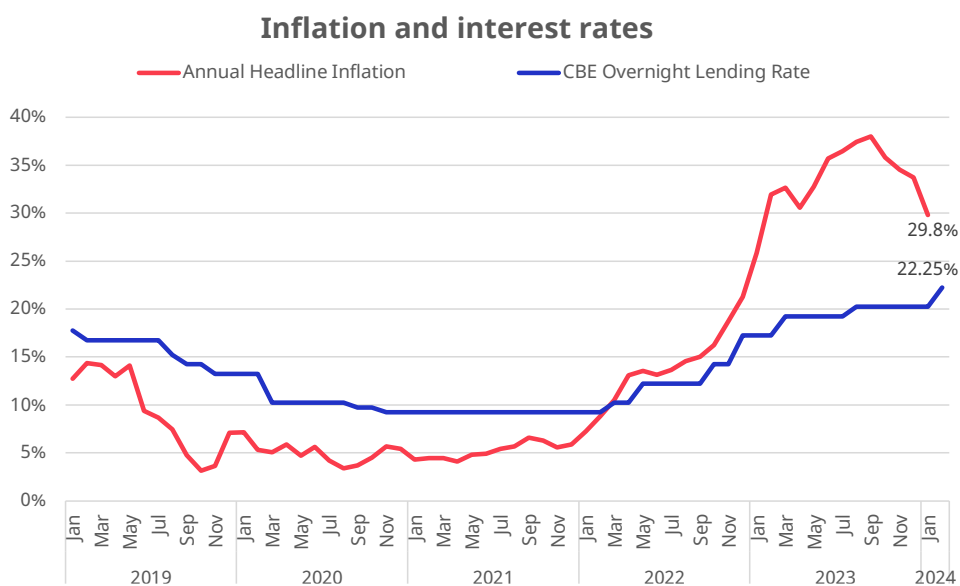
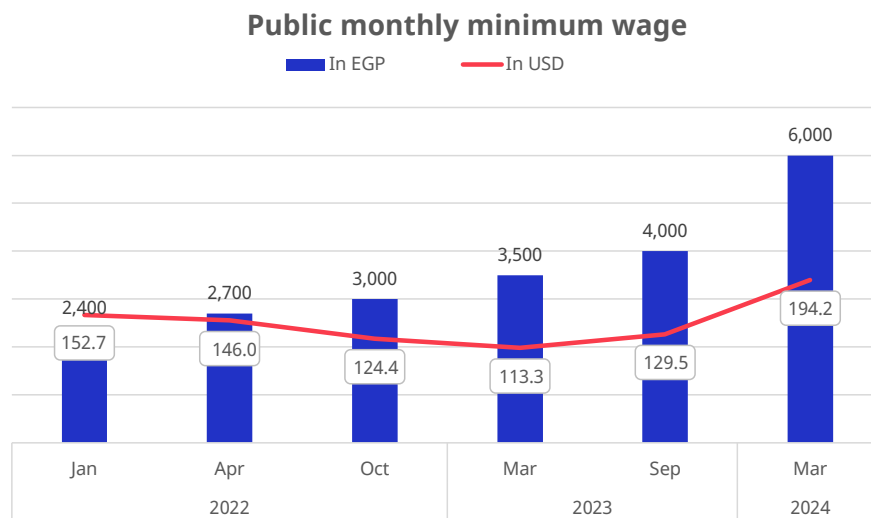


Source: CBE

- Such pressures on the economy accelerated sharply with the flight of foreign portfolio investments “Hot Money” of more than USD -20 bn in response to the war and the accompanying global price shocks and strict monetary tightening in advanced economies, in addition to the resulting supply chain disruptions. This has led authorities to devalue the currency three times in less than 10 months (losing around 50% of its value) under rising external balance pressures while seeking another IMF Extended Fund Facility (EFF) of USD 3 bn over almost 4 years. The Central Bank of Egypt (CBE) net international reserves also declined sharply by around USD 7.6 bn in H1 2022 before stabilising since then to stand at USD 35.3 bn by the end of January 2024, while banking system Net Foreign Assets (NFA) reached a record liability position by the end of 2023 of USD -27.2 bn. The persistent foreign currency shortage in the banking system led to the rise of the parallel foreign exchange market that has been present since the March 2022 devaluation, pricing the Egyptian pound at around 40% weaker, with the import process noticeably slowing down over the same period



- As a result, local inflation and interest rates spiked as well to reach all-time high levels, before inflation slowing down recently due to rising base levels. That has prompted significant difficulties to cost-of-living leading authorities to announce five social protection measures in less than 2 years; raising the minimum wage several times for public sector employees (who represent around 19% of all workers ³²), among other - mainly cash-based raises/bonuses - including for pensioners, and Takaful and Karama beneficiaries, as well as raising the minimum wage for the private sector by 16.7% in January 2024. It is noteworthy that these minimum wage measures are applied on formal workers, while informal workers, who represent 67% of all workers³³, do not necessarily enjoy them as they are not regulated, and hence the nominal increase in the minimum wage requirement may not offset inflation or ease the cost of living pressures for two-thirds of the employees.

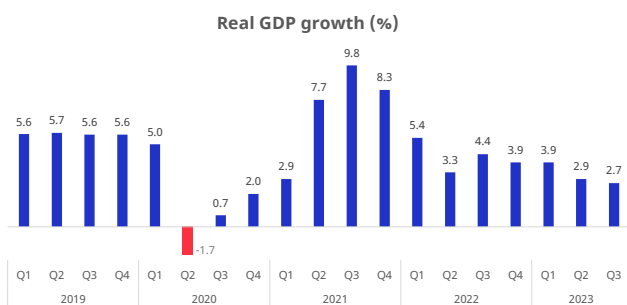


Sources: CBE, CAPMAS, & IDSC

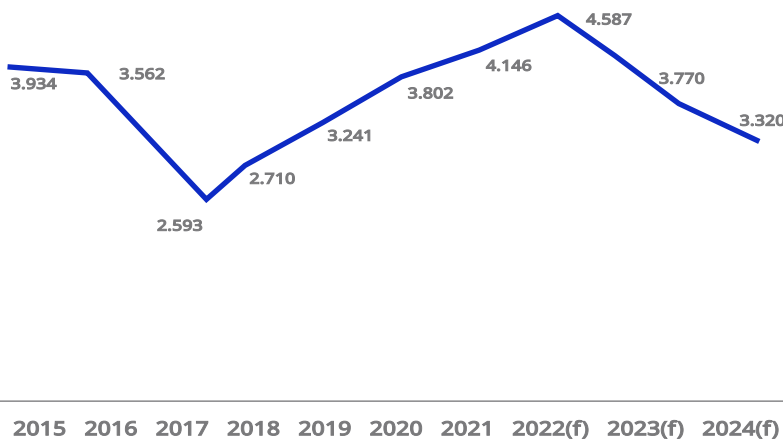
³²CAPMAS, Labour Force Survey, Q2 of 2023.

³³Analysis of CAPMAS 2021 Labour Force Survey Microdata using the ILO methodology.

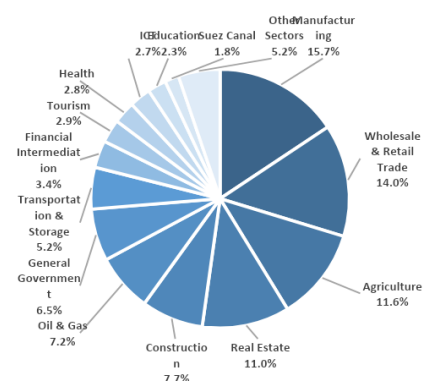
- Economic growth slowed down as a result, projected to be around 3% in FY 2023/24, down from 3.8% in the previous fiscal year while the benchmark Purchasing Managers' Index (PMI), that assesses the business conditions of the non-oil private sector economy, has been in the contraction territory for more than three years. The slowdown in economic activity, coupled with the halving of currency value and solid population rise led to GDP per capita (in USD) being projected by the IMF to decline sharply in 2023 and 2024. Overall, Egypt's economy is largely driven by manufacturing, wholesale & retail trade, agriculture, real estate, and construction sectors, accounting for 60% of the country's GDP during FY 2022/23.



GDP Per Capita (Current Prices - USD)



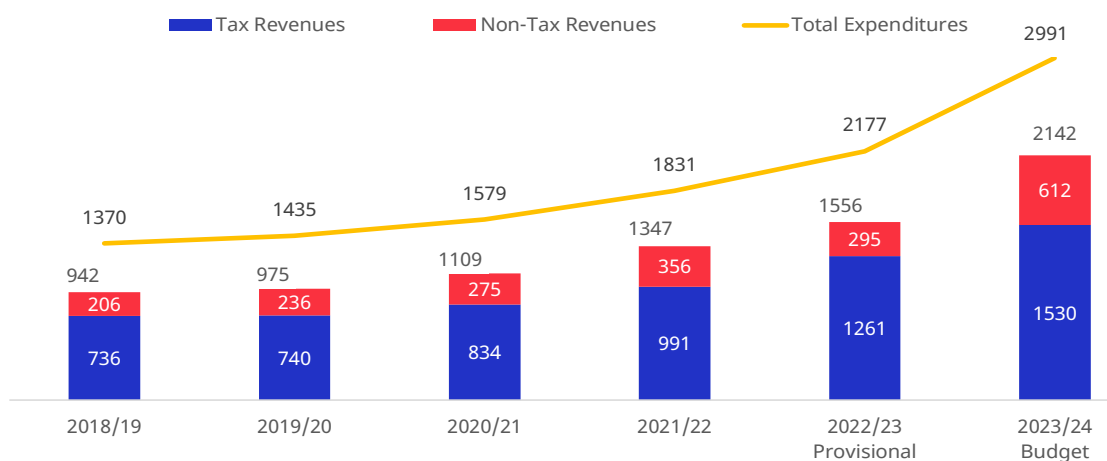
Share of GDP (Supply Side - Constant Prices) FY 2022/23



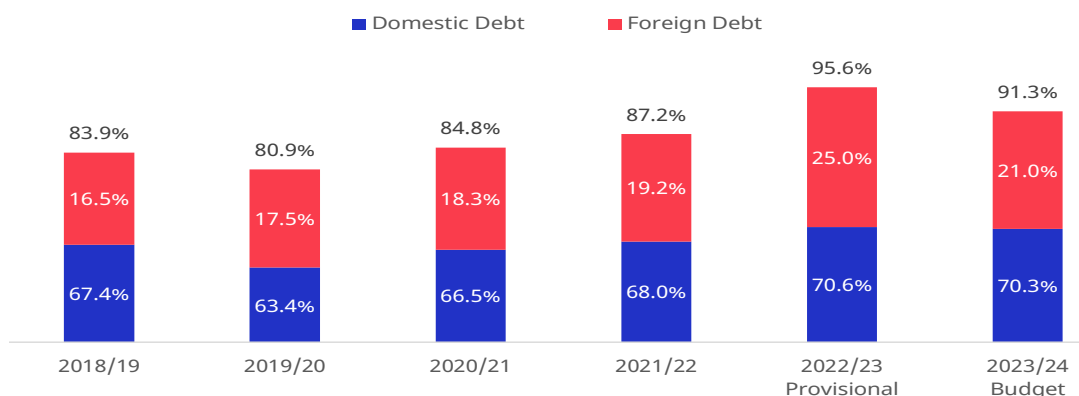
Sources: MPED, S&P Global (IHS Markit), IMF World Economic Outlook Database (April 2023) & CBE

- On the fiscal front, the government has significantly enhanced its tax revenues over the past four years despite external shocks mounting on economic activity, thanks to increasing digitization efforts in the tax and customs systems coupled with several initiatives to limit tax evasion and increase formalization of enterprises, including small businesses such as the electronic invoicing system, with tax revenues expected to cross EGP 1.5 tn by the end of the current fiscal year in June 2024. On the other hand, expenditures also spiked sharply driven by increasing interest payments (that accounted for half of total government revenues and more than a third of total expenditures in FY 2022/23) in addition to the rise in public investments and social spending measures on the back of both the COVID-19 pandemic and the repercussions from the Russia-Ukraine war. Consequently, total government debt has reversed its downward trend in the last couple of years; after reaching as low as 80.9% of GDP in FY 2019/20, it returned to rise again to reach more than 95% of GDP by June 2023 (driven by the inflated external debt when converted to EGP due to currency depreciation) with the government targeting a ratio of 91.3% in the current fiscal year.

Government revenues & expenditures (EGP bn)



Total government debt by component (% of GDP)



- As a result of the current FX (foreign exchange) liquidity and currency pressures, the government has revitalised the State-owned Asset Sale Program in order to raise much-needed FX (around USD 5.6 bn has been raised so far since April 2022 through government exits from 14 companies mainly to GCC countries). The government also recently announced a major investment deal with the Abu Dhabi Development Holding Company ADQ purchasing development rights of Ras El-Hekma area (more than 170 mn sqm) on Egypt's Mediterranean coast - around 350 km northwest of Cairo - for USD 24 bn fully paid in approximately two months. In addition, USD 11 bn of UAE deposits in the CBE will be converted for investments in real estate and other prime projects across Egypt to support its economic growth and development, according to the ADQ statement. Moreover, the government is also in the final stages of negotiations with the IMF on expanding the current stalled program of USD 3 bn to potentially reach over USD 10 bn with a high likelihood of additional financing coming from multilateral partners including the World Bank, EU, and additional major investment deals with other GCC countries. That is coupled with raising low-interest international funding in Q4 2023 for a combined USD 1 bn through the Panda and Samurai bonds issued in the local currencies of China and Japan, respectively. Such a recent positive turnaround in the FX liquidity situation - driven mainly by the major Ras El-Hekma UAE deal - has significantly eased pressures on the economy and currency while giving the authorities sufficient buffers to enact much-needed monetary, fiscal, and structural reforms in line with the potentially upsized IMF agreement.

3.2. Implications of the macroeconomic context

Businesses operating in Egypt are still under unprecedented pressures due to the current economic challenges:

- FX liquidity shortage in the official banking system has led to the slowed import process of essential products such as raw materials and intermediate goods, negatively impacting production. Though we expect a gradual normalization of the import process due to the recent significant improvement in the FX liquidity position of the country.
- Uncertainty about the exchange rate outlook and solid presence of the parallel market are increasing speculation and price fluctuations, hence impacting the stability of business operations.
- Record high interest rates are significantly affecting investment plans/expansions and the continuation of current projects, putting further upside pressures on input costs.
- Elevated inflation levels are also mounting pressures on wages in order for employees to tackle the rising cost of living difficulties.
- The lower purchasing power of consumers is leading businesses to incur a significant part of the rising input costs, further narrowing their profit margins.
- Overall macroeconomic instability and lower credit ratings are reducing investment incentives and making businesses more likely to opt for postponement of expansion and investment plans until the outlook becomes clearer. As a result, job openings will likely continue to not be adequate to match the numbers of annual graduates and to also replace destroyed formal jobs, leading to higher levels of unemployment and further directing individuals and businesses to the informal economy.

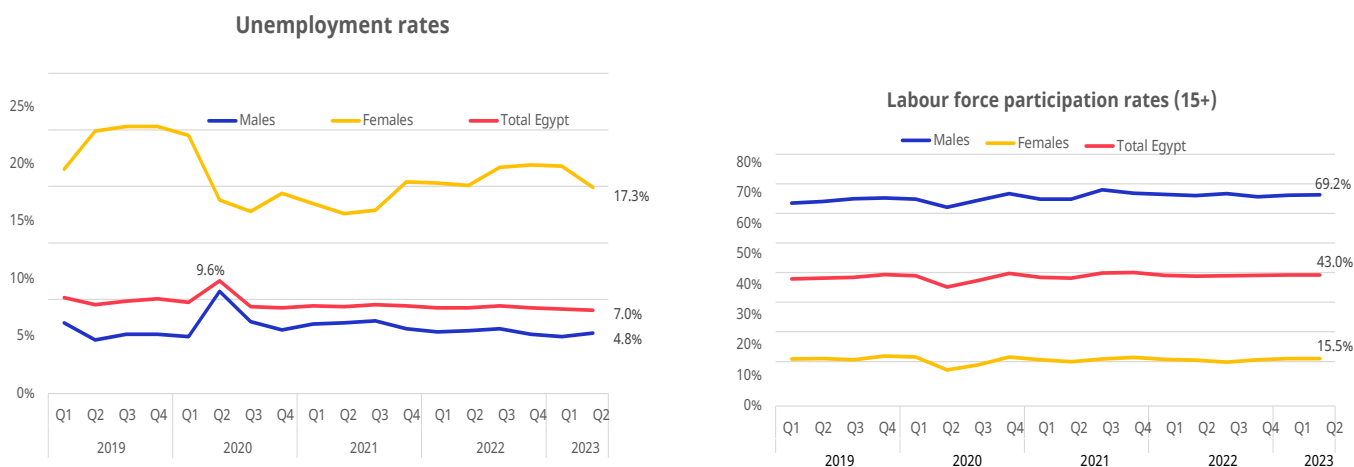
Accordingly, it is evident from the secondary and the primary research that the costs of formalization for businesses might currently present as an additional burden that they are not willing to take on, even if they fully realise the medium and long-term benefits of the formalization process such as better access to financial and non-financial services, wider market accessibility, projects opportunities with the public sector, membership of business representative organizations, higher bargaining power, as well as workers' access to social security and better working conditions, etc. Moreover, the complexity and multi-layered regulatory burden associated with the formalization process will require significant time and effort to be dedicated by businesses at a time when the macroeconomic conditions are already putting pressures on the sustainability of their business operations.

3.3. Profiling the Egyptian labour market

During the last few years, the labour market witnessed unprecedented successive events that notably impacted the situation. The market had originally suffered from certain challenges, some of which were exacerbated by the pandemic and the geo-political tensions. For example, the labour market suffers from structural deficiencies, discouraged workers, low labour force participation rates, a persistent gender gap, underemployment and skill mismatch, informality of jobs, wage distortions, and weak bargaining power³⁴.

Quantitatively, although the official unemployment rate slightly decreased in Q2 2023 to record 7%, down from 7.1% in Q1 2023, and has been very stable since the high of 9.6% in June 2020 at the peak of COVID-19 lockdown measures³⁵, it is still considered high in absolute terms. The estimated size of the workforce registered in Q2 2023 is 30.97 million individuals compared to 30.6 million in the previous quarter, with a growth rate of 1.3%³⁶. In terms of gender, the size of the workforce was 25.5 million males and 5.5 million females³⁷.

Female unemployment rate remains more than three times as high as that of males while labour force participation rate remains overall subdued in the country driven by the low participation of females in the labour force - around 15% of total females 15+ years old are included in the labour force while more than two-thirds of males are included.



Source: CAPMAS Labour Force Survey

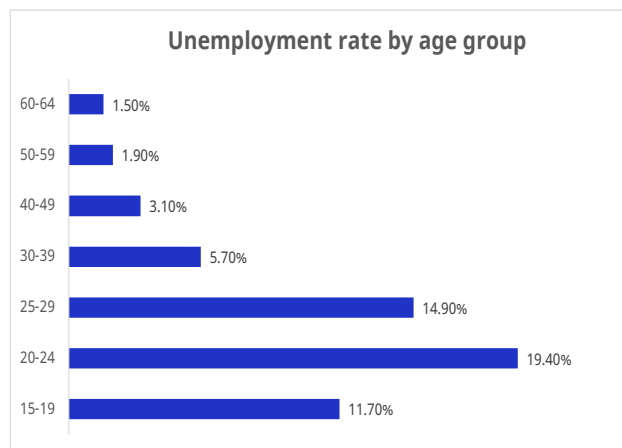
³⁴ Oxfam, The Impact of COVID19- on Employment and Youth Employability, 2021.

³⁵ CAPMAS

³⁶ Ibid

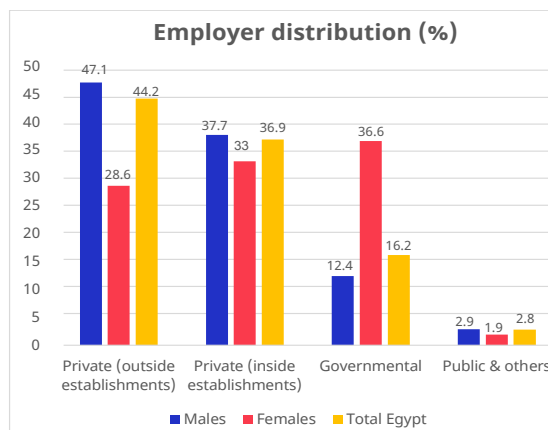
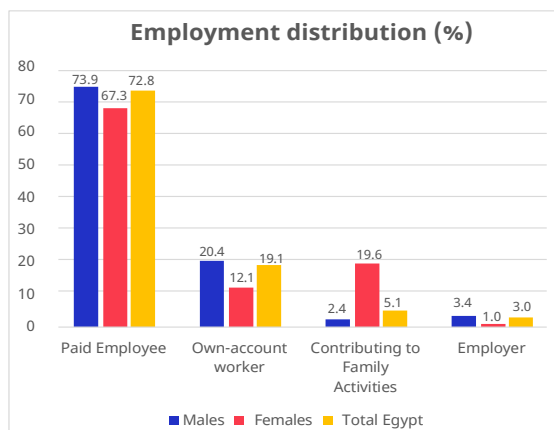
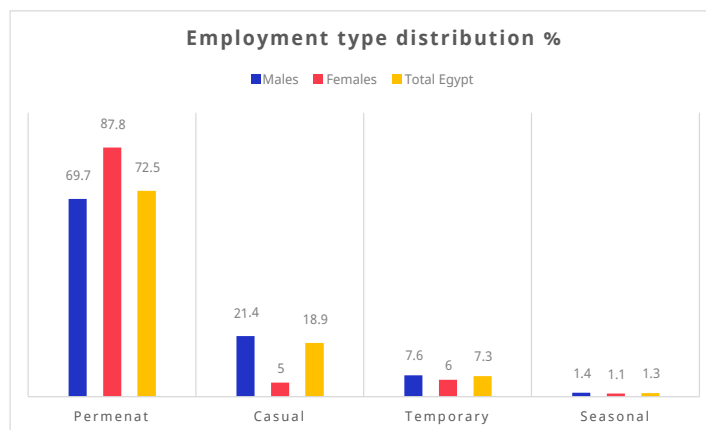
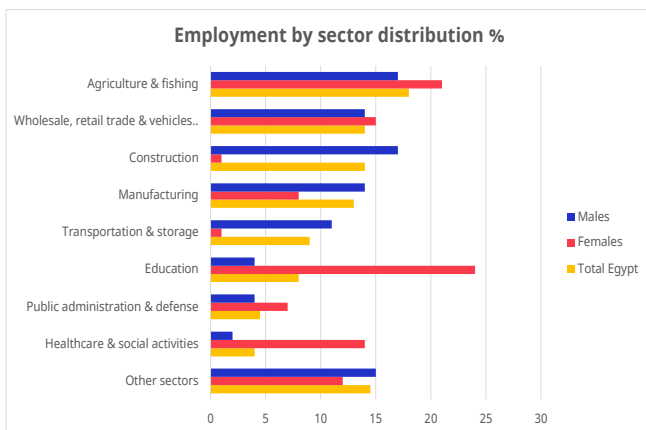
³⁷ Ibid

Focusing on youth, as depicted in the chart, the unemployment rate in Q2 of 2023 was highest among the group aged 20-24, followed by those aged 25-29 and the youngest group aged 15-19, reaching 19.4%, 14.9% and 11.7% respectively. Unemployment rates then decline as the age groups increase, indicating the difficulties youth find in securing a job, having unemployment rates that are around double the average national rate.



