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# **The informal Economy as an engine for poverty reduction and development in Egypt**

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**The informal Economy**  
**As an engine for poverty reduction and development in Egypt**

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## **1. Abstract**

The purpose of this paper is handling the informal sector in Egypt and the role it can play in accelerating the development process and poverty reduction. The structure of the paper starts with an introduction, and then gives a definition of development and its objectives in order to give a comprehensive ground for what will be discussed under the informal sector section and poverty section, as at the end the paper links development, informal sector with poverty reduction.

Furthermore, the paper discusses situation of the informal sector in Egypt and the role of government in issuing the laws that may pave the way for creating a more conducive business environment for the Micro and Small Enterprises (MSEs) which constitute the traditional form of informal enterprises. In addition, the paper explains formalization of informal economy, showing the pros and cons of both formal informal sectors, most importantly its shows a trade off between the formality and informality. The paper closes with providing a policy recommendations and finally conclusion.

## **2. Introduction**

The literature proved that any economy is based upon two pillars formal and informal economy regardless of whether the economy is in developed or developing country. The issue of discussing the informal sector became subject to debate since ILO conference in Kenya in the 1972. However, the literature proved that there were relationships between the informal sector and development before ILO Conference as will be discussed later on in this paper.

This paper discusses the informal sector and its role in development and poverty reduction. In respect of development, we give its definition and objectives in order to show that development is mainly looking for achieving the quality of life through acceleration of economic growth, reduction of inequality and reduction of poverty and raising the standard of living. If we looked carefully for the objectives of development we will find out that they are the problems of the poor and shortcomings of informal sector.

The paper provides a very short description of development stages in Egypt in order reach the stage of the Economic Research Structure and Adjustment Program (ERSAP) and how it was a reason for the expansion of the informal sector as result privatizing the public sector firms. The large size of the informal sector in Egypt invites all the stakeholders to participate in paving the way for it to work formally taking into account that the formalization can lead to securing more benefits for those vulnerable and low income workers involved in the informal sector.

This paper is not saying formalization is a panacea for all informal sector ills. However, this paper seeks to confirm that the benefits of formalization may outweigh its cost if the proper policies were followed from all those involved in the economic activity (government, entrepreneurs, wage-employed workers, private sector and NGOs). In other words, this paper offers the pros and cons of both formal and informal sectors, then leave the decision of each firm take the right decision from its own perspective.

The government of Egypt adopted a law to pave the way for the micro and small enterprise to work more efficiently. But have to confirm that issuing the laws is not enough per se but the most important thing is that principles meet practice in order to produce optimum outcome. A serious Policy intervention from the side of the government is needed to provide credit, education and training skills and access to physical infrastructure, the extension of social protection and strengthening the linkage with the formal sector can qualify the informal sector to graduate to the formal sector.

### **3. The development concept:-**

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“Development must be conceived of as a multidimensional process involving major changes in social structure, popular attitudes, and national institutions, as well as acceleration of economic growth, reduction of inequality, and the eradication of poverty.

Development, in its entirety, must represent a gamut of change in which a whole social system, tuned to the diverse basic needs and desires of individuals and social groups within the system, moves away from the condition of life widely perceived as unsatisfactory toward a situation or a condition of life regarded as materially and spiritually better”<sup>1</sup>.

#### **The objectives of development:-**

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1. Acceleration of economic growth.
2. Reduction of inequality.
3. Eradication of poverty.
4. Raising living standards.
5. Providing varied social and economic options.
6. Widening the scope of life-sustaining goods and service.

#### **4. Stages of economic development in Egypt<sup>2</sup>:-**

In this section we give a very short description of stages of economic development stages in Egypt in order to assist us understanding the role of informal sector in pushing development a head. Starting in early 1960s until nearly the mid of 1980s, the government adopted a populist economic policy aimed at achieving social welfare in the form of free education, free health service, employment for every one at the age of work, the economic growth was sustained during the 1960s but due to the war of 1967 and Yemen War the growth declined sharply.

At mid of the 1970s, with the open door policy the economic growth increased sustainably at high rate due to the increase in the revenues of petroleum, Suez Canal, Workers expatriates and tourism, in addition a massive increase in grants and foreign aids. During the period of mid 70s to mid 80s, the role of government decreased in favor of private sector in producing goods and providing services while the government invested heavily in the infrastructure giving little attention to agricultural and industrial sectors.

Starting from 1986 the economy suffered macro imbalances in the form of high budget deficit, balance of payments deficits, high inflation rate and high interest rate. Furthermore, poor performance of public sector, protected industry from foreign competition and the high indebtedness, with these shortcomings, taking the reform measures became an imperative. At 1991, the government reached an agreement with both the international Monetary Fund (IMF) and the World Bank (WB) to start the Economic Reform Structural and Adjustment Program (ERSAP) in order to correct the macroeconomic policies, privatizes the public sector, liberalize the foreign trade and adjust the foreign currency exchange rate.



The ERSAP achieved tangible results in the form of reducing the budget deficit, reducing the balance of payments deficit, stable exchange rate since early of 2004. More liberalized foreign trade and privatizing most of the public sector units. But, as any reform policy, the ERSAP had negative consequences in respect of employment. Some of those were working in public sector lost their jobs and found no other option but to work informally. Those who lost their jobs in the public sector and new entrants to the labor market with no or low education are working informally , therefore the informal sector is a large job absorber and in the following pages we discuss the informal sector in more details.

**5. The Concept of informal economy:-**

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The definition of the informal economy is a very wide one. A common agreement on the activities to be deemed informal make the definition complicated to some extent. In the literature, there is a large number of definitions all of them agree