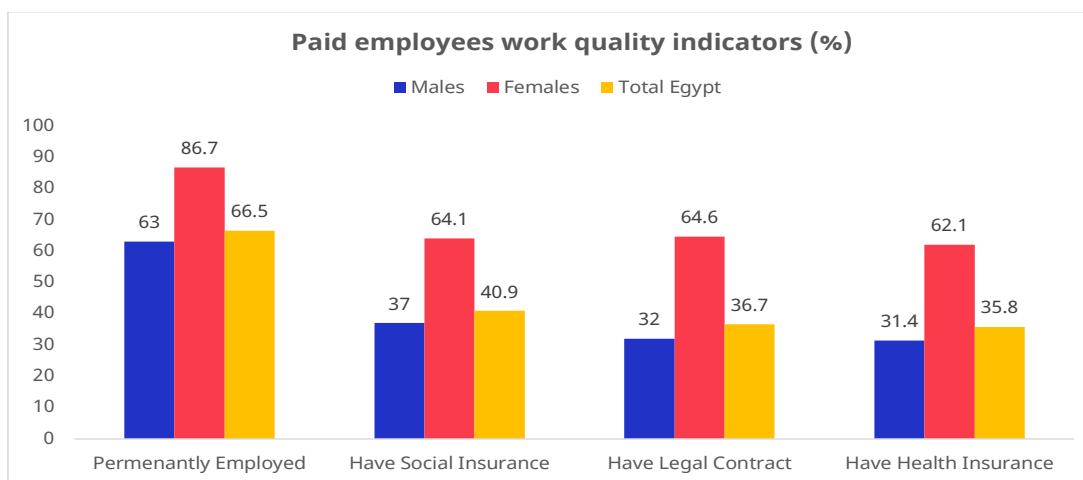
Source: CAPMAS Labour Force Survey

In terms of employed population, there are more than 24% who are own-account workers or contributing to family activities with the percentage rising to more than 30% in terms of employed females. The private sector continues to be the biggest employer with more than 80% employed in it, and the agriculture, retail, construction, and manufacturing sectors remain the top employment sectors. Permanent employment accounts for 72.5% of total employment with males' casual employment accounting for more than 20% of total male employment. Female employment is prevalent mainly in the sectors of education, healthcare and social activities, as well as agriculture and fishing. Moreover, among employed women, 37.8% are in the governmental and public sector, compared to 15.1% of men, indicating the concentration of women employment under this category of employer.

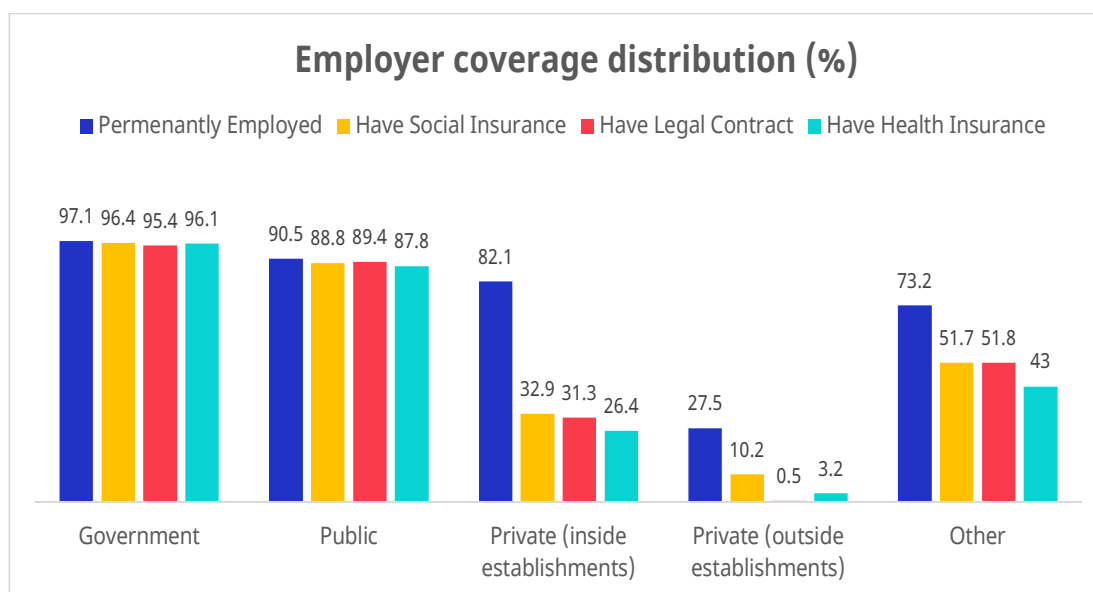


Source: CAPMAS Labour Force Survey

Regarding work quality indicators, the percentage of paid employees who have social insurance is just 40.9% across Egypt, and it goes lower to 36.7% and 35.8% regarding having a legal contract and health insurance, respectively. Overall, paid women employees have an overall better coverage rate across the different indicators compared to men and they are more likely to be permanently employed as they are more likely to be in more secure jobs like the government and public sector. Such figures indicate that informal employment in Egypt accounts for at least 60% of total employment, in line with previous ILO studies³⁸ and the analysis of the 2021 CAPMAS Labour Force Survey Private sector employees are also lacking more sufficient coverage and social/health protection compared to government/public sector employees.

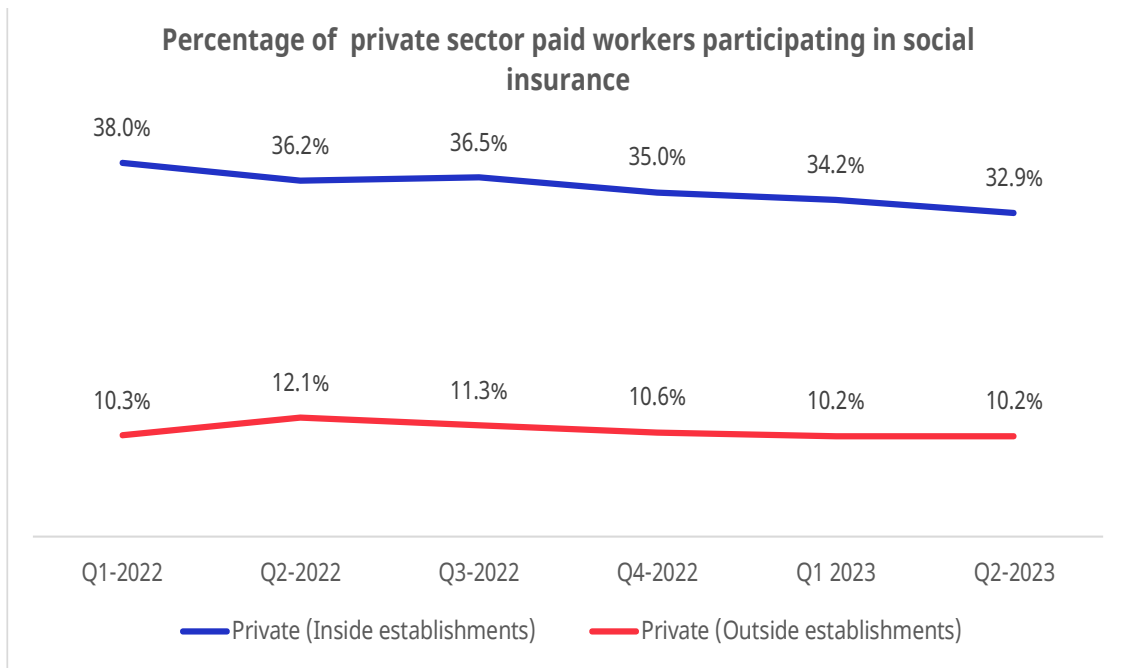


Source: CAPMAS Labour Force Survey



Source: CAPMAS Labour Force Survey

Taking a closer look into the quarterly changes in participation in the social insurance of paid workers in the private sector from Q1-2022 to Q2-2023, shows a slight fluctuation in those outside the establishment, and a decline in those inside establishments, from 38% in Q1-2022 down to 33% in Q2-2023, implying the need to address this trend where informal employment resides among paid employees.



Source: CAPMAS Labour Force Survey

4. Profile of informal economic units and workers in Egypt

The rise of informal enterprises and workers in Egypt has occurred in distinct waves, often in response to economic challenges. Historically, the first wave emerged in the early 1990s following the initial Egyptian economic reform that focused on privatising the public industrial sector, resulting in a sharp decline of formal employment, and a simultaneous growth of the informal economy due to job cuts and the government's decision to halt the recruitment of new graduates^{39 40}. Subsequent waves of informality surged during the second economic reform in 2005, the Egyptian revolution in 2011, the COVID-19 pandemic, and the ongoing global stagflation triggered by the Russia-Ukraine conflict. In 2013, there were 1.3 mn informal economic units and 2.8 mn informal workers; by 2018, these numbers had surged to 2 mn units and 4 mn workers respectively⁴¹.

The profile of informal economic units and workers is examined in this section. The quantitative analysis is based on available official data sources. For economic units (enterprises/ establishments), the main source is the 2017/2018 economic census published by CAPMAS, which is the most recent one, and where informality is defined by not being registered or licensed and not having any legal form required to practise this economic activity. It is worth noting that this definition is not the one used by MSMEDA, which uses the MSME law as the reference for defining an informal enterprise as one that has not obtained a building permit or an operations licence. Hence, MSMEDA has coordinated with CAPMAS for the new economic census to use the absence of a licence as the criterion for defining informality when producing the analysis tables.

As for employment, the most recent micro data that was made available was the 2021 Labour Force Survey. Accordingly, the ILO's methodology and definitions were applied in order to come up with a tailored analysis that answers questions that are not answered by the publicly published CAPMAS reports and analyses. It is to be noted however, some variables were unavailable in the LFS survey design⁴², hence, the ILO's methodology was adapted in terms of defining what an informal economic unit or worker is, eventually resorting to the number of workers being the criterion to define some of the economic units' formality (below 5 workers is informal). This is presumed to have resulted in an overstated level of informality of economic units, and accordingly, their owners.

³⁹ Major structural adjustment policies were introduced in the 1990s as a measure to mend the decades old legacy of socialist policies implemented back in the 1960s, thus putting a halt on the guaranteed employment opportunities to educated individuals scheme, and vastly curbing public sector hiring as a part of the social contract in the country. (Barsoum, 2024)

⁴⁰ Caroline Krafft & Ragui Assaad (2020), How Do Small Formal and Informal Firms in the Arab Republic of Egypt Compare?, World Bank Group

⁴¹ Ramsis, N. and Adly, B. (2023). Requirements, barriers and opportunities for the formalization of small enterprises in Egypt, ILO.

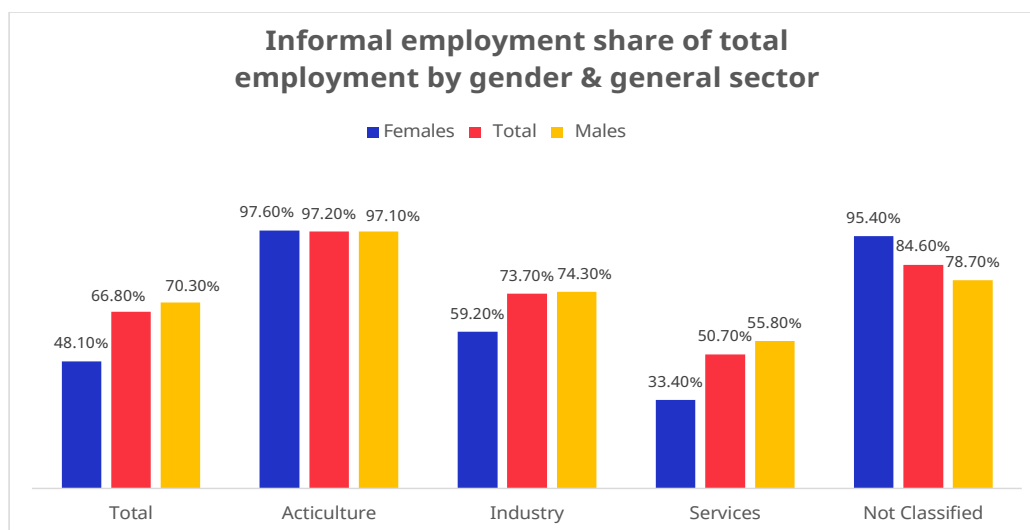
⁴² Variables related to registration and bookkeeping of enterprises were not included in LFS 2021.

4.1. Extent and forms of informality

When confirming the quantitative analysis with the stakeholders in the primary research, all interviewees and FGD participants indicated that it is impossible to accurately determine the size of the informal economy because the way it operates is, by definition, hidden and unreachable. If inspectors do visit a street to find informal enterprises/shops, the news spreads and they shut down the facility on that day. Moreover, CAPMAS data of the Economic Census of 2017/2018 is not only based on a definition that is not adopted by many stakeholders, but also provides outdated data that are yet to be updated in a new economic census. Nevertheless, there is consensus among the **food, ready-made garments (RMG) and engineering** sectors stakeholders that informality exists and is a problem that the sector faces, for quality, pricing, competition, certification and health and safety reasons. **Informality takes the form of informal economic units, informal workers (employed at informal, formal units or by households as domestic workers), and informal activities undertaken by the formal units.**

4.1.1. Workers

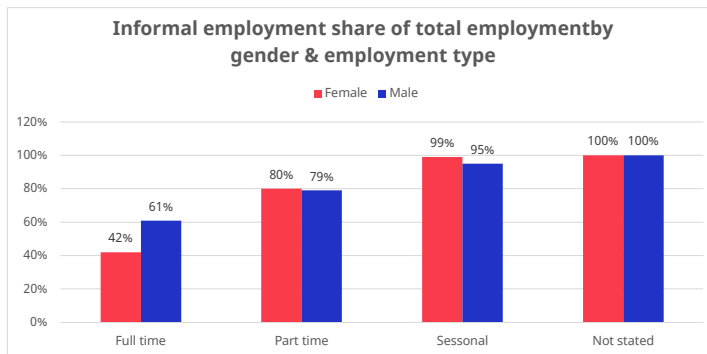
Informality is a salient feature of the Egyptian economy, accounting for a significant portion of the overall economy, estimated to be between 37% and 93%⁴³, depending on the applied definition of informality. Following the ILO's methodology, the 2021 Labour Force survey shows that **66.8% of all workers are informal** (almost two thirds), with **men showing a higher percentage of informality compared to women**, which could be attributed to the prevalence of women employment in more stable sectors such as education, health and social work and to being employed in the government and public sector in higher proportions. **Informality reaches its highest rate in the agriculture sector** at more than 97% of workers. The percentage, however, goes down when it comes to industry and services.



Source: CAPMAS, 2021 LFS

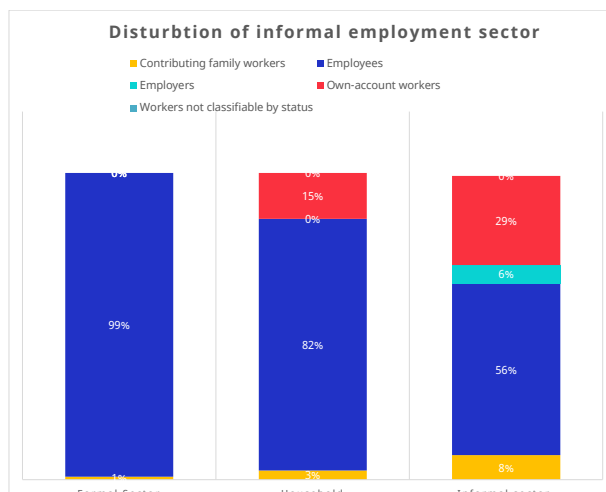
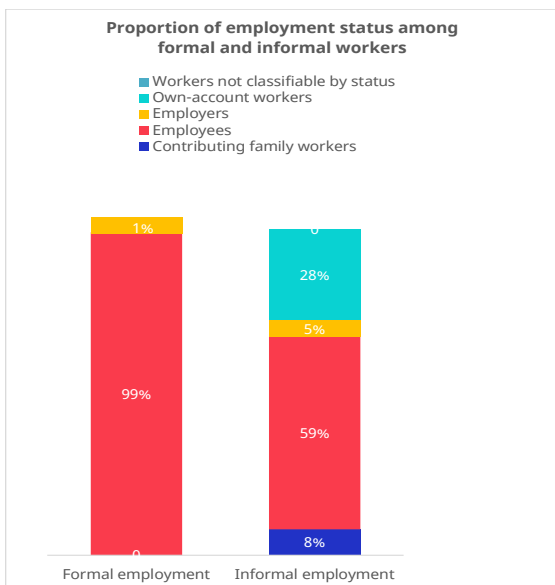
³⁴ Ramsis, N. and Adly, B. (2023). Requirements, barriers and opportunities for the formalization of small enterprises in Egypt, ILO.

Informal employment is less widespread for full-time workers, accounting for 61% of men and 42% of women, compared to **part-time and seasonal workers where informality dominates**, accounting for 80% and 95%-99% of workers, respectively. These findings were **confirmed by the primary research** where business representatives (all formal) indicated that they could hire informal workers on a part-time basis and that the seasonality of jobs and the high turnover result in these kinds of arrangements.



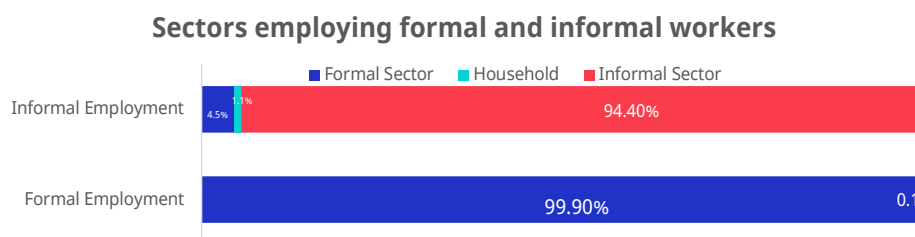
Source: CAPMAS, 2021 LFS.

Analysis of the employment status of workers in formal and informal employment (left chart below) shows that **formal workers are predominantly employees (99%)**, while only **1% are employers**. On the other hand, **while informal workers still show the highest proportion in employees (59%)**, **28% are own-account workers**, **8% are contributing family members** and **5% are employers**. It is also crucial to understand the distribution of informal workers across the different sectors (right chart below). **In the formal sector, most informal workers are employees (99%)**, with around **1% only being contributing family members**. **In households, informal workers are concentrated in employees (around 82%)**, followed by **own-account workers (around 16%)**, with slightly less than **3% only being contributing family members**. **As for the informal sector, this is where the other forms of informal work have higher proportions compared to the other sectors**. While employees constitute around **56% of informal workers**, the proportion of own-account workers reaches **29%**, and that of contributing family members reaches **8%** and employers are **6%**.



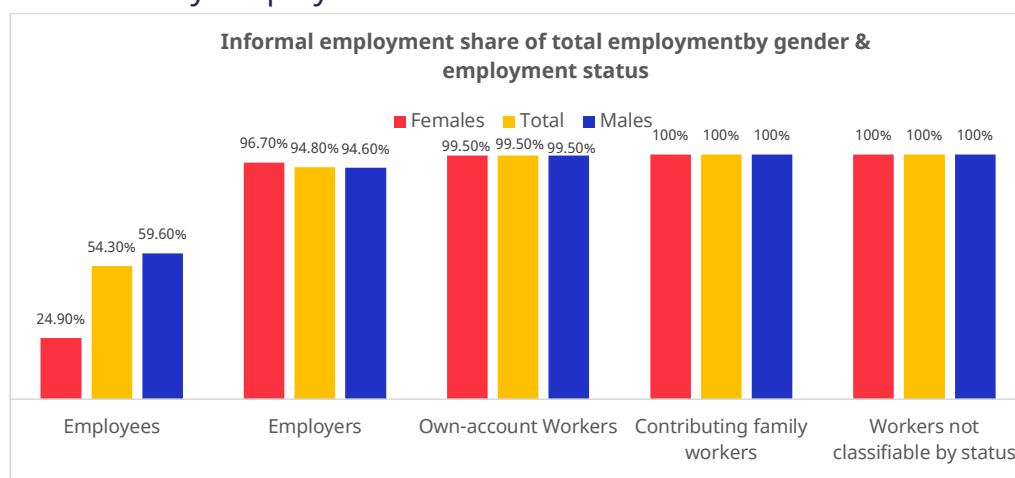
Source: CAPMAS, 2021 LFS.

The latter consistent results can be explained by **the high proportion of informal sector employment within the informal sector (94%), compared to the formal sector (5%) and households (1%)** as depicted in the chart below.



Source: CAPMAS, 2021 LFS.

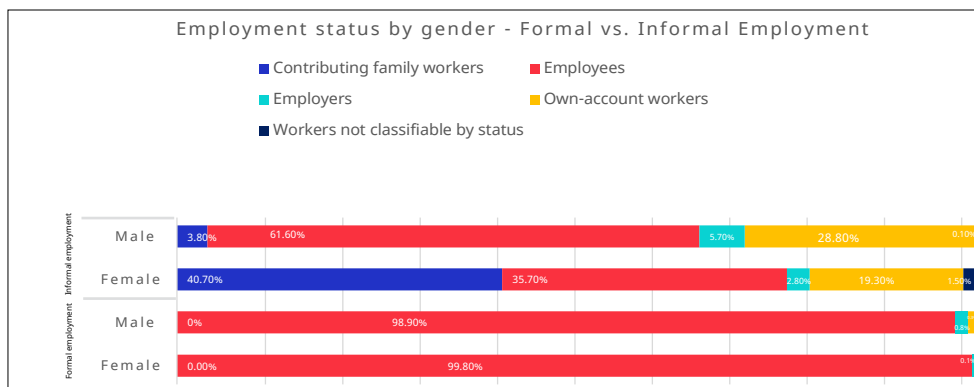
Examining the categories of informal workers from another perspective, the analysis shows that contributing family workers are all informal by definition, and that **almost all own-account workers are informal** as well, inferring the informality of their enterprises. Employers also show a significantly high percentage of informality (around 95%), also inferring that their businesses are informal⁴⁴. As for **employees, formality is relatively higher, especially among women. The chart below shows that more than half of them are informally employed**, with the percentage showing a **better situation for women**, where one quarter of them are informally employed.



Source: CAPMAS, 2021 LFS.

Applying the gender lens to better understand the distribution of categories of informal workers across each gender, the results show that among informal female workers, 40.7% of them are contributing family members, 35.7% are employees and 19.3% are own-account workers. On the other hand, 61.6% of informal male workers are employees, 28.8% are own-account workers and 5.7% are employers. One could infer that **informal women workers are less likely than men to be employees, and are more likely than men to work informally in family projects**. On the other hand, formal workers are mainly employees, with men showing a slightly lower percentage (98.9%) compared to women (99.8%), attributed to their comparatively higher incidence of being employees (0.8% in men compared to 0.1% in women) and own-account workers (0.3% in men compared to 0.1% in women).

⁴⁴ Taking into consideration that these results are following the ILO methodology for defining informality based on the LFS and that is why the numbers are not to be compared with informality of the private sector establishments as per the Economic Census.



Source: CAPMAS, 2021 LFS.

4.1.2. Economic units

as per the infographic below, highlighting the profile of the informal establishments CAPMAS' Economic Census for 2017/18, **more than half of the private sector enterprises are informal (53%)**, yet they **employ 31% only of all private sector employees**. Their **contribution to the economy is even lower in terms of wages, production and value added**, showing the small scale they operate within, and the level and quality of jobs they provide. The chart also shows that informal enterprises operate, employ, pay wages and add value more in the trade sector, but produce more in the manufacturing and agriculture & fishing sectors.

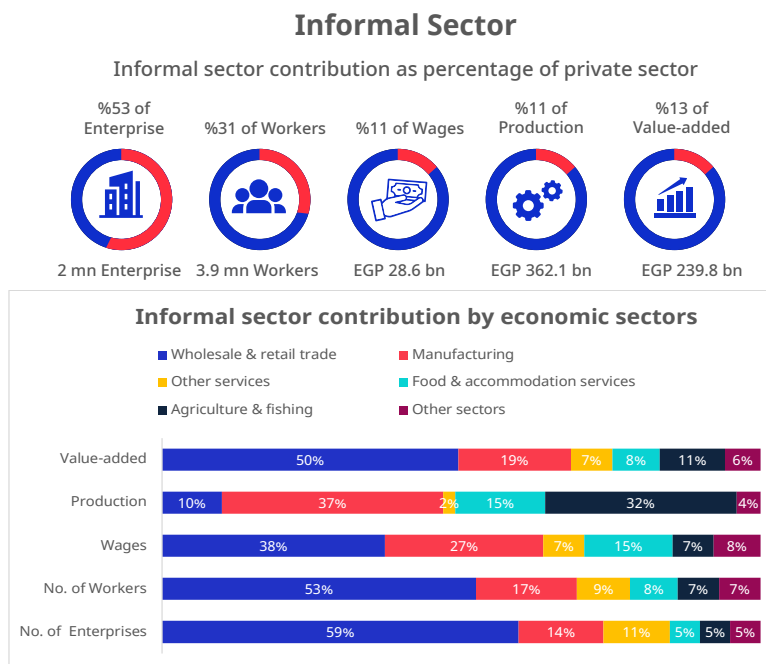
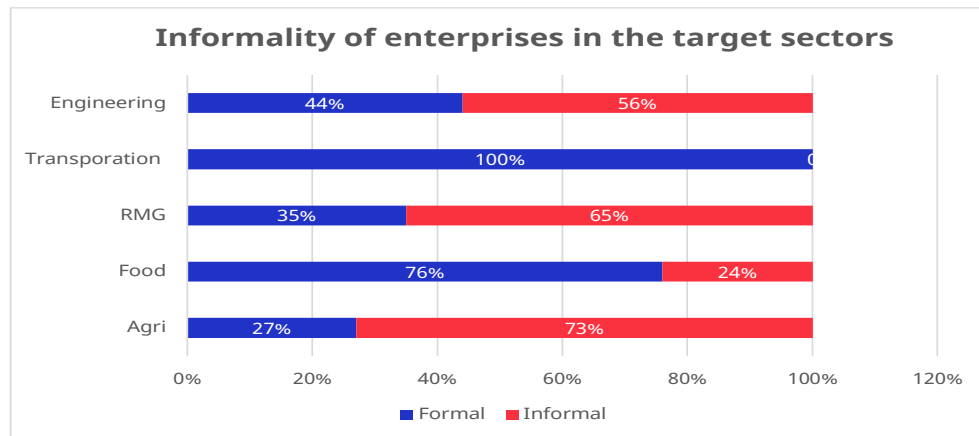


Figure 1: Main Features of the Informal Sector

Examining the five target sectors, **informality of establishments is highest in the agriculture sector**, comprising “crop and animal production, hunting and related service activities”, explaining the discrepancy between the primary research finding that formality among farms per se is extremely low and is almost non-existent compared to the total number of farms in Egypt. **The second highest informality is in the RMG sector, followed by engineering and food, at 65%, 56% and 24%, respectively.** It is to be noted however, that these are all establishments counted in the economic census according to CAPMAS definition⁴⁵.

⁴⁵ As per CAPMAS 2018/2017 Economic Census Results, “Informal sector is the production units that carry out an economic activity, (industrial, commercial, service ... etc.) without administrative registration, or practicing their activities without holding a permission/ license from the concerned official authorities. In addition, they don't have any legal entity in accordance with the necessary procedures to practice such activities.”

That is why, the **transportation sector shows zero informality of establishments.** As explained in the transportation focus groups discussion, for any establishment in the sector, all vehicles and drivers must obtain licences from the Traffic department, and for an establishment to be in the business of transporting goods or passengers, it has to be registered, and registration of its vehicles represent a control point that cannot be escaped. However, some businesses are informal, such as Uber and Careem, although being covered by the Technology-based Transport Law, they are still in the registration process. Swvl is the first and only company that has concluded its registration process according to his law.



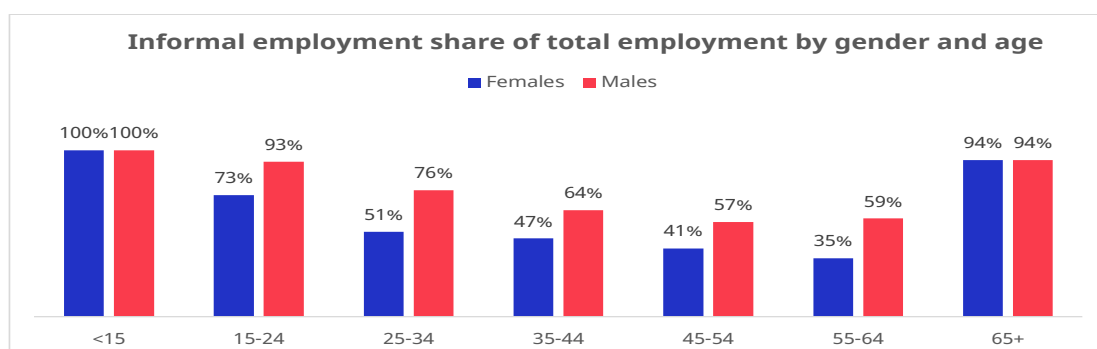
In an attempt to confirm the extent of informality during the primary research, the stakeholders, across sectors, underscored that the informal sector is, by definition, hidden and there is no one entity that represents them, nor an entity that could claim an exact number.

4.2. Characteristics of informal workers

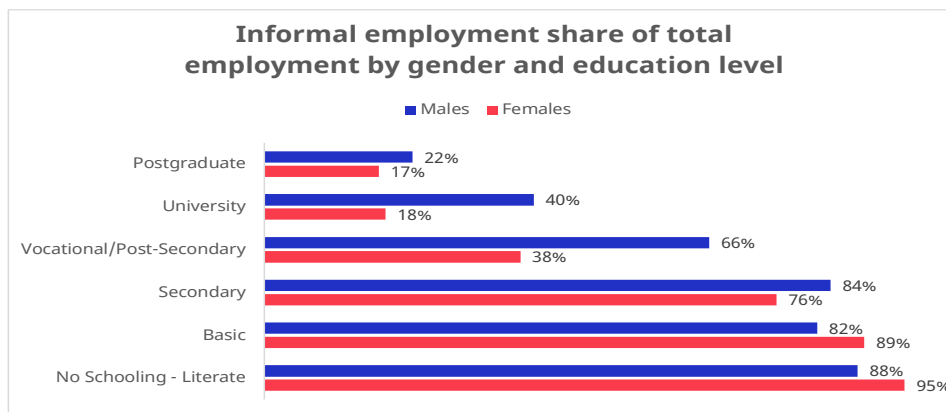
Having understood the extent and forms of informality of workers, the below charts describe the profile of these workers in terms of age, education, pay, skill level, etc.

Age: In terms of age, the chart below shows **that informality declines in correlation with higher age** among both men and women, up until retirement period, ranging from **93% to 59% in men and from 73% to 35% in women.** **Employment informality among youth is significantly high, reaching 93% in men and 73% in women,** indicating the dire need to address the phenomenon.

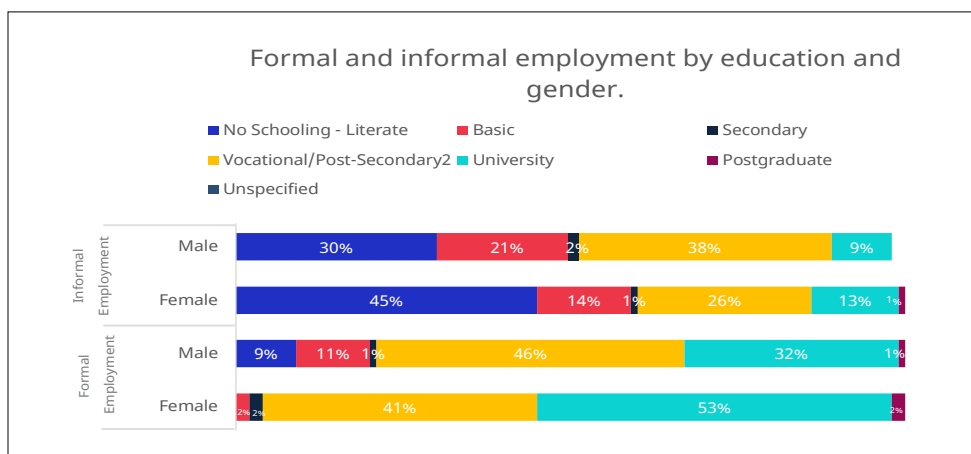
The primary research did not highlight any age-specific observations in that sense. As for child labour, it is all informal by definition, representing an extremely low proportion of all workers surveyed (0.2% of total female employment and 0.5% of total male employment).



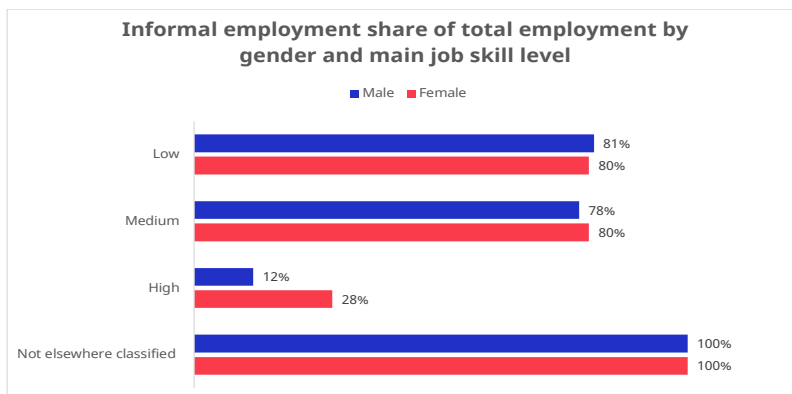
Education: The chart below shows that overall, **higher education levels correspond to less informal employment.** Women are more likely to be informal compared to men in the low education levels (illiterate to basic education) and are less likely to be informal starting from secondary education and higher. It is also noted that the decline in informality along higher education levels is sharper in women than in men (starting from vocational/post-secondary education level). This indicates that **when women have higher education opportunities, their likelihood to get a better job (formal) becomes much higher, even more than men.** Among **men**, those who have university education and above have noticeably **low informality** ratios compared to previous levels.



It is important to use another angle and analyse the education level within each gender of those who are informally or formally employed. Among **informal workers, women are more likely to have no schooling-literate education than men (45% vs 30%),** while **men’s informal workers are most likely to be with vocational/post-secondary education (38%).** Conversely, **women in formal employment show higher education levels (53% University)** compared to men (32% University), with vocational/post-secondary education constituting a large proportion of formal jobs among both men and women (46% and 41% respectively). **Formal workers in general show high proportions of university graduates,** followed by those with vocational/post-secondary education. This analysis, combined with the previous chart, confirms that **education improves women’s opportunities in job formality and that university education does not lead to a formal job for men as one would expect.**

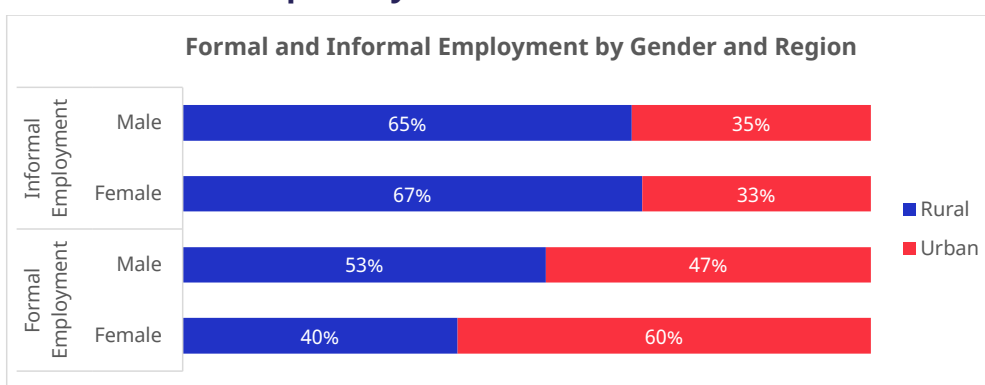


Skills: Informal employment is significantly widespread across occupations with low and medium skill levels⁴⁶ required (averaging 80% across both genders). However, informality declines sharply in occupations with high skill levels required, especially for women, where only 12% in this category are informally employed.



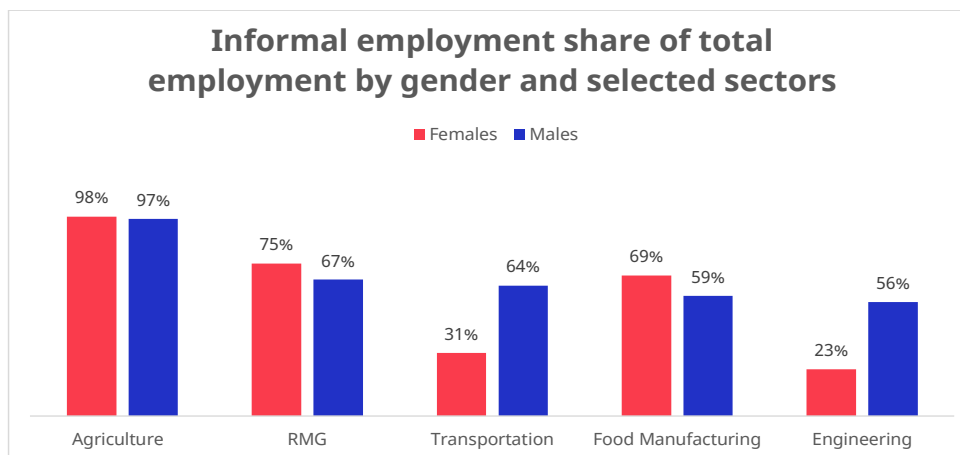
The primary research indicated that most of the jobs do not require sophisticated skills and that training happens on-the-job or in-house upon joining the business. For jobs that require skilled labour, employers would want to retain the skilled workers and would offer them the benefits that would attract them to stay. This applies to both the formal and informal sector. Applied technology schools are believed to match the skills demanded with that supplied.

Geographical location: The chart below depicts the informal and formal jobs by gender and region. It shows that around **two thirds of informal workers are in rural** areas with insignificant differences between men and women (65% and 67% respectively). Both genders show a higher concentration in rural areas compared to formal workers. While in the formal jobs, women represent a higher proportion in urban areas (60%) compared to men (47%), and also compared to women in informal employment (33%). Hence, **formal jobs are more likely to be offered in urban areas, especially those offered for women.**



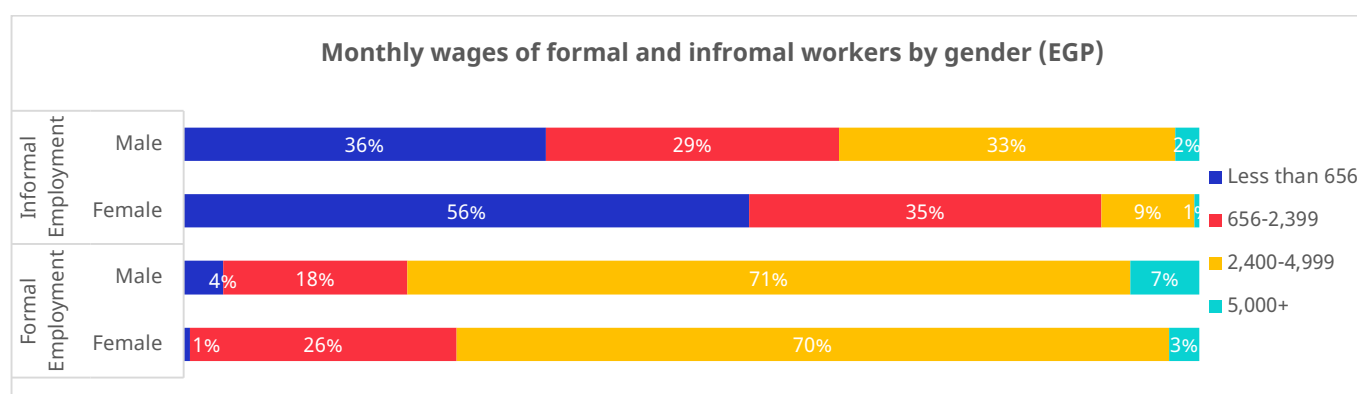
Sectors: Across the target sectors, informal employment dominates agriculture and is significantly high in food, RMG, transportation (mainly men), with the least percentage being in the engineering sector (mainly men). Women informal employment is significantly lower than that of men in engineering and transportation sectors, given the few observations of women employed in these sectors in the 2021 Labour Force Survey sample (n=53 combined).

⁴⁶ Low skill level low includes Elementary occupation. Medium skill level includes Clerical support workers, craft and related trades workers, plant and machine operators, and assemblers, service and sales workers, skilled agricultural, forestry and fishery workers. High skill level high includes Managers, professionals, technicians, and associate professionals.

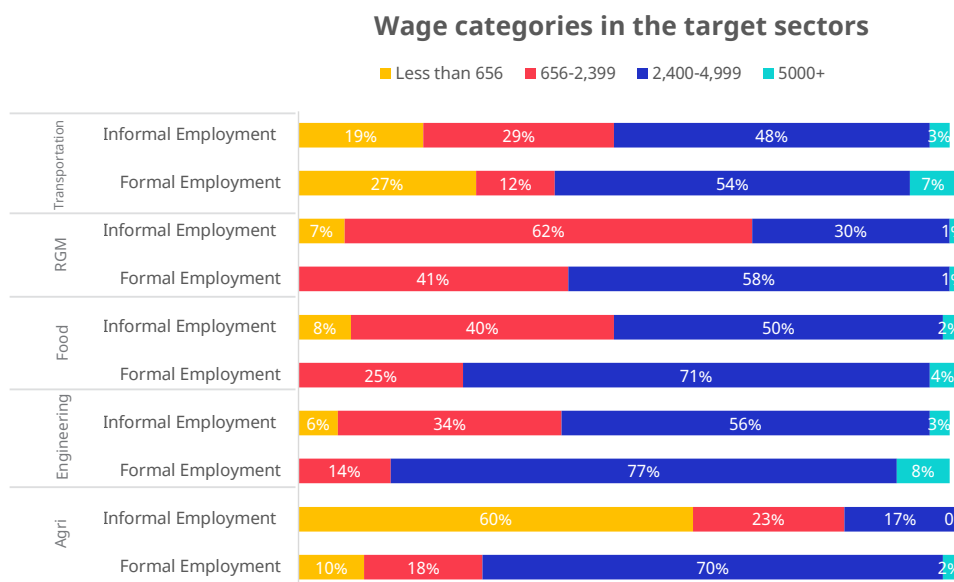


4.3. Conditions of informal workers

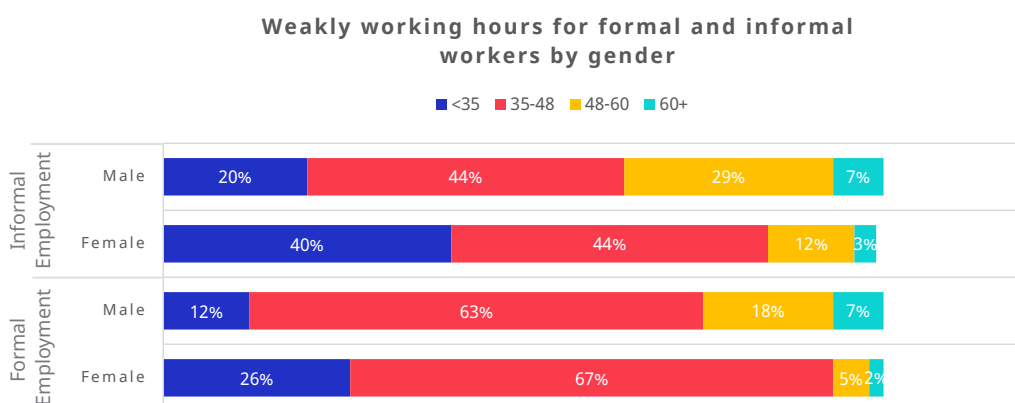
Wages: The chart below depicts the different monthly wage levels for men and women in formal and informal jobs using the 2021 poverty line of USD 1.9⁴⁷ per person per day and the minimum wage of EGP 2,400 applicable in 2021, compared to a median wage of EGP 2,200. It is to be noted however that the World Bank threshold refers to what a person lives on per day, hence, applying it in this context assumes that the worker's wage is not shared with any other individuals and that they live exclusively on this wage, which is not necessarily the case and cannot be proven from the labour force survey data. Accordingly, the threshold is used for indicative purposes only and not to deduce the percentage of workers living in extreme poverty using these charts. The data shows that a staggering **proportion of informal workers earn below the minimum wage, reaching 65% of men and 91% of women** (sum of the first two wage categories). Informal workers who earned the minimum wage or more, mainly earned up to EGP 5,000, showing that one third of informal men workers earn between EGP 2,400-5,000 per month, while higher wage levels are almost non-existent. **Most formal workers, on the other hand, earn the minimum wage or higher, but still mostly under EGP 5,000. Higher range wages above EGP 5,000** appear more in formal men workers (7%), followed by formally working women (3%).



Delving into the conditions of workers in the target sectors, **agriculture shows the highest percentage of informal workers earning low wages, followed by the RMG sector.** The Engineering sector on the other hand, especially formal workers, has the lowest proportion of low-wage workers compared to the other sectors. Across the five sectors, **informal workers are more likely to earn lower wages** compared to the formal ones.



Working hours: Examining working hours in the chart below shows that **formal workers tend to work for normal ranges of hours compared to informal workers.** While informal workers generally work in normal ranges (between 35-48⁴⁸) at 44% of men and women, **40% of women work fewer hours and more than one third of men work excessive hours (29%+7%),** inferring worse working conditions. Generally, **higher proportions of men work for excessive hours compared to women, in both formal and informal workers.**



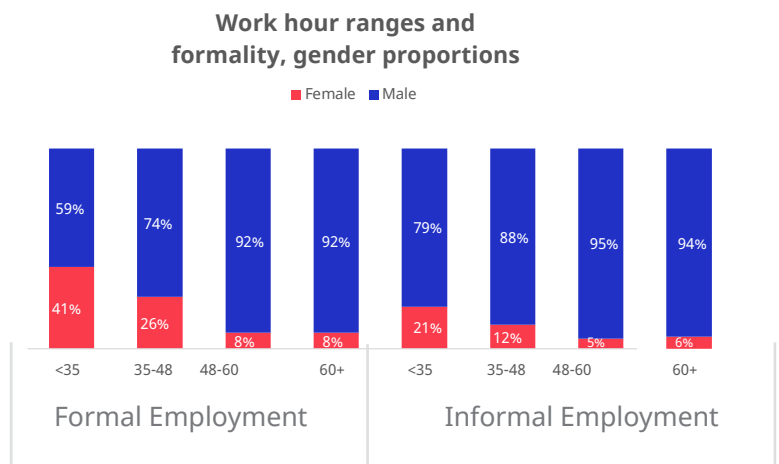
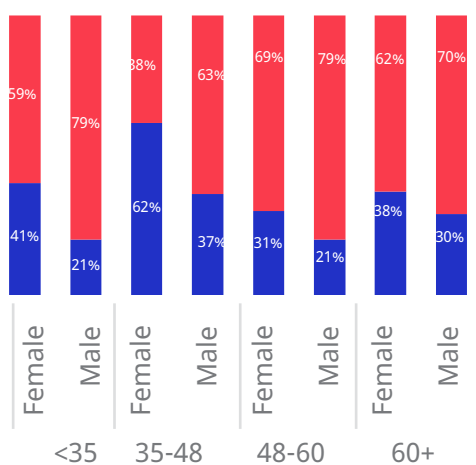
Another perspective of the analysis (left chart below) shows that **those who work fewer hours are more likely to be informal workers, especially in men** (reaching 79%) and that **those who work excessively are also mostly informal.** However, this analysis should take into consideration that informal workers represent two thirds of the analysed sample.

⁴⁸Maximum number of weekly hours as per the law.

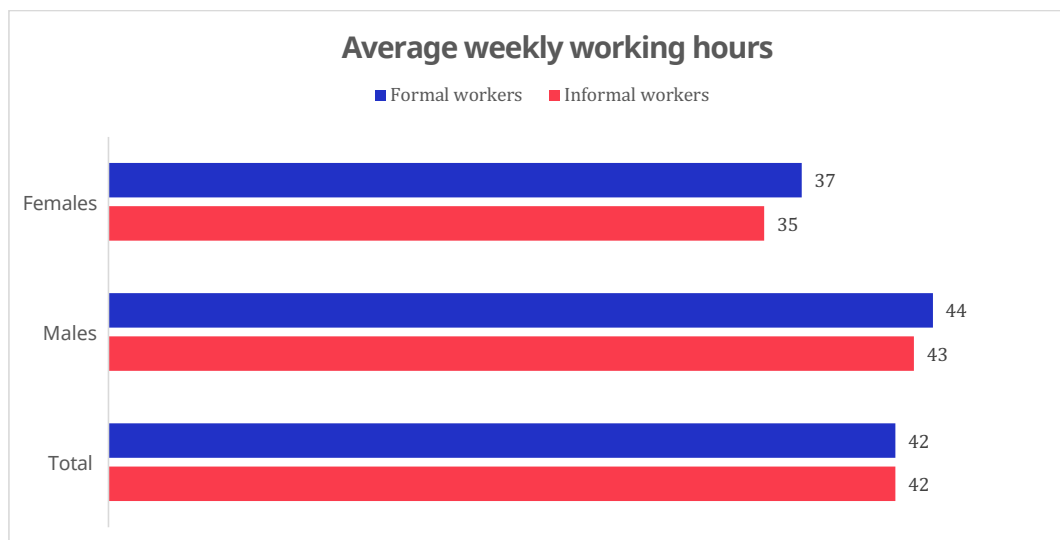
Moreover, across the different ranges of work hours, **higher proportions of women have fewer working hours in both formal and informal employment**, declining across the ranges from 41% to 8% in formal workers and from 21% to 6% in informal workers. It is noteworthy that these proportions are not to be compared to men because women represent 16% only of the sample (12% of informal and 25% of formal workers).

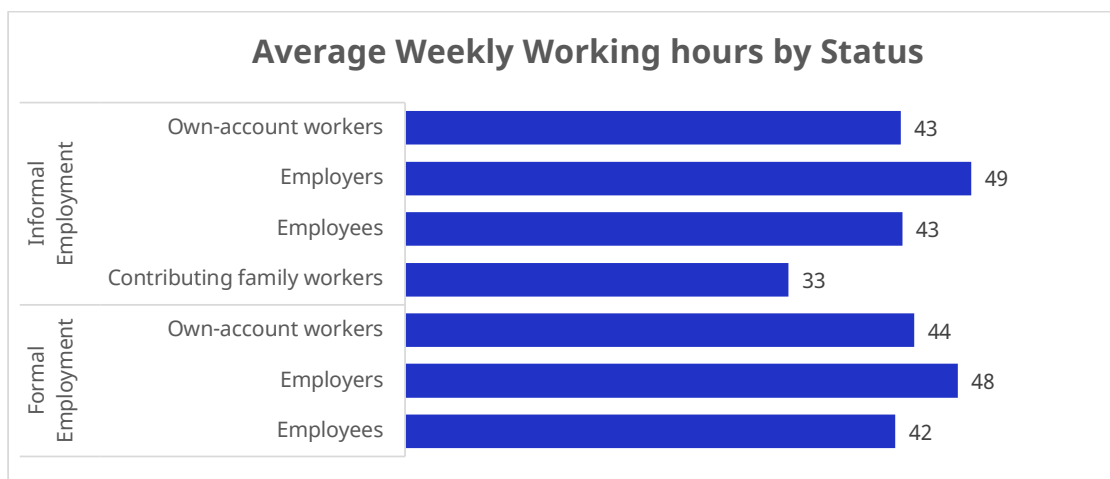
Work hour ranges and gender, formality proportions

■ Formal employment ■ Informal employment

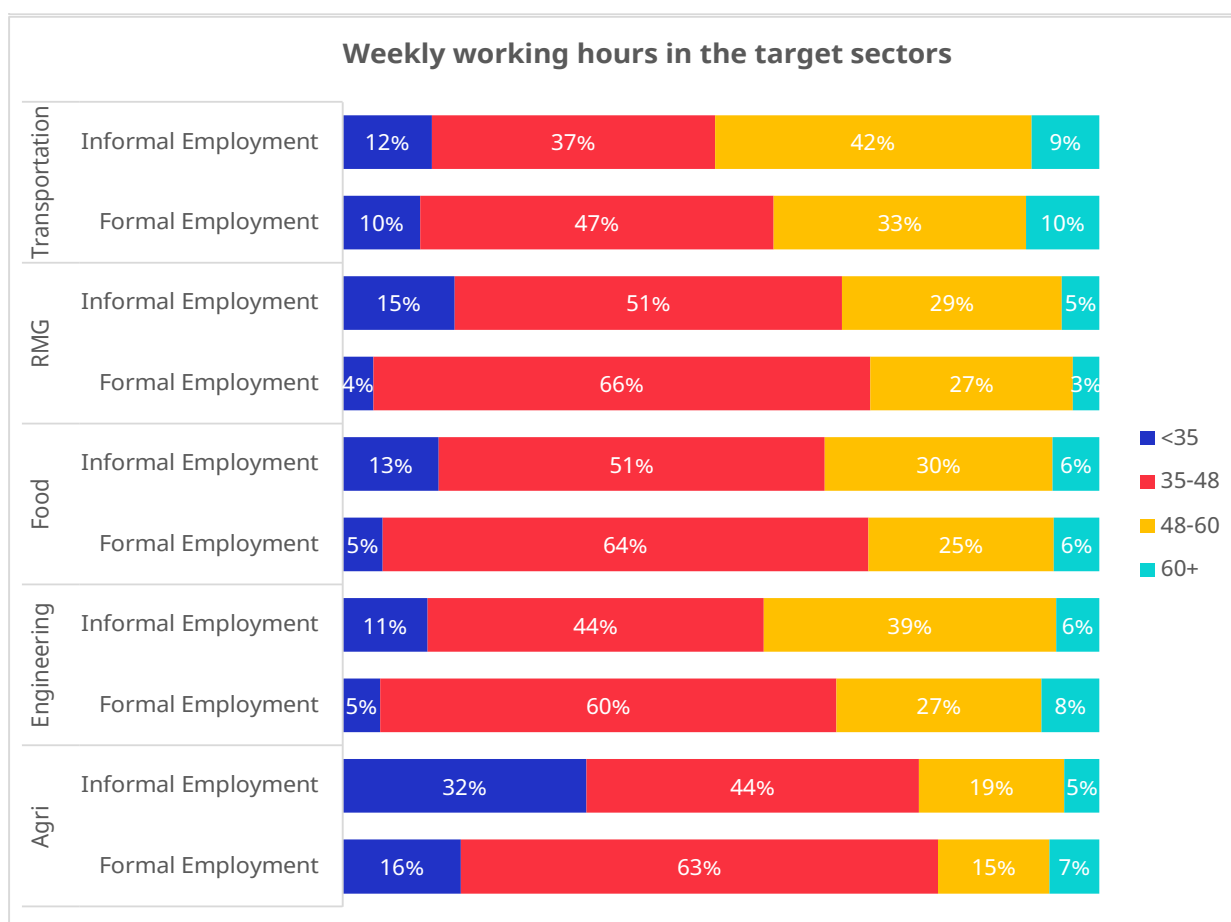


Finally, the average weekly working hours are higher in men compared to women, but they do not vary significantly between the formal and informal workers. When looking into employment status, it is found that **employers, generally work on average for longer hours and contributing family members work fewer hours.**

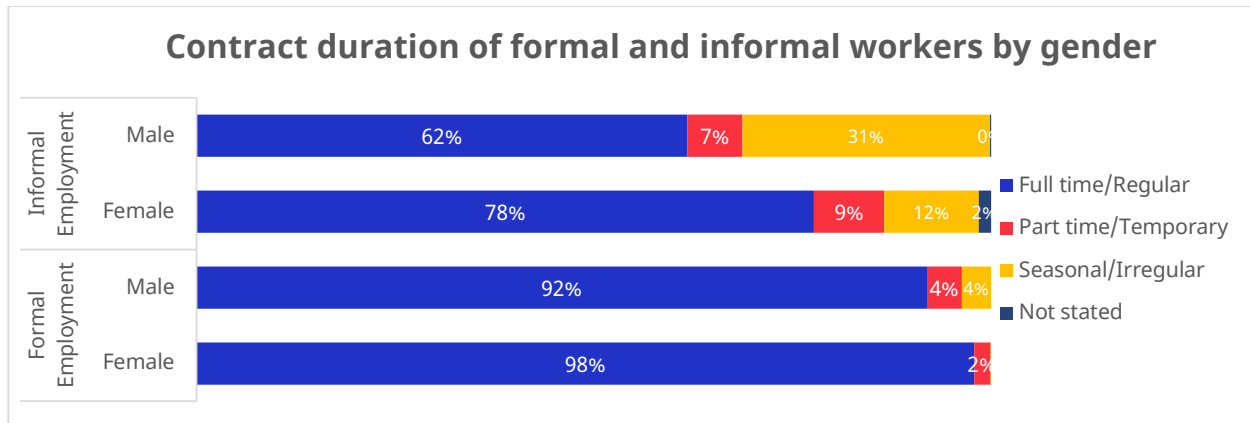




In the target sectors, **informal workers are more likely to work excessive hours** compared to formal workers. Agriculture has the highest proportion of those who work fewer hours and least for those who work excessive hours, while transportation, followed by engineering have the highest proportions of workers with excessive working hours.



Contract duration: Formal and informal workers vary in the type of contract they have. **Seasonal/irregular employment is clear in informal jobs reaching around one third of informally employed men (31%) and 12% in women. Part-time/temporary contracts also are relatively higher in informal jobs** compared to formal ones, especially for women (9%). Consequently, while full-time jobs constitute most formal jobs, they represent less than two thirds of informal jobs in men (62%), and 78% in women, hence **better contracts for informal women workers compared to men.**



Multiple jobs: most workers in the surveyed sample had one job only (99% across genders and formality, except for formal male workers, of which 96% had one jobs and 4% had more than one job).

Other conditions: Across the sectors, the primary research indicates the poor working conditions of workers in most enterprises, except for exporting enterprises or farms, which have to abide by the importers' regulations, and accordingly, apply stringent measures related to workers, health, safety and environment. Otherwise, the workers could easily be subjected to harmful material such as dust and smoke. As per the law, employers with more than 100 women workers (formal in this case) must have a nursery. The concept in principle, regardless of informality or size, was challenged by stakeholders in fear of exposing the children to the hazardous environment of factories or even industrial zones, and suggested collaboration with nearby daycare providers instead.

Social class: The literature review shows that people from different social backgrounds may experience disparities in their career opportunities referred to as the social origin gap. This gap represents the advantage that upper class individuals have over their lower-class counterparts in terms of jobs and income, even if they possess the same qualifications⁴⁹. Several factors contribute to this disparity, including individuals benefiting from their parents' financial resources, which can play a role in starting businesses or financing education. Moreover, coming from a high social background provides access to stronger networks that offer valuable job information and an edge during the hiring process. Hence, job seekers with better financial conditions and social networks have better and more opportunities to find a job. Unfortunately, individuals from lower classes may also face discrimination from employers⁵⁰. Consequently, **those from higher classes are more likely to experience favourable employment situations, hence better access to formal jobs.**

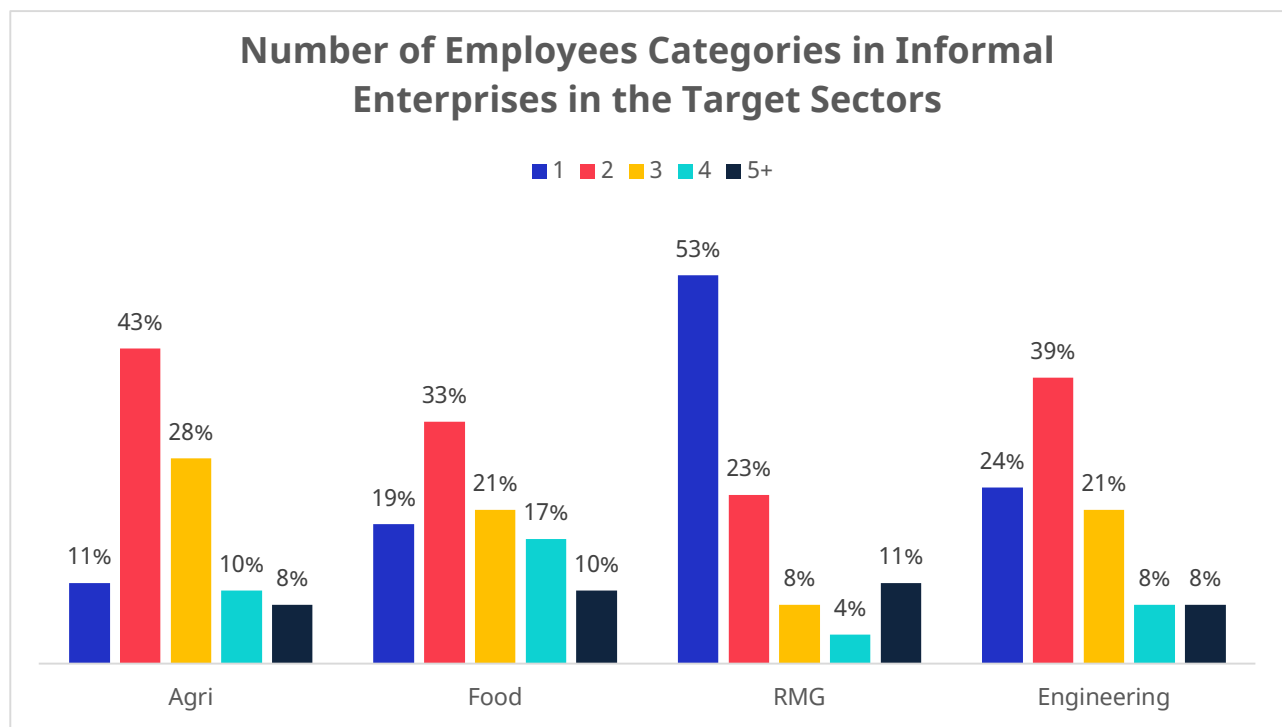
⁴⁹ Mahmoud Al-Barrawi, A. (2022). Labor Transitions between Formal and Informal Employment in Egypt [Master's Thesis, the American University in Cairo]. AUC Knowledge Fountain. <https://fount.aucegypt.edu/etds/1916>

⁵⁰ Bernardi, F., & Gil-Hernández, C. J. (2021). The Social-Origins Gap in Labour Market Outcomes: Compensatory and Boosting Advantages Using a Micro-Class Approach. *European Sociological Review*, 48–32, (1)37. <https://doi.org/10.1093/esr/jcaa034>

4.4. Characteristics of informal units

The analysis of the informal sector as defined and published by CAPMAS in the 2017/2018 Economic Census profiles the characteristics of informal establishments as discussed below. The transportation sector is not included due to its 100% formality as described earlier.

Size: More than 90% of informal economic units in the targeted sectors employ less than five workers. Around three quarters of them have 1-3 workers only, more than half have 1-2 workers. The highest percentage of self-employed establishments is in the RMG sector (53%). For the **food, RMG and engineering** sectors, it is important to note that all establishments working in the sector are included, which are not necessarily factories in a sense that industries reflect. This was specifically highlighted in the primary research, especially in the RMG FGD where it was indicated that a tailor shop, for example, has raw materials as inputs and the output of a ready-made garment, but the sector representatives, such as the chamber, would not consider this as an RMG industry/factory. This confirms the **extremely small size of the informal economic units.**

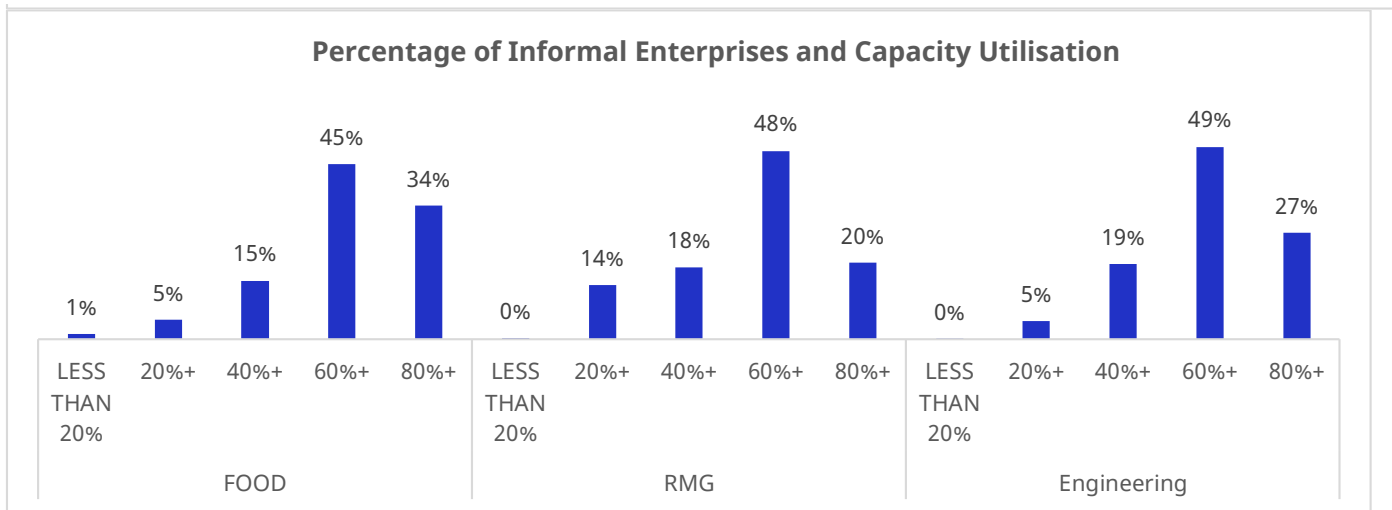


Management: According to literature, there is **no clear separation between management and ownership** as the employer often acts as the manager⁵¹, which is expected if these enterprises barely employ 1 or 2 additional workers other than the owner. Expectedly, these units are orientated towards the **domestic market**, often without regulation⁵².

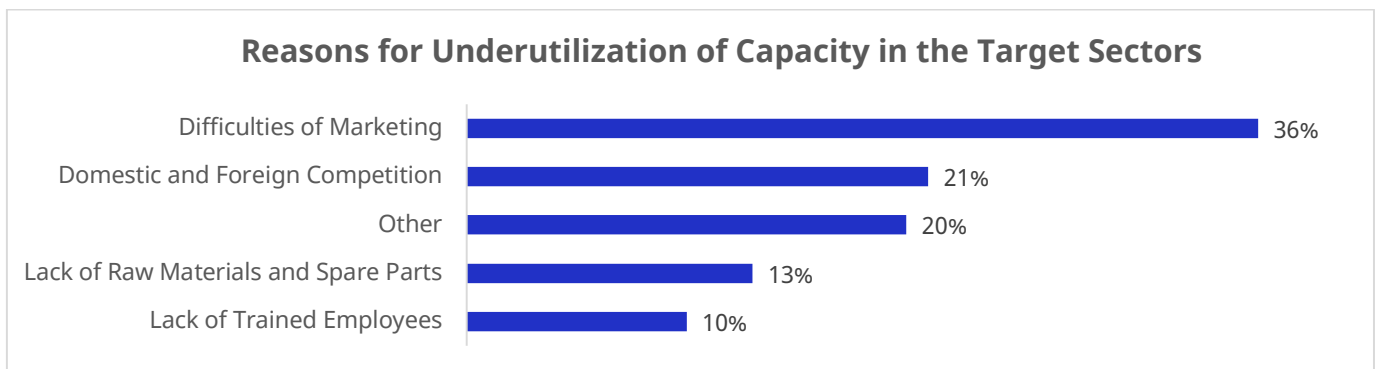
Capacity: Across the targeted non-agricultural sectors, **three quarters to two thirds of informal units do not utilise their full capacity.** The highest utilisation is noticed in the Food sector (34%), followed by Engineering and food (27% and 20% respectively). **The highest utilisation level in the three sectors falls within the 60-80% utilisation.**

⁵¹المأمون علي عبد المطلب جبر، الاقتصاد الغير رسمي في مصر، المجلة العلمية لقطاع كليات التجارة - جامعة الأزهر، العدد الثالث عشر، ٢٠١٥

⁵²ibid



The reasons for this underutilisation of capacity, represent key operational challenges for these units. **More than one third have difficulties marketing their products, and one fifth have difficulty competing with local and foreign competitors.** In terms of inputs, 13% have **limited access to raw materials and spare parts**, most of them sourced **locally**, and 10% consider lack of trained employees as the reason for underutilisation of their capacity.



Technology: According to literature, 54% of informal enterprises use underdeveloped technology and rely heavily on manual labour as the use of technology in these enterprises would be highly costly⁵³.

Access to finance: Almost all informal establishments in the target sectors **do not receive loans**. Presumably, the 1% that had access to credit was able to do so through microfinance, which could be granted by some microfinance institutions (MFIs) to businesses without formal registration if the loan size is so small. This confirms the limited access to capital that these units have, hence their inability to expand and provide quality employment opportunities as well. Moreover, according to literature, informal units have **limited invested capital and rely on cash liquidity**.

Access to Credit(% of informal RMG, Food, Agri & Engineering establishments)



Work conditions: According to literature, informal economic units **pay low wages and lack occupational safety** due to deteriorating work terms and conditions. The primary research confirmed this latter observation even in the formal units.

4.5. Awareness and perceptions of informal workers and units' owners

It was clear from the primary research that both enterprises, and workers are not well aware of the laws and regulations. Those who are aware of the laws and regulations and existing policies are usually frustrated with the following:

- The deficiencies in the laws and policies despite their revisions due to the persistence of statutes that are not welcomed by the employers and workers. Examples include the labour law, and the social insurance law and the new draft laws that do not take into consideration some of the input conveyed by the consulted stakeholders at the time of drafting these laws.
- Some laws and policies are good in essence but are not implemented at all. One employer in the food industry mentioned that he would accept the laws as is with all their pros and cons, but the point is that they are not actually implemented on the ground.
- Government employees' malpractices and authority abuse is another reason why the business community does not perceive the business environment as healthy.
- Unawareness of and the low perceived value of tax payments by both businesses and workers. The concept of being a taxpayer and the benefit it returns is generally almost absent, in addition to the public services received in return being of low quality in many cases (e.g. education, health and sometimes infrastructure).
- The absence of or extremely low perceived value of training services offered by the government, especially when considering the compulsory 1% contribution to the training fund as per the labour law.
- Lack of awareness of the MSME law and its incentives among the business community.
- There is a general lack of awareness among workers and the enterprises about the benefits of joining the formal sector.

4.6. The impact of crises

the informal sector is known to bolster economic shocks at times of crises. The world has witnessed an unprecedented crisis of COVID-19 in 2020, followed by the Russia-Ukraine war, and coupled with the national economic downturn, one cannot deny the impact of these crises on business; formal and informal. In the food sector, for example, the impact is manifested in lower demand, shifting to low-quality low-price products, even if not from trusted sources, and migration to lower price products from the same producer. One food industry employer mentioned that if the shrinking demand continues, the company will have to downsize its operations and lay off workers. Likewise, the upsurge in prices is having adverse effects on the RMG sector. In response, factory owners are opting to reduce labour by maintaining the minimum required workforce. The situation is further complicated by importing countries' policies, increased shipping fees, and the dollar crisis. Factories encounter challenges with sourcing spare parts for their machinery, as a majority of these machines are imported. The substantial increase in prices makes it extremely difficult to procure the necessary spare parts and inputs through imports. Moreover, a significant number of consumers are turning to low-quality brands, predominantly informal, while formal factories, adhering to specific quality standards and government regulations, are experiencing a decline in their customer base. The higher prices associated with the formal sector make it challenging for them to compete effectively with the informal sector.

Accordingly, it is crucial that stakeholders, especially the government, adopt a unified vision, design a solid plan, build trust and implement measures that create a conducive environment for business establishment, operation and growth. Without such measures, the situation will continue to worsen, and the solution becomes even more difficult to adopt and yield results.

4.7. Opportunities

Technology

Technology adoption by various stakeholders, including the government and natural persons, offers a range of opportunities in the form of:

- The use of electronic invoices on the tax authority's system for all expenses in order for them to be recognised as tax deductible, despite the current loopholes and the use of some informal enterprises of fake e-invoices, represents a drastic change in the ecosystem. It has led to formalization of all purchase transactions of formal firms, hence forcing informal ones to stay in a fully informal cycle of small operations and no potential for growth. The system will take some time until it is understood by everyone, including Tax Authority employees themselves, but this is expected to happen in the short-term.

- The prevalence of mobile applications and the use of a platform-based economy in various sectors represent a lucrative incentive for formalization to avoid missing out on the market opportunities they offer. Economic units and workers wanting to reach the market through these applications, find themselves forced to be formal in order for workers to be employed or for economic units to be in the network. Examples include Uber and Trella (app-based goods distribution through trucks) in the transportation sector, which accept licensed drivers and registered companies only, the Sabtiya B2B match-making platform in the Engineering sector which accepts registered economic units only, and Aydi and Mozare3 in the agriculture sector.
- The continuing digitisation of government processes and linking databases across different organizations not only facilitate the sharing of data, but also pave the way for streamlined regulations and elimination of redundant procedures by having them electronic, hence requiring no commuting, less cost and fewer steps.

MSME Law

- Despite the constrained implementation of the law, it still has the potential to effect change if proper implementation mechanisms are put in place.
- The fact that the law addresses formalization explicitly and offers tax amnesty and other incentives is a bold step towards achieving results, provided that MSMEDA builds trust and guarantees other government organizations' determination to achieve that one common goal.

Private sector development as a national policy priority

- The Egyptian economy is currently in need for a robust private sector more than ever. The advocacy bodies should put pressure on the government to adopt the necessary measures that are believed to yield results, from the point of view of the businesses.
- As mentioned by one of the stakeholders in the primary research, the complaint system under the Cabinet is gaining a good reputation and can be used to build trust and act as a channel to voice the needs of firms and workers.

Existing initiatives

- Existing initiatives targeting formalization or encouraging new businesses to register formally in the first place, give hope that there is enough momentum to do so. Building on and strengthening the FEI Engineering Chamber Committee (see Section 6 for details) could form a success story to replicate on a broad sectoral level.

Export regulations

- Having to comply with international standards on production and decent work in order to export to certain countries, guarantees that large exporting companies, or those with a potential and willingness to export, will provide decent jobs and work conditions.

5. Drivers of informality

5.1. Causes

5.1.1. Workers

Recent studies have delved into the reasons behind informality in developing countries like Egypt. The most prominent of which take a perspective centred on freedom of choice. According to this perspective, people engage in informal activities because they see more benefits in it than formal employment, in other words, the advantages of formal jobs do not outweigh the associated costs.⁵⁴

Free choice

- Workers may choose to engage in informal employment if they perceive that the **costs associated with protection outweigh the future benefits, given the low value of pensions**. Some individuals may **prefer a higher take-home wage** than making contributions to social security and consequently **income taxes**. In such a case, an informal job would provide a higher compensation than a formal one with the same gross salary.⁵⁵ This finding was confirmed in all focus groups and interviews conducted. Workers could ask their employers to not have a formal job to avoid insurance and tax deductions as they prefer immediate financial gains than social security and tax deductions that yield no perceived benefit in the future. An interesting finding of the primary research was that some workers join companies and get social insurance coverage for the social image so that they can get engaged and married. The insurance serves as proof of employment for the bride's family. However, as soon as the engagement occurs, the worker leaves the company and moves to the informal sector or job. Another dimension is the lack of financial incentives in the formal sector as opposed to the informal, particularly agriculture. On average, those engaged in agriculture can earn up to EGP 400 per day from 9 am to 3 pm. However, if they are presented with an offer of social insurance with an 11% deduction from their salary in the formal sector, it becomes a disincentive for them to make the transition.
- As indicated in some of the focus groups, in the manufacturing sectors, some workers favour **occupations with higher income** potential, such as becoming a **tuk-tuk** driver (income can reach up to EGP 5,000 monthly) or engaging in an agricultural **harvest season** and leaving their factory job behind.

- With the **lack of adherence to the rule of law by employers and workers**, coupled with the **inadequate enforcement** of regulations or instances where **corrupt officials** demand bribes for procedures to proceed, people tend to be more inclined towards informal activities.⁵⁶
- **Limited trust** in government institutions adds to the inclination to stay informal.⁵⁷
- As indicated in the FGDs, some informal workers prefer **working more than one job and being uncommitted** to any of them, hence the informality of them all.
- All FGDs indicated the preference to have an informal job in order **to stay in the social safety nets programs** such as Takaful and Karama, which is a cash program under the Ministry of Social Solidarity, that included 4.6 mn beneficiary households up to July 2023⁵⁸, and that would not include a person if they were insured, proving they have another source of income. Despite the transition period that allows staying in the subsidy scheme during the first 6 months of social security participation, workers are still discouraged and prefer to remain in the scheme in addition to their jobs. Not only this, but if the salary is not significantly higher than the cash received in Takaful and Karama, the worker would be discouraged to get the job in the first place.

Forced choice

- Studies suggest that informality can become a forced choice when marginalised **groups are unable to access formal employment due to lack of opportunities, resources or discrimination** that prevents them from accessing employment. The **scarcity of job prospects** can be attributed to factors like **rapid expansion of the labour market, slow job creation or layoffs** in the formal sector during economic downturns, crises, reforms or transitions.⁵⁹
- Some individuals **lack the skills or capital required for formal employment**, especially in industries with high barriers to entry. Consequently, for these vulnerable communities, informal self-employment within the sector might be their means of earning a livelihood.
- Distortions in the labour market and demographic changes **increased the working-age population, creating more competition for limited jobs.**⁶⁰
- Educational policies also played a role; **past promises of public sector jobs influenced education**, focusing on fields suitable for government employment. Public sector jobs, offering better benefits, led to graduates preferring these roles.⁶¹ However, **the public sector could not absorb the growing number of youth**, resulting in high unemployment rates among graduates. Consequently, formal private sector firms resorted to **informal hiring to avoid the costs of employing these inadequately skilled graduates.**

⁵⁶ Ibid

⁵⁷ Ibid

⁵⁸ State Information Service, 2023

⁵⁹ AfDB (2016), Addressing informality in Egypt, Working paper North Africa Policy Series

⁶⁰ Ibid

⁶¹ Ibid

- **Labour laws regarding employee termination are still rigid**, requiring approval from the Ministry of Labour.⁶² To cope with these pressures, firms often hire fewer workers or engage them informally, resulting in a lack of growth in the formal private sector.
- **Seasonality** of jobs contributes to their informality. The primary research confirmed that the jobs being seasonal or on part-time basis, is one reason why they are informal. Workers do not stay in one job and the employer would not go through the process of social security for each worker joining temporarily. This observation was mentioned in all three manufacturing sectors and is more prevalent in the agricultural sector, where it is very rare to find a worker who works the whole year or every season for the same farm unless he is the owner of this small farm and is working in it.
- Similarly, the **high absenteeism and turnover rate**, due to workers' behaviour, lack of commitment and choice to move to any other job that provides higher pay, forces employers to hire workers without social security since they are uncertain about their continuity with the company. The primary research of the **food, RMG and engineering sectors** confirmed this and highlighted that finding labour is a key challenge for operating the business.

5.1.2. Economic units

The distinction between free choice and force choice in economic units' reasons to work informally is blurred. The drivers of informality described below push enterprises to opt out of the formal system in fear of the challenges they would face otherwise. The clear force choice in this case is when enterprises want to register, try to, but the procedures are too long to follow or the officials in government institutions do not know how to. It was mentioned in one of the FGDs that an enterprise opting to formalize went to one of the MSMEDA local offices, but the employee was not aware of the new MSME law and the simplified procedures it entails.

- Burdensome **regulations and bureaucracy**. Despite the recent improvements in the procedures to start a new business (or to formalize an existing business) in Egypt, initiating and operating a business still incurs high costs that surpass the benefits for most small companies. Although the cost of formally starting a business declined from what is equivalent to 69% of income per capita in 2007 to 20% in 2020 and the time required to start a business fell from 19 to 12 days during the same period, other aspects of formality, such as going through **complex licensing procedures, paying taxes, obtaining construction permits, enforcing contracts, and registering property remain extremely burdensome.**⁶³

- The KIIs and the FGDs held with the **food, RMG and engineering** sectors pointed out inspection and tax audits as one of the main impediments that formal enterprises face in their daily operations and that deter informal enterprises from formalization. Government inspection authorities include **the labour office, social security, health and safety, environment, and civil defence inspection, in addition to tax inspections. Inspectors from these various agencies often fabricate issues, abuse their authority or make mistakes** that result in major implications for establishments. One RMG employer mentioned that the business owner found out he has an imprisonment sanction because of machinery being in the factory pathways and, upon appeal and investigation, it was found that the neighbouring factory is the one that had this violation. Imprisonment penalties strongly discourage businesses from considering formalization in the first place, which is compounded by stories like these making employers even more averse to formalizing. This is exacerbated when the Key Performance Indicators (**KPIs**) of the inspectors and their incentives are linked to **the number of violations** they record, or the value of tax revenues collected.
- Complex procedures also create **an environment conducive to corruption**. Corruption has become a major constraint for Egyptian businesses, with entrepreneurs **often having to establish personal connections with officials or make informal payments** to navigate the system.⁶⁴ Larger firms and wealthier individuals can better afford these additional costs, but small firms are unable or unwilling to bear these costs and find themselves at a disadvantage, **impacting their trust in the government** and their motivation to join or stay within the formal economy. A significant number of entrepreneurs have left the formal economy to escape bureaucracy, while others see no advantages in formalization.⁶⁵
- Literature shows that, worldwide, high taxes (income, corporate, indirect or social security contributions) are key drivers of the informal economy.^{66 67} Likewise, high **tax rates and social security contributions** in Egypt push individuals and businesses into the informal economy to avoid heavy taxation, which is negatively perceived by many as a state-imposed levy on individuals' income, without receiving direct and personal services in return.⁶⁸ This concept was confirmed in the primary research, mentioning that businesses believe that formalization will result in paying fees and taxes for no benefit in return, underlining the lack of awareness and appreciation **of the financial and non-financial services** offered exclusively to formal businesses.

⁶⁴ World Bank (2013a) Opening Doors: Gender Equality and Development in the Middle East and North Africa (Washington DC: World Bank).

⁶⁵ AfDB (2016), Addressing informality in Egypt, Working paper North Africa Policy Series

⁶⁶ Kassem, T. (2014), Formalizing the informal economy: a required state regulatory and institutional approach Egypt as a case study, International Journal of Humanities and Social Sciences (IJHSS) ISSN(P): 2319-393X; ISSN(E): 2319-3948 Vol. 4, Issue 1, Jan 2014, 32

⁶⁷ It has been estimated that, in the U.S., an increase of one percentage point in the federal marginal (personal) income tax rate extends the informal economy by 1.4 percentage point.

⁶⁸2015. المأمون علي عبد المطلب جبر، الاقتصاد الغير رسمي في مصر، المجلة العلمية لقطاع كليات التجارة - جامعة الأزهر، العدد الثالث عشر، 2015

- The primary research highlighted **lack of trust** as a major issue with businesses which held the view that the government makes impulsive and ill-considered decisions, and does not have a unified vision. Even when the government designs incentives, it is either that they are not lucrative enough for the business or that the business community does not have the confidence of fair implementation in every other aspect of formality afterwards, such as in inspections and tax audits.

5.2. The legal framework

To review the legal and regulatory framework in Egypt, it is essential to take into consideration the three dimensions that seek to identify the sources of the deficit of protection (for workers and economic units) in terms of (a) the lack of legal coverage; (b) inadequacy in the level of protection provided according to the law; and (c) the practical application (or non-application) of laws. It is noteworthy that while the list of laws provided here is not exhaustive, it encompasses the most pertinent and commonly applicable regulations in the realm of formalization.

5.2.1. Workers

In this section dedicated to workers' formalization, the study delves into the laws that regulate the workers' relations with employers and bargaining power. Some of these regulations facilitate the formalization process for employees while others impede it, either from the workers' point of view or that of their employers.

Labour Law – Law #12/2003

Every business that employs workers must abide by the Labour Law No. 12/2003. The law regulates the relationship between employers and employees and **lays emphasis on employees' rights**, including working hours, paid leaves, maternity leaves, penalties, firing procedures, etc. For example, it emphasises that wage discrimination based on sex, race, religion, or creed are strictly prohibited. However, it excludes **agricultural, fisheries**, and domestic workers concerning wages, hours, and working conditions.⁶⁹

The labour law aimed at making **firing and hiring processes more flexible** as opposed to previous labour laws which imposed rigid employment protection.⁷⁰ It applied to those employed in 2004 and streamlined the dismissal process for pre-existing workers.⁷¹ For example, the law allows employers to extend definite duration contracts multiple times, giving companies the ability to lay off employees when these contracts ended.⁷² For indefinite contracts, termination is possible with approval from the stoppage committee, if employers paid severance based on the duration of employment.⁷³ Workers have the right to appeal these terminations.⁷⁴

⁶⁹ Danish Trade Union Development Agency, Labour Market Profile Egypt – 2020- 2021

⁷⁰ Wahba, J. (2009b). The impact of labor market reforms on informality in Egypt (Working Paper no. 3.; Gender and Work in the MENA Region). Population Council. https://knowledgecommons.popcouncil.org/departments_sbsr-pgy/1053

⁷¹ Wahba, J., & Assaad, R. (2017). Flexible Labor Regulations and Informality in. 21(4), 962-984. <https://doi.org/10.1111/rode.12288>

⁷² Ibid

⁷³ Wahba, J. (2009b). The impact of labor market reforms on informality in Egypt (Working Paper no. 3.; Gender and Work in the MENA Region). Population Council. https://knowledgecommons.popcouncil.org/departments_sbsr-pgy/1053

⁷⁴ Wahba, J. (2009b). The impact of labor market reforms on informality in Egypt (Working Paper no. 3.; Gender and Work in the MENA Region). Population Council.

Studies suggest that the 2003 Law reduced informal employment, increasing the likelihood of transitioning to formal jobs for non-contractual workers in formal firms by about 3–3.5 percentage points, or the equivalent of at least a fifth of informal workers in formal firms. ⁷⁵However, **its impact on newcomers to the job market was limited** as Egypt’s labour market continued to witness informalization, **particularly in micro-firms**, suggesting that the law’s effect was minimal.⁷⁶ It appears that the law influenced formal firms hiring informal workers but did not significantly affect workers in informal enterprises, which constitute a significant portion of the economy. Consequently, the law could not curb the growing trend of informal employment in Egypt. ⁷⁷

As far as Micro and Small enterprises are concerned, the law does not include any incentives or specific provisions easing the process of recruitment for MSEs. It also does not specify a minimum wage, however, **minimum wage** value and updates are stipulated through Decrees from the Prime Minister. ⁷⁸The minimum wage for private sector workers witnessed consecutive raises during the last year; from EGP 2,400 to EGP 2,700 in January 2023, to EGP 3,000 in July and EGP 3,500 effective January 2024.^{79 80} **This cumulative increase of minimum private sector minimum wage by 45.8% in 12 months** to compensate for the high inflation rate and increase cost of living, although nominal, will have its impact on enterprises’ hiring decisions. The FGDs highlighted this issue as a burden and a constituent of an employer’s decision on the formality of the job they offer. Additionally, it creates an issue with experienced employees who refuse to be equated with beginners.

One of the pain points mentioned in the food, RMG and engineering FGDs, is the **1% contribution to the training fund** under the Ministry of Labour. According to the 2003 Law, Article 134, 1% of the net profits of formal establishments with more than ten employees goes to the Training and Rehabilitation Fund. However, if the formal establishment has only nine employees or fewer, even if it is formal, it is not obligated to contribute to the fund. Due to perceiving this training as **useless and of extreme low quality**, hence having to train their workers and still having to pay this contribution, there were some attempts to amend article 134 so that the actual amount spent by enterprises on training is deducted from this 1%.

⁷⁵ Wahba, J., & Assaad, R. (2017). Flexible Labor Regulations and Informality in. 21(4), 962–984. <https://doi.org/10.1111/rode.12288>

⁷⁶ Mahmoud Al-Barrawi, A. (2022). Labor Transitions between Formal and Informal Employment in Egypt [Masters Thesis, the American University in Cairo]. AUC Knowledge Fountain. <https://fount.aucegypt.edu/etds/1916>

⁷⁷ Mahmoud Al-Barrawi, A. (2022). Labor Transitions between Formal and Informal Employment in Egypt [Master’s Thesis, the American University in Cairo]. AUC Knowledge Fountain. <https://fount.aucegypt.edu/etds/1916>

⁷⁸ Ramsis, N. and Adly, B. (2023). Requirements, barriers and opportunities for the formalization of small enterprises in Egypt, ILO.

⁷⁹ <https://www.youm7.com/story/2023/10/30/%D8%AA%D9%81%D8%A7%D8%B5%D9%8A%D9%84-%D9%82%D8%B1%D8%A7%D8%B1-%D8%B2%D9%8A%D8%A7%D8%AF%D8%A9-%D8%A7%D9%84%D8%AD%D8%AF-%D8%A7%D9%84%D8%A3%D8%AF%D9%86%D9%89-%D9%84%D8%A3%D8%AC%D9%88%D8%B1-%D8%A7%D9%84%D9%82%D8%B7%D8%A7%D8%B9-%D8%A7%D9%84%D8%AE%D8%A7%D8%B5-%D9%85%D9%86-3/6355931>

⁸⁰ Ahram Online (June, 2023), Egypt raises minimum wage for private sector workers by 11%, Egypt raises minimum wage for private sector workers by 11% - Economy - Business - Ahram Online

However, these amendments were not implemented and in March 2022, the Supreme Constitutional Court issued a ruling in favour of the government, affirming the constitutionality of Article 134 of the law without any amendments. This article is extremely problematic because it imposes burdens on investors which might hinder them from joining the formal sector or from formally hiring employees if they are just below the ten workers threshold.

A **new law** has been in the process of being drafted and is at the Parliament (approved by the Senate but not the House yet), and has been circulated for consultation with certain organizations such as the Federation of Egyptian Industries and the Egyptian Trade Union Federation. The new draft **addresses women's rights, sexual harassment, and enforces an annual wage increase** of at least 7% of the social security wage, but has some **deficiencies** on the hand such as limitations on **labour outsourcing**, which is considered a back door to avoid legal obligations of the actual employer. The FGDs highlighted that the discussion and issuance of this draft law has been delayed for years and that the current draft still has deficiencies to be addressed, including **the compulsory training fees** that are perceived as useless, and **imprisonment penalties** in cases related to safety for instance. It is noteworthy that some stakeholders consulted perceive the articles that grant rights to disadvantaged groups are perceived as an impediment. Such as having to hire 5% people with disabilities, granting maternity leaves, potential paternity leaves, and nursery obligations.

Social Insurance Law – Law # 148/2019 ⁸¹

The law came into effect on January 1, 2020, with the main goals of boosting its financial sustainability, addressing the challenge of workers' low enrolment in social insurance, and enhancing benefits and transition to formality. Under the new law the following categories are to be covered and will benefit from its schemes:

- Public sector employees.
- Employees of state-owned companies.
- Private sector employees.
- Employers, business owners and directors.
- Egyptians outside Egypt (optional).
- Expats inside Egypt.
- Employees with irregular employment relationships for which the employers are not responsible for their social insurance, but the government could cover the employer's share of contributions, provided that it is stated in their ID that they are irregular workers. The law does not sufficiently ⁸² cover the following categories that fall under the irregular workers category described above:

⁸¹ اللائحة التنفيذية لقانون التأمينات الاجتماعية والمعاشات رقم ١٤٨ لسنة ٢٠١٩

⁸² Most worker categories are covered by law; however, actual coverage remains low due to challenges in securing consistent contributions from those not employed by the government, public sector, or large corporations. Small businesses, self-employed individuals, and casual workers particularly struggle with this issue. Small enterprises often have limited financial capabilities due to low wages and modest business revenues, restricting both employers' and workers' ability to contribute to social insurance. For self-employed individuals, administrative hurdles in declaring income and making contributions are significant. Additionally, they are responsible for paying the entire contribution, both employer and employee parts.

- Intermittent construction workers
- Intermittent agricultural workers (less than six consecutive months or if the job is not by nature part of the employers' activity)
- Agricultural land tenure holders who have less than one "feddan" of land tenure (owners and rent holders).
- Agricultural landowners (who do not hold the tenure) of less than one "feddan".
- Small own-account workers such as mobile vendors, car parking helpers, shoe cleaners, etc.
- Domestic workers.
- Religious recitation persons and servants.
- Heirs of sole proprietorship, with certain conditions.
- Workers in contracting, shipping, land transport, and seasonal workers.

Main characteristics ^{83 84}

- **Unifies the fragmented social insurance schemes** under one umbrella and makes all categories of persons subject to the same legislation.
- **Aggravated penalties** for employers not registering their workers.
- Gradually **increased the retirement age** by one year increments every two years, to reach 65 in 2040. This means extending the years during which workers contribute to the pension fund and delaying the time they start receiving payments, hence targeting improved payments at retirement provided that the funds are well invested.
- **Calculates pensions based on the average wage** of workers during their employment lifetime, and not only on the average wage of the final years of employment. This was meant **to avoid the malpractice of under-reporting of wages**.
- **Reduces contribution rates paid by employers and employees** (employers will pay 18.75% and employees 11%, down from 26% and 14% respectively), subject to a 1% increase every seven years). This is meant to reduce the burden on the employers as well as the workers' deduction from their gross salaries, **incentivising both of them to formalize the jobs**.
- Introduces an **annual nominal pension increase**, capped at 15% in June of each year, to offset inflation.
- There are potential **risks that can be insured against**, such as aging, disability, or the risk of death, where insured individuals can receive compensation even if they do not receive a pension. This applies to everyone regardless of their period of participation in social insurance.

⁸³ Youssef, L. and Abouzekry, M. (2019), Egypt's New Social Insurance Law, Sharkawy and Sarhan, Egypt. Egypt's New Social Insurance Law - Sharkawy & Sarhan (sharkawylaw.com)

⁸⁴ Mahmoud Al-Barrawi, A. (2022). Labor Transitions between Formal and Informal Employment in Egypt [Masters Thesis, the American University in Cairo]. AUC Knowledge Fountain. <https://fount.aucegypt.edu/etds/1916>

While the new insurance law has introduced some improvements to the social insurance system and the state has shown commitment to supporting informal workers, there are still lingering **issues** as follows:

- The law **lacks clarity on how the government plans to effectively communicate the regulations** as well as the newly added benefits, such as contribution matching for informal workers and the introduction of voluntary retirement accounts, especially given its historical difficulty in reaching out to informal workers, not to mention the low levels of trust in the system, and the absence of media campaigns to increase public awareness of the system's benefits.^{85 86}
- For informal workers who are at the lower end of the education and income spectrum, the potential **positive impact of these incentives to participate is likely to be offset by trends of increasing poverty** and the impact of the economic crisis.⁸⁷ Furthermore, analysis of Egypt's Household Income and Expenditure Survey data (HIECS) for the years 2004, 2008, 2010, 2012, 2015 and 2017 shows that the proportion of the working poor in total employment (i.e. workers who live in poor households) increased from 18% in 2004 to 29% in 2018, and is strongly associated with the type of employment and the degree of its stability.⁸⁸
- The law's **self-enrolment provisions are limited** and exclusive, only allowing specific categories of informal workers such as landlords/ladies below a certain threshold⁸⁹, intermittent construction workers, domestic workers, and religious instructors to affiliate.⁹⁰ Workers among these categories need to show the above occupations as their cited occupation on their national identity cards, which poses a hurdle because these occupations allow for no proof to be presented at the time of issuing the national identification card.⁹¹ This approach fails to acknowledge the diversity and widespread nature of the informal workforce. **Although there are stricter penalties for employers who do not declare their workers, certain informal employees, especially those providing temporary services remain excluded.**
- As concluded from the consultations, there is a general **lack of awareness among informal workers of the benefits that the law provides, especially irregular workers** and their self-enrolment option with the government paying for the employers' contribution share. This challenge is exacerbated by the **lack of data on irregular workers**, hence the difficulty in reaching out to them and in recording the actual self-enrolment, if any.

⁸⁵ Alternative Policy Solutions (2020), Who's Insured and Who's Not? Creating a More Inclusive Social Insurance System in Egypt, Egypt

⁸⁶ Barsoum, G. and Selwaness, I (2022), Egypt's reformed social insurance system: How might design change incentivize enrolment?, The American University in Cairo, Egypt; Cairo University, Giza, Egypt

⁸⁷ Ibid

⁸⁸ Amer, M.; Selwaness, I.; Zaki, C. 2021. "Patterns of economic growth and labour market vulnerability in Egypt", in ILO, Regional report on jobs and growth in North Africa 2020. Cairo, International Labour Office

⁸⁹ Those whose share of income is less than the minimum social security contribution wage.

⁹⁰ Barsoum, G. and Selwaness, I (2022), Egypt's reformed social insurance system: How might design change incentivize enrolment?, The American University in Cairo, Egypt; Cairo University, Giza, Egypt

⁹¹ Ibid

- The persistence of system regressivity is a concern in the new scheme due to the imposed maximum contribution limits. Although the change to calculate retirement benefits based on average lifetime earnings instead of just the last two years before retirement aims to tackle income under-reporting, the **likelihood of higher income tax could still encourage under-reporting** among both employees and employers.⁹² Additionally, high-earning workers exceeding the maximum limit for contribution calculations will continue to pay a relatively lower percentage compared to lower-earning workers.
- Employers typically hire workers whose productivity exceeds their total cost.⁹³ For low-productivity workers, which informal workers are more likely to be, the contribution cost relative to the total cost is crucial, especially for those with lower education levels who are more vulnerable. **Despite the reduction in employer contributions, this change might not significantly impact employers hiring low-productivity workers.**⁹⁴
- The new method of calculating benefits based on total employment duration could encourage some workers to report their income. However, this change might not impact **low-income workers** significantly because they often prioritise **immediate needs over long-term planning**, given their limited resources.⁹⁵

Trade Union Law no. 213/2017

The Trade Union law governs the establishment, membership, governance, rights, finances and management of workers representation organizations (trade unions). The amended Trade Union Law allows trade unions to present their membership lists and organizational rules through their assemblies as well as providing them the **freedom to hold elections without interference, from the administration or ranking officials**. Labour associations are now divided into **three levels; shop floor committees at the enterprise level, trade unions and trade union federations**. A shop floor committee represents workers from one establishment (establishment trade union committee) or a geographical area (a vocational trade committee), several committees come together to form a union and multiple unions make up a federation. Some crucial changes include reducing the number of workers required to form a trade union committee at the establishment level from 150 to 50 workers. Workers can also collaborate across professions or crafts at the geographical level if one establishment does not have enough members to form a committee. Membership is open for all workers, insured or not, thus, **the trade unions do include informal workers**. The minimum number of establishment committees needed to establish a union has been lowered from 15 to 10 committees, and the requirement for forming a federation has been reduced from 10 to 7 unions.

⁹² Ibid

⁹³ Auerbach, P.; Genoni, M. E.; Pagés, C. 2007. Social security coverage and the labor market in developing countries (IZA Discussion paper, No. 2979). Bonn, Institute for the Study of Labor.

⁹⁴ Barsoum, G. and Selwaness, I (2022), Egypt's reformed social insurance system: How might design change incentivize enrolment?, The American University in Cairo, Egypt; Cairo University, Giza, Egypt

⁹⁵ Ibid

The minimum number of workers needed to create a union is now 15,000 instead of 20,000 and for a federation it is 150,000 instead of 200,000.⁹⁶ A dedicated committee has been set up to address complaints related to freedom of association and resolve them.

It is noteworthy that the **minimum threshold to form a committee at the enterprise level is still high for MSMEs**, which constitute the highest proportion, if not all, of informal enterprises. Hence, workers of informal enterprises, usually small in terms of number of workers, are not represented in the Union unless they are in a vocational committee that is formed at the geographical level (less influence). Moreover, the ETUF now includes 4 mn members, after having had 10 mn members before 2011. **While membership is voluntary for private sector workers, it is compulsory for public sector and state-owned enterprises workers.** According to the Head of the Agricultural Union, it includes employees of organizations affiliated to the Ministry of Agriculture and Land Reclamation and cooperatives, a Ministry known for its huge size in terms of number of workers and affiliates. This reflects a **number of members who do not necessarily represent private sector workers**⁹⁷ The Head of the Agriculture Union also referred to the limited resources available, resulting in an inability to provide better services that are enticing for workers to join. Furthermore, the primary research indicated that **enterprise owners or large farms owners in the agricultural sector resist the workers' formation of the committees, in fear of workers' abuse and unjustified strikes.**

Furthermore, the law grants trade unions the **autonomy** to establish their articles of association, adopt internal administrative and financial regulations, elect representatives freely, and manage their affairs independently from public authorities.⁹⁸ Union committees can handle collective and individual disputes on behalf of their members and negotiate collective bargaining agreements.⁹⁹

However, the International Trade Union Confederation (ITUC) registered the following issues regarding the enforcement of the trade union law :¹⁰⁰

- Restrictions placed on workers' freedom to join the organizations of their choice.
- Limitations imposed on trade unions autonomy, in managing their affairs.
- Constraints on the right to engage in open negotiations.
- Undermining the ability to effectively engage in bargaining.
- Limitations on bargaining within specific industries.
- Challenges that impede strike actions and their effectiveness, including interference by authorities.

⁹⁶ Danish Trade Union Development Agency, Labour Market Profile Egypt – 2020- 2021

⁹⁷ Given that public and SOE workers represent less than 7% of the private and public sector workers combined. Source: CAPMAS 2017/2018 Establishment Census.

⁹⁸ Danish Trade Union Development Agency, Labour Market Profile Egypt – 2020- 2021

⁹⁹ Ibid

¹⁰⁰ ITUC, Survey of violations of trade union rights, Egypt - 2021.

Aman Certificate

Aman El-Masreen certificate is a certificate issued by Misr Life Insurance Company in cooperation with four Egyptian banks to provide insurance coverage for the vulnerable groups, as per President Abdel Fattah El-Sisi's demand. It aims to offer temporary and seasonal workers life insurance. It serves as both an insurance policy and a savings certificate. While the Aman certificate introduced in 2018 is a positive initiative, it raises concerns about its potential impact on informal workers' formalization. The certificate, functioning as both a savings plan and insurance policy, provides attractive benefits. However, it should not be viewed as a substitute for a comprehensive social insurance system covering informal workers. Aman, while beneficial, does not give the informal workers' families the long-term security guaranteed by social insurance schemes¹⁰¹ and might inadvertently discourage informal workers from registering formally, as they might perceive it as an alternative solution.

5.2.2. Economic units

Legal framework to start a business in Egypt

The General Authority for Investment and Free Zones (GAFI) is the main regulatory body that is responsible for establishing the most common types of companies in Egypt. The Companies Law No.159 of 1981, and the Investment Law No. 72 of 2017 along with their executive regulations are the governing laws that regulate and manage the company starting from its establishments till its dissolution. According to Law No.159 of 1981, there are seven types of commercial companies, namely; partnership companies, limited partnership companies, sole proprietorship, joint-stock companies, a company limited by shares, limited liability companies, and one person companies.

Common documents that are required by all types of companies:^{102 103}

- Non-Confusion certificate concerning the name of the company, validated by the commercial registry, which can be obtained through GAFI's online portal.
- A banking certificate obtained through a capital deposit.
- Copies of the power of attorney and the original for review.
- The partners' and Egyptian managers' ID copies and passport copies for foreigners, and the original documents for review.
- The original copy of the auditor's report of the key requirements.

¹⁰¹ Alternative Policy Solutions (2020), Who's Insured and Who's Not? Creating a More Inclusive Social Insurance System in Egypt, Egypt

¹⁰² Documents may vary depending on the type of company.

¹⁰³ Kreston Egypt (2023), Set up your Business in Egypt

Common regulatory requirements for starting a company in Egypt ^{104 105}

- Getting a certificate of trade name clearance: With the updated system, the commercial Registry will issue certificates after checking the availability of the business name of choice; however, it does not reserve it.
- Notarizing the company's contract: It has a capital cost of 0.25%, with a minimum of EGP 10 and maximum of EGP 1,000.
- Obtaining the Chamber of Commerce Certificate: This takes one day and costs 0.2% of the capital, with a minimum of EGP 24 and maximum of EGP 2,000. The chamber of commerce certificate would be obtained on behalf of the client by a GAFI employee.
- Issuance of the Incorporation Notification: The already submitted Articles of Association are ratified by the competent authority, which issues a decree approving the company's formation.
- Registration for taxes: Following incorporation, the company can complete tax registration and obtain a tax card. The documents needed for registration include the following:
 - The articles of association
 - The power of attorney documents
 - A bank signature authentication will be issued to the appropriate person authorised to sign on behalf of the company.
 - The tax card.
 - A certified original extract from the company's commercial register
 - The original copy of the company's premises lease agreement

In a recent effort to facilitate the process of setting up businesses, **GAFI has launched a service for establishing companies and entities through their online portal.** Through this service, individuals can submit applications, pay fees, and sign necessary documents electronically. GAFI manages the entire procedure, allowing applicants to track their status and receive results conveniently.

MSME Law – Law # 152/2020 and its executive regulations of 2021 ^{106 107}

Since informality is particularly high among small enterprises, the MSME law is discussed in detail, especially as it tackles formalization explicitly. In July 2020, the Official Gazette published the Official Gazette published the MSME Development Law No. 152 of 2020, replacing the previous Small Enterprises Law No. 141 of 2004 and widening its scope.

¹⁰⁴ Ibid

¹⁰⁵ Requirements may vary depending on the type of company.

¹⁰⁶ قانون رقم ١٥٢ لسنة ٢٠٢٠، الجريدة الرسمية، العدد ٢٨ مكرر في ١٥ يوليو سنة ٢٠٢٠

¹⁰⁷ MSME Development Law 2020/152

The law gives MSMEDA the responsibility to be the main institution in charge of MSMEs in Egypt and the designated authority to implement the provisions of the Law. The law includes a **section on formalization** and incentives for existing informal MSMEs to encourage the formalization process and facilitate the shift from informal to formal.

The Law defines MSMEs by the annual turnover criterion, unless the business is newly established, registered or started operations for 2 years only, then the capital criterion is used for definition. During the primary research, MSMEDA representatives indicated that amendments are being drafted to the law, including changing the definition thresholds to take into account the impact of the macroeconomic changes. The figure below summarises the definition of MSMEs as it stands in the current version of the law.

MSMES: DEFINITION

	Annual Turnover (EGP)	Newly Established Enterprise**Capital (EGP) Manufacturing Sector	Newly Established Enterprise**Capital (EGP) Non-Manufacturing Sector
Micro	<1 mn	< 50 k	< 50 k
Small	1 mn - < 50 mn	50 k - < 5 mn	50 k - < 3 mn
Medium	50 mn - < 200 mn	5 mn - < 15 mn	3 mn - < 5 mn

*Flexible amendment of thresholds by a Prime Ministerial Decree

**Established, registered or started operations for 2 years

Incentives

Eligible enterprises for incentives granted through the law:

- **Informal sector enterprises applying to formalize.**
- Entrepreneurial enterprises (operating for less than 7 years with novelty and innovation¹⁰⁸)
- IT or related sectors, digital transformation and AI.
- Manufacturing enterprises, increasing local components or renovating production equipment, machinery and technological systems.
- Enterprises serving agricultural and animal production.
- Enterprises in new and renewable energy.

The law offers a package of incentives to MSMEs establishing their enterprise according to the law, or applying to registering them under the law as follows:

¹⁰⁸Conditions are to be specified by MSMEDA's board.

Tax incentives

The main features of the tax incentive scheme include:

- **Simplified income tax regime** for enterprises registered at the time of or after issuance of the law

Annual Turnover (EGP)	Income Tax
< 250 k	EGP 1,000 annually
250 k - < 500 k	EGP 2,500 annually
500 k - < 1 mn	EGP 5,000 annually
1 mn - < 2 mn	%0.50 of turnover
2 mn - < 3 mn	%0.75 of turnover
3 mn - < 10 mn	%1 of turnover (for 5 years)

- The Ministry of Finance is to issue the bookkeeping rules and procedures.
- MSMEs can opt out of this tax regime if they have realised losses or if it results in higher tax amounts. MSMEs can opt back in only after 5 years.
- 5-Year exemption of stamp duty and notarization fees for registering contracts.
- Unified custom duty rate of 2% on imported machinery and equipment required for establishing the enterprise, except for passenger vehicles.
- Tax exemption of capital gains resulting from sale of assets, production equipment or machinery if the proceeds are used to purchase new production machinery or equipment within a year.
- Possible partial or full exemption of property tax on buildings for MSEs for a defined period of time.
- Dividends distribution in one person companies owned by natural persons are not subject to the applicable income tax.

Non-tax financial incentives:

MSMEs undertaking certain activities/projects provided for under the Law are granted several non-tax incentives ¹⁰⁹ such as:

- Free, discounted or partial cost reimbursement for allocation of land.
- Full or partial reimbursement or postponed payment of the utilities' infrastructure cost.
- Public cost-sharing of workers' technical training.
- Partial or total reimbursement of the cost of participation in exhibitions.
- Financial incentives from the State Budget up to 0.3% of the GDP with a minimum of EGP 1.5 bn annually.
- Exemption of patent registration fees.
- Facilitation of social security procedures and costs for micro enterprises.
- Conditional financial incentives to non-banking financial institutions investing in entrepreneurial enterprises.
- Facilitated financing through allocated property.

Non-financial incentives

- Establishment of MSME Service Provision Units (SPUs) in MSMEDA and GAFI offices, which serve as **one-stop shops** as follows:
 - SPUs are to facilitate the issuance of approvals, operations licences, cards, and registrations procedures required by law. Fully authorised representatives of relevant entities will be present in SPUs and will be under MSMEDA supervision.
 - MSMEDA-licensed accreditation offices for documents' inspection.
 - Issuance of **temporary licences**. Final licences to be issued within certain time-frames or consent in silence will be assumed.
 - Fees payable to SPUs for issuance of approvals and licences: up to EGP 500 for micro, up to EGP 2,000 for small and up to EGP 5,000 for medium enterprises.
- Land allocation benefits, including that 30% of the unutilized land in industrial zones, touristic areas, urban communities, agricultural reclamation lands, shall be allocated to MSMEs as relevant, availing information maps on available land at the SPUs, and reduced costs for utilities, usufruct contracts, etc.
- Allocation of no less than 20% of public procurement to medium enterprises and no less than 20% to micro and small enterprises, with the potential for preferential contracts or limiting some tenders to MSEs.

¹⁰⁹ Some of these (1-4) are applicable to MSME incubators and accelerators and support institutions establishing industrial, production, vocational or service parks with slots for MSEs.

Licensing for informal business

According to the law, a formal enterprise is one that has issued a licence, not just having a commercial registration and/or tax card. MSMEDA has the authority to issue a temporary licence for businesses that are operating informally and apply for adjusting their status. The term of the temporary licence is a maximum of five years. Exceptions stand where the nature of the activity poses serious risks to security, health, safety or the environment, or if their transfer to the formal sector conflicts with the public interest. Temporary licence fees are up to EGP 1,000 for micro, up to EGP 5,000 for small and up to EGP 10,000 for medium enterprises

Incentives for formalizing enterprises:

- Current lawsuits and penalties against informal enterprises shall be put on hold during the temporary licence period, excluding tax evasion felonies for tax registered enterprises.
- Applying the MSME income tax rates for formalizing enterprises that are not already tax registered.
- No retroactive application of taxes.
- Facilitated allocation of property (land or premises).
- Facilitated social security procedures and costs (MSEs only)
- Facilitated commercial registration procedures.

Commentary

The effectiveness of non-tax incentives in encouraging business formalization is undermined by **insufficient promotion, inadequate communication despite the efforts exerted by MSMEDA to raise awareness of the law, and a lack of detailed plans for their implementation.** The **number of organizations involved in the licensing** process as well is huge. Proper coordination with other government entities and a clear action plan for each incentive are essential. These incentives have the potential to significantly tilt the balance in favour of formalization, making it more beneficial than staying informal. However, there is a pressing need for comprehensive guidelines regarding these incentives, that clearly explain and articulate the types of activities covered, business sizes, reimbursement limits, frequency, and eligible exhibition providers. Many informal business owners, as well as those in the process of formalizing, are unaware of these non-tax incentives. Despite some awareness campaigns, conducted by organizations like MSMEDA, efforts must intensify. Raising awareness about existing non-tax incentives and enhancing their scope and appeal are essential. Strengthened communication and expanded incentives can make formalization more appealing, bridging the information gap and encouraging businesses to embrace formal status.

6. Existing policies and initiatives for formalization

Although Egypt's informal economy is more dynamic, pro-poor, flexible and resilient in contrast to its formal counterpart, and may contribute to bridging the labour market gap and offer jobs for the unemployed and/or the underemployed, it has repercussions for political stability, fiscal sustainability, law and order, economic growth, business productivity and innovation, workers' rights and working conditions, and social welfare in the country.¹¹⁰ To address these issues, the Government of Egypt has put in place various initiatives and is offering various incentives to help informal economic units and workers to formalize. Below is a summary of the relevant national policies and initiatives:

- While there is **no national formalization strategy in place**, there have been several studies and initiatives in the last two decades on formalization per se, or on streamlining the laws and regulations governing the private sector in general or MSMEs specifically, in addition to the national development strategies, the Sustainable Development Strategy: Vision 2030, the Trade and Industry Strategy, the MSME Strategy, which all tackle the legal framework. However, there is not one national consolidated policy for that specific purpose of formalization. The KII with **MSMEDA** indicated that it is leading the **development of a national formalization strategy in 2024, which should take the dialogue with social partners into consideration**. This study's findings are expected to form a foundation for this national strategy.
- As described in the legal section, the new **MSME law explicitly tackles informality**, offers a simplified tax regime and amnesty for those applying to formalize, in addition to other incentives. Given the correlation between informality and enterprise size, the MSME Law articles on formalization should be a good start. However, **implementation remains constrained by the number of involved authorities (27 entities), and a proper coordination, monitoring and evaluation mechanism is still needed**.
- The **National MSME and Entrepreneurship Strategy**, developed in 2017 and updated in 2020, is yet to be updated again, officially endorsed, launched and implemented. The strategy includes the legal and regulatory environment as one of its policy pillars, with cross-cutting principles that include decent jobs, dialogue, and gender and youth. The suggested measures in the Strategy pillar address simplification of procedures, taxation, social security compliance and institutional support.
- New tax regulations have been recently issued and came into effect starting July 2023, where for a cost to be recognized, it has to be supported by an **electronic invoice** posted on the government tax platform.

Income tax and value-added tax are reported and paid via this platform. Hence, this new system has created peer pressure where any formal business is forced to deal with formal suppliers only. This is expected to result in higher compliance and is reported in the primary research as a strong means for forcing an enterprise to be either fully formal or fully operating in a shadow economy, extremely limiting its market opportunities.

- The newly introduced tax regulation that makes it mandatory for any tax-registered entity (legal or natural persons) to issue **electronic invoices** using the tax authority's online system effective July 1, 2023, otherwise, the relevant expenses will not be recognized as a deductible cost, hence it will be included in the tax bracket. This regulation relies on peer pressure since taxpayers (employers and own-account workers) are obliged to register and be tax-compliant for them to supply their goods or services to other registered taxpayers. It was mentioned in all the primary research meetings that this regulation is effective, despite the difficulties in implementation since the system is new to everyone, including the tax authority, as well as the loopholes of companies issuing e-invoices under other companies' names to avoid being monitored in the legal system at all, as these challenges and loopholes will soon be tackled.
- The General Authority for Investment and Free Zones (**GAFI**) **has its One Stop Shops (Investors Service Centers)** and has also allowed online registration of businesses¹¹¹ established under its relevant laws.¹¹²
- As part of the recent efforts to facilitate private sector investment, GAFI is mandated to issue **«golden licences»** to streamline the establishment of new enterprises. A «golden licence» is a single approval that covers the entire lifecycle of a project, from establishment (including land allocation and building licensing) to operation and management, originally, it was only applicable for strategic projects, but the expansion covers most economic sectors.
- GAFI has also released **awareness-raising videos** on its initiatives related to the facilitation of business establishment. This is considered a positive step towards communication with the private sector.
- **The Federation of Egyptian Industries (the Engineering Chamber) is leading a formalization initiative “Sa3ed El Sonna3” (Support Manufacturers)** through a committee that includes various relevant organizations and is supporting enterprises through the registration and licensing process. The initiative extends to direct support in problem-solving with government organizations whose employees are unaware of the simplified procedures stipulated by the law (e.g. SME law). A main part of this initiative is promoting awareness about the SME law and its benefits.

¹¹¹ Joint stock companies, limited liability companies, partnership by shares companies, sole proprietorship, partnerships (limited partnerships – joint liability), and sole corporations.

¹¹² <https://www.gafi.gov.eg/english/Howcanwehelp/OneStopShop/Pages/default.aspx>

- **The Presidential initiative to nationalise industries “Ebda2” (Start)** targets reliance on locally manufactured inputs and import substitution through providing large and small businesses incentives in the form of land, tax exemptions for 5 years, formalization, and technical and financial support. The initiative also includes awareness-raising radio briefs and testimonials, in a step to narrow the gap between the private sector and the government.
- **The RMG chamber entered into a protocol with the Ministry of Social Solidarity aimed at training and recruiting individuals** as a support measure to recruit skilled labour. However, when the chamber requested the Ministry to provide a list of candidates interested in training, women exhibited reluctance to participate. This hesitation stems from their concerns about potential repercussions, particularly the fear of **losing social safety nets** like «Takaful and Karama» if they were employed and socially insured. The issue is intricate and involves multiple facets.
- The MSME law allows the **simplification of procedures of related to the social insurance law and the labour law, or exemption from some of the obligations of the employer (formalizing MSEs only) including all or part of the social security contributions** of the employer or the worker, during the temporary licence period (5 years). However, these incentives have to be regulated by decrees and approval from the pertinent ministers (social solidarity, labour, and finance), which have not been issued.
- **Aman El-Masreen**, mentioned earlier, provides insurance coverage for the vulnerable groups, and offers temporary and seasonal workers life insurance, serving as both an insurance policy and a savings certificate. It is considered a positive step towards wider coverage and protection.
- The Tax Law has been revised three times from the beginning of 2023, **raising the personal exemption threshold on salaries and wages** EGP from 9,000 annually and the first tranche taxable at 0% from EGP 15,000 annually (a total of EGP 24,000 annual salary without effective taxes payable), to EGP 20,000 and EGP 40,000 for the exemption and the 0% tax rate, respectively (a total of EGP 60,000 annual salary without effective taxes payable). This was meant to be a measure addressing inflation, and has an indirect effect on formalization, knowing that having a formal job of up to EGP 5,000 monthly, will not reduce the low-wage worker’s income as a result of tax deductions.

7. Key sectoral peculiarities

7.1. Agriculture

7.1.1. Background

- According to CAPMAS 2017/2018 Economic Census, the number of establishments in the agriculture sector (Crop and animal production, hunting and related service activities) was 133,507, **representing 4% of all sectors' establishments**. The informal establishments account for **73%** of the sector (97,499 establishments). It is essential to note, however, that these are the ones **registered as establishments/business and not the number of farms by ownership or tenure (7eyaza)**.
- The Agri Trade Union Head suggests that formality should be linked to the farm's tenure, and not the owner registering it as an economic entity. To better explain this, an agricultural land has an owner(s) who may or may not register it as a business (rare cases of large farms such as Sekem). The land could also have a tenure holder (the owner or the leaseholder), that is responsible for its cultivation and making use of it. Hence, the actual operating and management as well as dealing with the workers are better linked with the tenure holder.
- While agriculture contributed 24% of GDP in 1970, this figure averaged 13.2% between 2000 and 2017, reaching a low of **11% of the GDP in 2022**, according to the World Bank.
- According to the FAO, the agriculture sector accounts for around **20% of total exports**.
- Agriculture accounted for 3.8% – or around 37,300 sq km – of the country's total land area in 2016, according to the World Bank.
- Agriculture can be an important engine of growth and poverty reduction.
- The sector is **dominated by micro farmers** or landless farmers, with an estimated number of 964,000 farmers¹¹³ who own agricultural assets except agriculture land (e.g., livestock). Those who hold up to 3 feddans as necessary for subsistence represent 43% of the total cultivated land, while the small-scale farmers owning 4-10 feddans represent 26% of the total cultivated land.
- **Challenges** facing the sector include climate change, urbanisation, a rapidly expanding population, and food and water insecurity. The registered farms are facing challenges proving an extensive portion of their costs after issuance of the e-invoice system.

- The sector is guided by the Sustainable Agriculture Development Strategy (SADS) 2030, which was originally drawn up in 2009. The strategy targets the use of technology to increase production and efficient utilisation of water resources, as well as supports land reclamation projects to increase arable land and establish new communities. The government aims to reclaim 150,000 feddans (63,000 ha) a year by 2030.

7.1.2. Workers

- According to the CAPMAS 2021 Labour Force Survey micro data analysis, the sector accounts for around 20% of all workers and 29% of informal workers.
- According to the 2023 annual LFS, the sector includes 4.9 mn workers, while the Agriculture Trade Union estimates them at 8 mn.
- On average, the **daily income** of farmers is EGP 200. It can reach up to 800 EGP depending on the crops. The labour cost percentage for the farm is contingent upon the crop type. For citrus fruits, it can reach 15%, while for labour-intensive crops such as strawberries and grapes, it may reach as high as 40% to 50%. On average, it hovers between 20% and 25%.
- Women in rural areas face specific issues to enter and remain in the labour market, linked to a variety of factors, such as socially prescribed gender roles and the subsequent unequal gender division of labour; or widespread **gender-based discrimination in the workplace** (with women often hired under more precarious contracts, paid less than men for performing jobs of equal value, and often exposed to poor working conditions, including to the risk of sexual harassment).
- Women are usually assigned tasks that require delicacy and attention to details. These include harvest of certain crops, simple post-harvest processing and packaging.
- 52% of children engaged in **child labour** in Egypt are non-wage family workers, of which 63.5% of the children engaged in the agricultural sector.¹¹⁴
- There is no formalized procedure to acquire job-specific **skills**; rather, learning occurs through practice. Tasks requiring specialised skills (i.e. pruning) are typically entrusted to workers with a proven track record.
- The sector witnesses high **volatility** in terms of work and high **seasonality**. Workers are less inclined to commit to a single contractor or a particular job or farm.
- There are no **channels** through which workers can voice their complaints and concerns. As such, they leave without prior notification if any issue bothers them, while it would be more beneficial if workers communicated their concerns, allowing for immediate resolution.

¹¹⁴ Dialogue Forum for Development and Human Rights.

- Many individuals exit the agricultural sector in pursuit of more enticing opportunities in the industrial sector. This trend is observed among both males and females, with a significant number of females opting to leave after getting married.
- A workers management app (Aydi) collaborated with AXA to issue an **insurance policy** specifically designed for seasonal agri workers, focusing on accidental coverage. There are intentions to broaden this initiative by developing it into a comprehensive health insurance product.
- According to one employer, the majority of large farms take good care of their workers and provide for them in the event of injury during work. Exporting farms are willing to comply with stringent regulatory standards that are prerequisite for exporting.

7.1.3. Informality drivers

- **Formalizing** labour proves challenging due to the **seasonal** nature of the agricultural sector. Providing insurance for temporary workers seems impractical, prompting to shift this liability to contractors who supply the workforce.
- Farmers willing to formalize lack clear regulations or a definite status. For instance, each insurance office has its own perspective regarding the procedures for insuring farmers, as it is unusual to perform this task.
- Providing insurance for workers requires a considerable amount of **paperwork** that is very difficult, time-consuming and deemed worthless given the seasonal nature of the sector. From employers' perspective, investing such effort for workers with intentions to stay for just a month or two is not worth it.
- From the standpoint of workers, the **costs** associated with formalization **outweigh the benefits**.

7.2. Ready-made garments RMG

7.2.1. Background

- According to CAPMAS 2017/2018 Economic Census, the number of establishments in the RMG sector was 65,770, representing 2% of all sectors' establishments. The informal establishments account for 65% of the sector (42,471 establishments). It is essential to note, however, the stakeholders' comment on these numbers and that the registered RMG factories are around 4,700 only, employing 1.7 mn workers . ¹¹⁵
- In 2018, Egypt's textile, home textile, and RMG sector contributed significantly to the economy, accounting for **3% of the GDP and 27% of industrial output**. ¹¹⁶

¹¹⁵ AmCham Business Monthly, 2022. Egypt's apparel industry: A promising trajectory?

¹¹⁶ IDSC, 2021. Supporting Spinning and Textile Value Chains and its Impact on the Sector's Economic Growth.

¹¹⁷ Ibid

- Lack of **modernisation** and upgrading of existing machinery. Large family-owned businesses that are well-established are updated with new technologies and invest in upgrading their plants, unlike SMEs that cannot cope with the size of investment needed for machinery renewal for example. ¹¹⁷ The **rapid development** in the clothing industry is directing factory owners to keep pace with this development, otherwise, they will be out of business.
- Most of the formal sector establishments open in the new industrial zones such as Obour, 6th of October, and 10th of Ramadan. However, the informal sector is unable to operate in these zones. These cities require business owners to obtain an operational licence and industrial registration to operate formally. On the other hand, **the informal sector tends to avoid new cities** and instead establishes itself in poor neighbourhoods or rural areas to evade the bureaucracy and formal sector procedures.

7.2.2. Workers

- According to CAPMAS LFS 2021 micro data, the number of workers in the sector account for 1.5% of all jobs and 1.6% of all informal jobs.
- The RMG sector possesses distinctive features, **being labour-intensive** with a high **turnover**.
- **Most workers in the RMG sector are women.** As per the findings of the FGS, their **absenteeism** rate is high due to their social roles and they usually get engaged or married and **quit** the job. However, **if an employer finds a married or widowed woman who wants to work, they will prefer her** as she is more likely to be committed and keen on having a regular income to secure her family's needs.
- One of the challenges that factories face is the **investment in training**, only to have workers abruptly leave their jobs.
- To overcome the workers' **low productivity and lack of commitment**, one employer mentioned that he started to offer them **wages that mix a fixed minimum and a variable incentive** based on productivity and an attendance incentive. However, application of such measures should take into account the potential implications on compliance with the minimum wage requirements.
- Challenging **working conditions** in terms of rights, wages and occupational safety and health (OSH). ¹¹⁸
- **Limited workers' bargaining power.** Despite the existence of syndicates and labour unions, they are not perceived as supportive enough. ¹¹⁹

¹¹⁸ Ibid

¹¹⁹ Ibid

7.2.3. Informality drivers

- The high percentage of **female workers** makes them more prone to leaving their jobs due to life events like marriage or pregnancy. Consequently, factories are generally hesitant to invest in their workforce and formalize their employment, a process that would involve obligations such as social security contributions.
- When labour transitions from the formal sector to the informal sector to establish a personal workshop, this **informality is mostly temporary**. This is due to individuals' desire to avoid numerous expenses and commitments, stemming from uncertainty about the project's potential success. However, as the venture begins to generate income and proves its success, there is an automatic transition to formality. Therefore, it is a transitional period that either concludes with losses, leading the workshop owner to close their business, or with success, prompting a move towards formality. This temporary phase is meant to achieve growth.
- All types of establishments, including workshops and factories, encounter identical **bureaucratic obstacles** and substantial formalization costs such as taxes and social security contributions. The burdensome nature, high expenses, and prolonged procedures are **uniform for all establishments, irrespective of their size**.
- Regarding workers, there are those who are automatically categorised as informal due to the **seasonal** nature of some products .¹²⁰ Some prefer being informal to receive their full wages without any **deductions**. Additionally, certain factories **operate at less than full capacity intermittently**, making them hesitant to hire all workers formally. Given the fluctuations in their workload, these **factories maintain a number of formal workers and hire the remaining workforce informally**.
- Elevated Production Expenses: Escalating **prices of imported raw materials**, and the **surge in shipping fees** post-COVID.¹²¹ This surge extends to machinery spare parts as well.
- Locally, the challenging economic climate, marked by high **inflation**, steep interest rates, leading to **elevated capital costs**, coupled with the devaluation of the Egyptian pound impacting imported materials, has significantly driven up operational expenses.¹²² The soaring energy prices further compound the financial strain. These combined challenges render products less competitive and businesses experience **reduced profitability**.¹²³

¹²⁰ Seasonality in the sector is linked to Ramadan and Feasts, and winter.

¹²¹ AmCham Business Monthly, 2022. Egypt's apparel industry: A promising trajectory?

¹²² Hamzawy, O. (2021): Challenges Facing Textile Industry in Egypt: "Barrier for Exporting",

¹²³ CBI, 2020. Value Chain Analysis for Apparel in Egypt.

The Chamber Head reported a 20% increase in operational costs attributed to rising shipment fees and government regulations.¹²⁴ Consequently, economic units find it arduous to absorb the added costs associated with formalizing their operations, compelling many to persist in operating informally.

7.3. Food industries

7.3.1. Background

- According to CAPMAS 2017/2018 Economic Census, the number of establishments in the food industries sector was 90,394, representing 2% of all sectors' establishments. The informal establishments account for 24% of the sector (21,547 establishments). It is essential to note, however, the stakeholders' comment on these numbers and that those registered at the chamber are 25,000 only.
- Egypt's food industry sector contributes **24.5% of the GDP**,¹²⁵ making it one of the most important productive sectors in the national economy.
- The food industry exports reached almost 4.1 billion USD in 2022 representing around **11.6% of the total non-oil exports** (GOEIC, 2022).
- The market is expected to grow annually by 8.85% (CAGR 2022-2027).
- Domestic food production is dominated by micro, small and medium-sized family-owned companies.
- There is not one place where informal food producers are concentrated. They can generally be found in the **inner streets of a neighbourhood**. In governorates like Al-Sharqia, informal food producers dictate prices and lure consumers away from expensive products made by registered producers, and there is very little oversight.¹²⁶
- Tackling informality in the sector should be split into two different categories; enterprises that produce quality products but operate informally, thus aiming to formalize them; and enterprises practising **fraud by producing unsafe products and/or counterfeiting known trademarks**, thus aiming to close them and to penalise them for harming consumers' health. The sector includes **food safety measures** that must be adhered to either in input material or during processing and maintaining workers' hygiene. There is lack of awareness of this issue to the point that one government organization once showcased the businesses it supported in a video showing one of these businesses forfeiting the trademark of a large company.
- Most food producers source from the agricultural sector, which is dominated by informal farmers and traders, whose transactions are all informal.

¹²⁴AmCham Business Monthly, 2022. Egypt's apparel industry: A promising trajectory?

¹²⁵ CAPMAS Egypt, <https://www.capmas.gov.eg/>.

¹²⁶ Food industry on the defensive article by the American Chamber of Commerce in Egypt.

- The Food Safety Authority does not have enough resources to cover and accredit all producers in a timely manner.
- There are no food industries without printing and packaging, the two sectors are intertwined with each other. There is already a law that obligates displaying the information of the packing material producer (registration number) as well as the food product supplier data and expiry data. This law needs to be effectively implemented. The previous campaign “Your Health is in this Pack” (sehetak fe el elba di) raised awareness that any pack with that logo and slogan indicated that it was health-friendly, was very successful and is worth replicating.
- The current **economic downturn** is harshly affecting the sector, leading to lower demand and shifting to lower prices even if of low quality.

7.3.2. Workers

- According to CAPMAS LFS 2021 micro data, the number of workers in the sector accounts for 2.4% of all jobs and 2.1% of all informal jobs.
- According to primary research, there is **no predominant percentage of women workers in an enterprise**. It all depends on the nature of the job, where women work on jobs that require patience, accuracy and intricacy, men work in jobs that require more demanding physical labour. If the job requires **attention to details, manual work or intricacy, it is assigned to women**. Men are assigned jobs including carrying heavy loads for example. Similarly, there is no obvious workers concentration in a certain age bracket.
- Temporary workers are estimated at 30-35% of the total.
- The higher the number of workers, the more there is formalization in the company.
- One employer mentioned that they do not hire blue-collar women because of previous experiences of **sexual harassment**.

7.3.3. Informality drivers

- Informal food production would be linked to geographical locations where the income level is low, in order to match the population’s need for low prices.
- High profitability of the sector, since production costs of the informal sector are extremely low (low quality ingredients, no health measures, etc.) and the demand is high on such essential products, linked to consumers’ basic needs.
- High inflation and the resulting demand shift to whatever is cheaper.

7.4. Engineering

7.4.1. Background

- According to CAPMAS 2017/2018 Economic Census, the number of establishments in the engineering industries sector was 291,792, representing 8% of all sectors' establishments. The informal establishments account for 18% of the sector (53,460 establishments).
- One of the challenges in this sector in relation to data is that it is a combination of sub-sectors that are ununified. The data used to profile the sector in this report relied on CAPMAS and combined the below sub-sectors:
 - Manufacture of basic metals
 - Manufacture of fabricated metal products, except machinery and equipment
 - Manufacture of computer, electronic and optical products
 - Manufacture of electrical equipment
 - Manufacture of machinery and equipment
 - Manufacture of motor vehicles, trailers and semi-trailers
 - Manufacture of other transport equipment
 - Repair and installation of machinery and equipment
- Rapid technological development.
- The highest number of informal establishments is found in the metal fabrication and formation sub-sector, with 44,716 establishments.
- Below are the key challenges by sub-sector

Sub-sectors	Challenges
Automotive feeding ¹²⁷	<ul style="list-style-type: none">• Unfair acts in market• Demand and the purchasing power are weak• Unstable conditions for the Egyptian currency and imports decisions• Poor taxation and customs systems• The local market size is considered small and underutilised in terms of manufacturing and production

¹²⁷ Daily News Egypt reporting Egyptian Automotive Manufacturing Information Council, LYNX Strategic Business Advisors, SMMT, Business Forward AUC, Oxford Business (OBG), Daily News Egypt Reporting Founder and Chairperson of the Egyptian Auto Feeders Association (EAFA), EAFA

Computers, electronics and communications devices ¹²⁸	<ul style="list-style-type: none"> • Rapid technological advancements • High capital requirements • Limited access to financing • Unstable conditions for the Egyptian currency • Imports and exports decisions for electronic components • Absence of intellectual property protection for designs, software, and technological innovations.
Electrical appliances, electrical equipment, tools and cables white goods ¹²⁹	<ul style="list-style-type: none"> • Difficulty in meeting safety standards and certifications • Facing challenges with technical regulations • Research and development needs • Accessing resources for technological development • Absence of intellectual property protection for designs, and technological appliances
Fire fighting equipment and system ¹³⁰	<ul style="list-style-type: none"> • Difficulty in meeting safety standards and certifications • Challenges with technical regulations for fire protection and suppression systems • Absence of intellectual property protection for fire fighting systems
Metal fragmentation and formation ¹³¹	<ul style="list-style-type: none"> • Challenges with environmental regulations, occupational health regulations • The issue of import and export regulations for raw materials and finished products • Limited access to financial resources and technology • Low productivity levels
Metal furniture ¹³²	<ul style="list-style-type: none"> • Challenges in the compliance with regulatory standards and certifications

¹²⁸ El Youm El Sabie reporting from the Engineering Industries Chamber of the Federation of Egyptian Industries

¹²⁹ ILO White Goods Report

¹³⁰ General Fire Protection Guidelines for Egyptian Nuclear Installations by the Atomic Energy Authority and the National Center for Nuclear Safety and Radiation Control ; JICA

¹³¹ ILO White Goods Report

¹³² ILO Skills for Trade and Economic Diversification (STED) in Egypt (informal arrangements related to the metal furniture sub-sector); Egyptian Handicrafts Clusters: Barriers to Development & Suggested Policy Reforms Suggested Policy Reforms by AUC Knowledge Fountain; Working Paper Series titled by "Industrialization in Egypt: Historical Development and Implications for Economic Policy by the German University in Cairo (GUC)

Medical equipment ¹³³	<ul style="list-style-type: none"> • Challenges in the compliance with regulatory standards and certifications for medical devices • Lack of resources • Challenges associated with import and export regulations for medical equipment.
Shipbuilding ¹³⁴	<ul style="list-style-type: none"> • Lack of resources • Low productivity levels • Challenges associated with compliance of international maritime standards and environmental regulations • The import and export regulations for shipbuilding materials and equipment.
Transportation manufacture	<ul style="list-style-type: none"> • Lack of resources • Challenges associated to compliance with safety and technical regulations

7.4.2. Workers

- According to CAPMAS LFS 2021 micro data, the number of workers in the sector account for 2.3% of all jobs and 1.9% of all informal jobs.
- Informal workers typically possess an intermediate education level and are usually young (from 18 to 30), as beyond this age, they tend to prefer stability and seek formal, steady employment.
- They commonly reside in rural areas and engage in work within small-scale and micro-enterprises. However, this does not negate the presence of many white-collar professionals, particularly engineers, who operate within the informal sector too, according to primary research.

7.4.3. Informality drivers

- Despite the technological sophistication of the sector and the essentially large size of enterprises, hence formality of enterprises, it also includes economic units that produce spare parts regardless of their size, hence the potential informality of these small businesses (workshops).
- Forms of employment that are more likely to be informal, such as subcontracting, temporary contracts, or self-employment, are prevalent in many sub-sectors due to the need for flexibility, cost-saving measures, or the project-based nature of the industries.
- Difficulties in meeting strict quality and safety standards required in the formal sector.
- Limited access to formal financing and distribution networks.
- High compliance costs.
- Absence of intellectual property protection.

¹³³ United States Commercial Service

¹³⁴ El Ahram Gate; El Balad news reporting Former Chairman of the Port Said Ports Authority ; Frontline Defenders ; Al-Monitor ; Research Gate; Tactical Report ; Daily News Egypt; Maspero.org

- Below are key drivers of workers informality by sub-sector:

Sub-sectors	Informality drivers
Automotive feeding ¹³⁵	<ul style="list-style-type: none"> • Informal work arrangements • Limited access to stable contracts • Lack of resources • Difficulty of accessing financial services and loans for the establishments to grow and be formal
Computers, electronics and communications devices ¹³⁶	<ul style="list-style-type: none"> • Informal work arrangements • Limited access to stable contracts
Electrical appliances electrical equipment, tools and cables white goods ¹³⁷	<ul style="list-style-type: none"> • Difficulty of accessing financial services and loans • Lack of resources
Fire fighting equipment and system ¹³⁸	<ul style="list-style-type: none"> • Lack of resources • Informal work arrangements
Metal fragmentation and formation ¹³⁹	<ul style="list-style-type: none"> • Lack of voice and representation among workers and economic units • High costs associated with implementing regulations
Metal furniture ¹⁴⁰	<ul style="list-style-type: none"> • High start-up costs • Limited market access, and competition from informal producers • Informal employment arrangements
Medical equipment ¹⁴¹	<ul style="list-style-type: none"> • Many regulatory requirements such as licensing and certification • Informal employment arrangements
Shipbuilding ¹⁴²	<ul style="list-style-type: none"> • Limited access to formal financing • Many regulatory requirements such as licensing and certification • High-cost capital requirements • Informal employment practices.

¹³⁵ Daily News Egypt reporting Egyptian Automotive Manufacturing Information Council, LYNX Strategic Business Advisors, SMMT, Business Forward AUC, Daily News Egypt Reporting Founder and Chairperson of the Egyptian Auto Feeders Association (EAFA), EAFA

¹³⁶ ILO White Goods Report

¹³⁷ Ibid

¹³⁸ General Fire Protection Guidelines for Egyptian Nuclear Installations by the Atomic Energy Authority and the National Center for Nuclear Safety and Radiation Control ; JICA

¹³⁹ ILO White Goods Report

¹⁴⁰ ILO Skills for Trade and Economic Diversification (STED) in Egypt (informal arrangements related to the metal furniture sub-sector); Egyptian Handicrafts Clusters: Barriers to Development & Suggested Policy Reforms Suggested Policy Reforms by AUC Knowledge Fountain; Working Paper Series titled by "Industrialization in Egypt: Historical Development and Implications for Economic Policy by the German University in Cairo (GUC)

¹⁴¹ United States Commercial Service

¹⁴² El Ahran Gate; El Balad news reporting Former Chairman of the Port Said Ports Authority ; Frontline Defenders ; Al-Monitor ; Research Gate; Tactical Report ; Daily News Egypt; Maspero.org

- Limited access to formal licences and permits
- High operating costs
- Informal employment arrangements

7.5. Transportation

7.5.1. Background

- According to CAPMAS 2017/2018 Economic Census, the number of establishments in the transportation sector (land transport and transport via pipelines) was 2,121, representing 0.06% of all sectors' establishments. Informality is absent in this sector as per the Census due to the fact that vehicles must be licensed at the traffic department and for it to happen, the owner has to be formal, be it a natural or legal entity.
- In 2022, the Egyptian transportation and storage sector represented 5.17% of the GDP.
- The private sector within the transportation industry surpasses the public sector, which only constitutes a range of 10% to 15%.
- Informal transportation of passengers has risen in response to the shortage of formal transportation in most areas in Egypt. Common informal transport modes include the tuk-tuk and private cars used as cabs but not registered as a taxi or under an application like Uber. Uber drivers must have driving licences (regular ones not like the taxi one that obligates them to pay taxes and social insurance).
- Many commuters heavily rely on informal modes of transport due to their **on-demand mobility and wide-spread coverage of areas without formal organized transport**. However, there are several risks and downsides associated with this means of transport, most importantly the safety risks, as well as air and sound pollution.
- **Goods** are mainly distributed by **trucks and lorries**.
- **Platform-based businesses** to transport passengers and distribute goods are reshaping the sector, e.g. Swvl and Uber, Talabat, Trella and ILLA. In the near future, IT transport companies are expected to capture only 3 to 5 % of the market.

7.5.2. Workers

- According to CAPMAS LFS 2021 micro data, the number of workers in the sector account for 7.8% of all jobs and 7.5% of all informal jobs.
- All drivers holding a professional licence must be enrolled in state insurance coverage, and it is not permissible to use their licence without paying the required insurance premiums and being a member of the union. These are two essential conditions to license their vehicle, and it is not allowed to violate either of them.
- Drivers working the goods transportation sector are usually recruited through contractors, who are mostly informal as well.
- Regular taxi drivers are tempted to operate in ride-hailing companies due to the associated benefits with such companies and associated costs with taxis. **Taxi drivers are burdened with expenses** such as insurance, licensing fees, and membership dues for the General Union of Land Transport Workers. These financial commitments amount to approximately 10,000 EGP per year. Moreover, the taxi metre rate has not changed for six years, and the cost of fuel is still calculated at the old price when it was 5.5 pounds per litre, while it reached 10 EGP at the time of conducting the study. Therefore, if the driver activates the metre, the trip cost will be calculated at an unfair and unrealistic rate for the driver. At the time of the revision of this document (August 2024), fuel prices have increased to be 12.25 for the 80 Octane Gasoline (In July 25th, 2024), accordingly the government raised transportation fares, with the “white taxi” fare will start counting at EGP 9.5 instead of EGP 8.5 for the first kilometre, and each subsequent kilometre will cost EGP 4.5 instead of EGP 4.¹⁴⁴ It is to be noted that such an increase is still not considered attractive for drivers.
- Platform-based companies have significantly impacted and diminished the taxi industry, as people increasingly opt for their services due to perceived higher quality, safety, convenience, and competitive pricing.
- According to an interviewed InDrive (One of the ride-hailing apps operating in Egypt) driver, formerly a taxi driver, the General Union of Land Transport Workers, to which drivers are required to be members, is not fulfilling its role and is not responsive to the demands of the drivers.
- The taxi industry is experiencing a decline, with a workforce of around 450,000, while approximately 700,000 to 800,000 people are employed in services such as Uber and Careem.

- **Law No. 87 of 2018** regulates the provision of land transport services for passengers using information technology such as Uber and Careem. According to the law, authorised land transport vehicles must comply with licensed companies that facilitate or provide taxi services, and pay the specified taxes and fees as outlined by the government. However, it is yet to be enforced as the only company that finalised its formalization process under this law is Swvl.

7.5.3. Informality drivers

- Regulatory gaps and lack of coverage of certain vehicles from traffic department licensing such as tuk-tuks, hence their drivers.
- Platform-based businesses are registered, and are thus dealing with formal contractors.
- **New regulations have been issued requiring a letter from the Land Transport Regulatory Authority** (LTRA – under the Ministry of Transport), for a cost that can be as high as EGP 7,000, in order to obtain or renew a vehicle licence. This condition is considered an extra requirement that contributes to the reluctance to formalize. Even agents have to obtain this letter. The government’s response is that the philosophy behind this legislation is that the state lacks integration between its various systems, known as G2G (Government-to-Government). In addition, the registration process was supposed to be conducted through an electronic platform similar to international experiences, but it has not been activated until now.
- The real informal sector is represented by **tuk-tuk drivers, tractor drivers**, and ride-hailing service companies such as Uber and Careem that are yet to register as per the law. Drivers often lack professional licences and occasionally operate their personal vehicles. They have the flexibility to determine their working hours, rendering these companies unregulated within the state framework.
- Individuals are compelled to join the formal sector in the transportation industry if they wish to expand their operations. However, if they choose to operate on a smaller scale and do not wish to expand, they prefer not to transition to the formal sector due to the associated costs of transitioning.

8. Stakeholders analysis

The matrix below summarises the influence and interest levels of the key stakeholders in supporting the transition to the formal economy derived from the analysis of findings, especially the primary research findings. Although some entities have a strong mandate, they may not be implementing it effectively. Others could be working towards achieving their role but have limited capacities or resources. Below is a brief description of the matrix as a tool, followed by the matrix.

A Stakeholder Influence-Interest Matrix, is a tool used to visually represent and analyse the relationships between stakeholders and a certain project (the recommendations in this context). The matrix helps identify the level of influence (power and ability to effect change) and interest (incentives, willingness or readiness to cooperate) that each stakeholder has, guiding decision-making and communication strategies. The matrix consists of the following main combinations:

- High Influence, High Interest (Manage Closely): These stakeholders are crucial to the plan's success and require active engagement and management. Collaboration and communication are essential to ensure their needs are met.
- High Influence, Low Interest (Keep Satisfied): While these stakeholders have a significant impact, they may not be directly affected. It is important to keep them satisfied and informed to maintain their support, and to entice their engagement (communicating how relevant to their mandate this is).
- Low Influence, High Interest (Keep Informed): These stakeholders are interested in the process but have limited influence. Regular updates and communication are necessary to address their concerns and keep them informed.
- Low Influence, Low Interest (Monitor): Stakeholders in this quadrant have minimal impact and interest. Monitoring their status is sufficient.

Influence	High	<ul style="list-style-type: none"> • Inspection authorities (HSE, Environment, civil defence) • Land Transport Regulatory Authority 	<ul style="list-style-type: none"> • Ministry of Labour • Media 	<ul style="list-style-type: none"> • MSMEDA • Tax Authority • Ministry of Social Solidarity • Ministry of Trade and Industry
	Medium	<ul style="list-style-type: none"> • CAPMAS • Ministry of Agriculture 	<ul style="list-style-type: none"> • Parliament • Industrial Modernisation Centre • Ministry of Supply and Internal Trade • Ministry of Education and TVET 	<ul style="list-style-type: none"> • FEI • ETUF • ERRADA • GAFI • National Food Safety Authority • Traffic department • Development partners
	Low		<ul style="list-style-type: none"> • Research Centers and experts • Individual Employers • Individual Workers 	
		Low	Medium	High
Interest				

9. Conclusion and recommendations

9.1. Conclusion

Informality of the economy is widespread across the sectors studied, especially informality of workers. The root cause for the problem is believed to be persistent across generations. Most of the problems identified are transversal to all sectors, and even the ones that are sector-specific are due to the same root causes. The inherent lack of vision, lack of coordination, superficial communication, and absence of monitoring and evaluation measures that ensure proper implementation persist. Maintaining the balance between the carrot and the stick has become challenging. Conventional incentives offered by laws are not appealing to the target groups and do not address their fears and lack of trust. On the other hand, penalties are being aggravated with the intention to hold the target group from violations, leading to a harsher business environment that punishes the formal entities and leaving the informal to escape this environment. Government employees' behaviour is split between fear of responsibility and deciding to be conservative on the one hand, and authority abuse on the other hand, both leading in most cases to corruption or malpractice. The tables below summarise the analysis at the economic units' and workers' levels, based on which the recommendations were built.

Economic units

Main findings

Regulatory framework and vision

- Challenging macroeconomic conditions
- No unified vision or definition
- Difficulties in implementing the law (coordination among involved entities and outreach to MSMEs)
- Existing national priority and relevant initiatives
- Data limitations hindering proper measurement and evidence-based policies.

Productivity & institutional support

- Small size
- Low economic contribution
- Poor technology
- Lack of access to finance
- Limited market access

Incentives

- Low perceived value of incentives by beneficiaries
- Lack of awareness at both sides (govt. and economic units) of improved regulations

Enforcement & compliance

- Lack of trust inspection civil servants, including for malpractice
- Poor governance measures
- Ineffective enforcement and compliance measures

Social dialogue and communication

- Poor awareness of laws, policies and initiatives
- Sub-optimal social dialogue and communication channels
- Intergenerational trust issues with the government
- Limited resources of social partners (outreach. Services & public policy advocacy)-

Main axes/measures

Regulatory framework and vision

- Development of a unified vision and national strategy for formalization, adopting a participatory approach
- Reliance on existing effective coordination mechanisms to implement policies
- Implementation of simplified procedures, including through technical assistance and capacity building to government bodies
- Adopting Regulatory Impact Assessments for the law issuance process
- Adopting operational definitions
- Enhancement of data collection and dissemination

Productivity & institutional support

- Promotion of provision of access to microfinance
- Promotion of quality BDS services, including through technical assistance and capacity building of service providers

Incentives

- Public awareness of simplified regulations and incentives

Enforcement & compliance

- Effective grievance and whistleblowing systems
- Building the capacity of the government on good governance
- Changing the philosophy of inspection measures and incentives while balancing between the carrot and the stick.

Social dialogue and communication

- Capacity building on public policy advocacy, outreach and service provision for social partners
- Building effective, trusted communication channels

Workers

Main findings

Regulatory framework and vision

- Challenging macroeconomic conditions
- No unified vision or definition
- Data limitations hindering proper measurement & evidence-based policy
- Unintended results of the social safety net programs (Takaful & Karama)
- Social security law: inflexibility, gaps & implementation challenges
- Draft labour law and employment strategy are yet to be issued

Productivity & institutional support

- Gender gap (esp. in labour force participation & unemployment rate)
- High youth unemployment and informality of work
- Informal workers are mainly with secondary, vocation & post-secondary education, with high education being a factor in women jobs formality
- Low and medium skill level of informal workers
- High informality in rural areas
- Seasonality of informal workers
- Poor working conditions (low wages, working hours, poor HSE/OSH)
- Poor skill enhancement programs

Incentives

- Low perceived value of pensions by beneficiaries
- Lack of awareness of incentives for irregular workers

Enforcement & compliance

- Lack of trust inspection civil servants, including for malpractice
- Poor governance measures
- Ineffective enforcement and compliance measures

Social dialogue and communication

- Poor awareness of laws, policies and initiatives
- Sub-optimal social dialogue and communication channels
- Intergenerational trust issues with the government
- Limited resources of social partners (outreach, services & public policy advocacy).

Main axes/measures

Regulatory framework and vision

- Development of a unified vision and national strategy for formalization, adopting a participatory approach
- Enhancement of data collection and dissemination
- Implementation of simplified procedures, including through technical assistance and capacity building to government bodies
- Adopting Regulatory Impact Assessments for the law issuance process
- Adopting operational definitions
- Enhancement of data collection and dissemination

Productivity & institutional support

- Technical assistance and capacity building programs for TVET service providers, focusing on youth, rural areas and women
- Technical assistance and capacity building programs for OSH service providers, focusing on youth, rural areas and women
- Promotion and expansion of the concept of Applied Technology Schools (dual education system where private sector partners offer on-the-job training as part of the curriculum)

Incentives

- Public awareness on the value of social security
- Public awareness on workers' rights as per the labour and the social insurance laws

Enforcement & compliance

- Effective grievance and whistleblowing systems
- Building the capacity of the government on good governance
- Changing the philosophy of inspection measures and incentives while balancing between the carrot and the stick.

Social dialogue and communication

- Capacity building on public policy advocacy, outreach and service provision for social partners
- Building effective, trusted communication channels

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
1.	Informal economy (economic units & workers)						
2.	Regulatory framework and Vision						
3.	Develop a unified vision for business formalization. Communicate transparent decision-making procedures. Focus on sustainable, measurable implementation mechanisms. Follow-up on implementation.	Macro	Starts in the short—term, continuous	Transversal	Cabinet	MSMEDA, Line Ministries, FEI, ETUF	Lack of a unified vision and direction Lack of Trust
4.	Reach an agreement on operational definitions of informal workers and economic units for the various organizations to use according to their purpose. 4.1. Taking stock of already existing definitions under main entities, and in laws and regulations on informality in economic units and in workers, and identify shortcomings	Macro/ Meso	Medium-term	Transversal	MSMEDA	CAPMAS, GAFI, FEI, ETUF and Line Ministries	Lack of a unified definition for informality

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
	<p>4.2. For statistical purposes, CAPMAS, through consultations with main stakeholders, to adopt a unified definition ensuring the alignment of the conceptual and operational national statistical definitions of informal sector, informal employment and informal economy with the international statistical standards (21st ICLS).</p> <p>4.3. Through forming a legal task force between concerned ministries, by the already formed national formalization committee, promote, align, and adopt the unified definition under the mandates of the different ministries.</p> <p>4.4. Address, and amend relevant laws to capture the unified definition, including but not limited to; MSME law, Insurance law, Tax law (each within the mandate of concerned ministry; informal economy definition, informal workers definition, and informal units definition)</p>						

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
5.	Design the economic census survey and the labour force survey capturing the variables required to measure the characteristics and performance of the informal economy according to the commonly agreed operational definitions across different organizations/users.	Meso	Medium-term	Transversal	CAPMAS	MSMEDA, FEI, ETUF, GAFI, Line Ministries	Data unavailability, inaccessibility, and inconsistency.
6.	Avail the surveys' micro data files and computed results for other organizations and researchers to analyse and use as per their needs.	Meso	Medium-term	Transversal	CAPMAS		Data unavailability, inaccessibility, and inconsistency.
7.	Adopt regulatory impact assessments and policy options to adjust for the unintended negative results of regulations, including social safety net programs.	Macro	Medium- to Long-term	Transversal	Cabinet	Parliament, ERRADA, MSMEDA, GAFI, Line Ministries	Avoidance of regulations that might incentivise informality. Example: Preference of Takaful & Karama by workers Unlucrative incentives in laws for intended beneficiaries (e.g. MSMEs or irregular workers)

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
8.	Revision to the mechanism of incentives under Takaful and Karama, addressing the issue of the reluctance of workers under the programme to have social insurance (e.g. Allow for more grace period than the already existing 6 months, or returning to the program again if there was a loss of job in a period of 2 years etc.). It is advised to have a qualitative assessment to the implications of any decision and its effectiveness in addressing the problem before execution.	Macro	Short-term	Transversal	Ministry of Social Solidarity	Parliament, ERRADA, M S M E D A	Preference of Takaful & Karama by workers Unlucrative incentives in laws for intended beneficiaries (e.g. MSMEs or irregular workers)
9.	Revision to social insurance law 148, to offer distinct definitions for irregular workers with a solid mechanism for proof of irregular jobs in national IDs	Macro	Medium-term	Transversal	Ministry of Social Solidarity	Parliament, E R R A D A	

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
10	Enforcement and compliance						
11	Capacity building for government employees on good governance principles	Meso	Medium-term -continuous	Transversal	Ministry of Planning and Economic Development (Central Agency for Organization and Administration)	International Development Partners, MSMEDA, ILO, Line Ministries	Poor governance systems (Accountability, transparency, integrity)
12.	Cancel government employee incentives that are based on the number or value of violations they record. Create incentives based on the number of formalized businesses and/or formalized jobs instead.	Macro	Long-term	Transversal	Parliament	ERRADA, Line Ministries, FEI, ETUF	Government inspectors' malpractice and authority abuse.
13.	Cancel the imprisonment penalties of business owners and/or managers for non-life-threatening deliberate legal violations.	Macro	Long-term	Transversal, especially RMG and Engineering	Parliament	ERRADA, FEI, Line Ministries	Government inspectors' malpractice and authority abuse.
14.	Assign business inspection to accredited outsourced third parties ¹⁴⁵	Macro	Long-term	Transversal	Line Ministries	MSMEDA, municipalities	Govt. employees malpractice and authority abuse.
15.	Adopt effective grievance and whistleblowing systems: Assign a hotline or a portal for business and workers complaints,	Meso	Medium- to Long-term	Transversal	Cabinet	MSMEDA, GAFI, MoTI, FEI	Government employees malpractice or corruption. Lack of trust

¹⁴⁵ This recommendation received controversial responses in the primary research and consultations.

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
	<p>including corruption and malpractice complaints.</p> <p>Create the system or integrate it within shakwa.eg</p> <p>Assign a team to handle the system and train them</p> <p>Take serious, corrective actions</p> <p>Announce these actions.</p> <p>Maintain responsiveness</p>						
16.	Awareness raising & freedom of association (social dialogue & communication)						
17.	Build the capacity of the government, employers' organizations and workers' organizations on advocacy and building effective dialogue.	Meso	Short- to Medium-term	Transversal	Development partners and relevant consultants	FEI, ETUF, MSMEDA, Line Ministries	Sub-optimal dialogues & communication channels
18.	Develop a national awareness campaign focusing on tax and non-tax incentives in the MSME law.	Macro	Short- to Medium-term	Transversal	MSMEDA	MoF, and Line Ministries	Sub-optimal dialogues & communication channels
19.	Develop an M&E system for the tripartite dialogue channels between the government, employers representatives and	Meso	Medium-term	Transversal	Cabinet	FEI, ETUF, M S M E D A	Sub-optimal dialogues & communication channels

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
	workers representatives. For example, keep track of concerns raised, how many were solved, why, etc.						
20.	Build the capacity of social partners on outreach and service provision, to ensure optimum benefits for members and awareness of them.	Meso	Short- to Medium-term	Transversal	Development partners and relevant consultants	FEI & ETUF	Sub-optimal dialogues & communication channels
21.	Economic units						
22.	Regulatory framework and vision						
23.	Build on the existing FEI Engineering committee on formalization to identify the MSME law implementation bottlenecks. All implementing partners should be involved and be held accountable. Use indicators to measure each organization's cooperation and actual implementation and report them to the Cabinet. If upon implementation, legal amendments are deemed necessary, report them to MSMEDA to incorporate them	Meso- M a c r o	Medium- to long-term	Transversal	MSMEDA	All implementing partners of the law	Poor coordination and implementation mechanisms. Lack of govt. entities accountability

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
	in the current law amendment process.						
24	Develop Standard Operating Procedures for MSMEDA local officer to implement the MSME law	Meso	Medium-term	Transversal	MSMEDA	Development Partners, Relevant consultants	Unawareness of govt. employees
25.	Train MSMEDA all local offices on the MSME law provisions and implementation as per the SOP.	Meso	Medium-term	Transversal	MSMEDA	Development Partners, Relevant consultants	Unawareness of govt. employees
26.	Link MSMEDA to utilities providers data to reach all establishments and uncover their informality.	Macro	Long-term	Engineering Food RMG	MSMEDA	Utilities providers, municipalities	Informality of activities.
27.	Link the Electronic Tax System to the banks' accounts, to facilitate data sharing and uncovering informal transactions.	Macro	Medium- to Long-term	Transversal	CBE	MCIT, Tax Authority	Informality of activities.
28.	Abolish the LTRA approval letter required to obtain transportation licences and share digital data between government organizations	Macro	Long-term	Transportation	LTRA	Traffic department, Tax Authority, MoSS, and the Land	Excessive regulation

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
	instead, at no extra fees or procedures.					Transport Trade Union	
29.	Finalize registration of platform-based transportation companies	Meso	Short- to Medium-term	Transportation	LTRA		Delayed implementation
30.	License agri tractors and study the potential to license tuk-tuks	Macro	Medium- to Long-term	Transportation	Traffic department	LTRA, ETUF	Regulatory gaps
31.	Productivity & institutional support						
32.	Allow limited access to BDS services to informal economy members, to tempt them to formalize and access more services.	Meso	Medium-term	Transversal	Service providers	FEI, other business representation organizations	Low economic contribution and lack of access to markets & technology
33.	Promote the provision of microfinance for informal economic units.	Meso	Medium- to long-term	Transversal	Financial Regulatory Authority ¹⁴⁶	Micro finance institutions , FEI, business representation organizations	Lack of access to finance
34.	Incentives						

¹⁴⁶ The regulator of non-banking financial institutions.

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
35.	<p>Conduct a public awareness campaign targeting the small and informal business community to inform them of the law and the current initiatives.</p> <p>The campaign is to be designed by experts in behavioural approaches, aiming at building trust.</p> <p>Feature success stories.</p> <p>Include all implementing government organizations in the campaign, giving them credit, visibility, accountability, and add their logos to ensure ownership.</p>	Meso	Medium-term	Transversal	MSMEDA	Development Partners, Relevant experts	<p>Lack of public awareness of laws and regulations.</p> <p>Suboptimal communication channels</p>
36.	Awareness raising & freedom of association (social dialogue and communication)						
37.	<p>Develop a detailed communication and outreach plan on the MSME law targeting existing MSMEs and entrepreneurs to formalize businesses and workers. The plan should cooperate with the local NGOs and Community Development Associations (CDAs)</p>	Meso	Medium-term	Transversal	MSMEDA	NGOs/CDAs, Youth Centers, National Council for Women, Development Partners, Relevant experts	<p>Insufficient communication</p>

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
	that have access to the local community. Target youth and women with relevant tactics.						
38.	Workers						
39.	Regulatory framework and vision						
40.	Revisit the draft labour law to take the comments of social partners into consideration and issue it. This includes employers' compulsory contributions to public training funds.	Macro	Short- to Medium-Term	Transversal	Parliament	FEI, ETUF, Ministry of Labour	Regulatory burden
41.	Revisit the Trade Union Law to allow for easier formation of trade unions at different levels.	Macro	Long-term	Transversal	Parliament	ETUF, FEI, Ministry of Labour	Sub-optimal representation of workers in membership organizations
42.	Create a social security scheme that allows workers to move from one employer to another, seamlessly and electronically, without engaging in procedures or paperwork.	Macro	Long-term	Transversal, Agri in particular	Parliament	MOSS, ETUF	Seasonality of jobs and high turnover

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
43.	Create a comprehensive system for irregular workers' subscription including populating a database of irregular workers, outreach mechanisms, and M&E systems to keep record of voluntarily subscribed workers.	Meso	Medium - to long-term	Transversal	MoSS	ETUF	Lack of data on informal workers
44.	Adopt fixed discontinued contracts that streamline formal employment for seasonal and intermittent workers.	Macro	Long-term	Agri RMG Food	Parliament	SS and Ministry of Labour, ETUF	Seasonal and intermittent work.
45.	Amend the social insurance law to allow shifting the worker's social security liability of the employer from the landowner to contractors who recruit workers to farms.	Macro	Long-term	Agri	Parliament	MoSS, ETUF	Seasonality of Agri workers
46.	Issue group accidental, and potentially medical, insurance policies to cover agri workers.	Macro	Long-term	Agri	MoSS	Insurance companies, ETUF, Cooperatives, Associations	Seasonality of Agri workers

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
47.	Productivity & institutional support						
48.	Technical assistance and capacity building programs for TVET service providers, focusing on youth, rural areas and women	Meso	Medium- to long-term	Transversal	International development partners	TVET service providers, Ministry of Education and Vocational Education, Ministry of Labour, FEI, ETUF	Gaps in: skills, education, gender, age and working conditions
49.	Technical assistance and capacity building programs for OSH service providers, focusing on youth, rural areas and women	Meso	Medium- to long-term	Transversal	International development partners	OSH service providers, Ministry of Education and Vocational Education, Ministry of Labour, FEI, ETUF	Gaps in working conditions
50.	Promotion and expansion of the concept of Applied Technology Schools (dual education system where private sector partners offer on-the-job training as part of the curriculum)	Meso	Short-term	Engineering RMG Food Agri	Ministry of Education and TVET	FEI, ETUF	Lack of skilled, productive labour , resulting in turnover, intermittent labour, hence, labour informality.

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
51.	Train social insurance offices on procedures to register irregular workers who opt in voluntarily.	Meso	Medium-term	Agri	MoSS		Employees' unawareness of legal procedures.
52.	Conduct supplier audits on retail chains tracing food products' sources (suppliers data).	Meso	Short-term and continues	Food	Ministry of Supply	Chambers of Commerce, municipalities	Counterfeit products and expiry date of food products.
53.	Conduct audits on packing material producers tracing their supply chain originality.	Meso	Short-term and continues	Food	Ministry of Supply	Municipalities	Counterfeit products and expiry date of food products.
54.	Awareness raising & freedom of association						
55.	Conduct awareness campaigns for workers on their rights as per the labour law, insurance law and trade union law and benefits of ETUF membership.	Micro	Medium- to long-term	Transversal	ETUF	International development partners, Ministry of Labour, Ministry of Social Solidarity, FEI, MSMEDA, local NGOs and CDAs	Workers' unawareness of their rights. Employers' concerns over potential abuse of workers in trade unions.

#	Recommendation	Level	Timeframe	Sector	Primary responsibility	Secondary responsibility	Problem(s) addressed
56.	Create official agri workers unions that can reach small farms' workers and voice their needs.	Meso	Medium-to long-term	Agri	Independent Agri workers unions	Agri cooperatives, local NGOs and CDAs, ETUF	Lack of small farms' workers


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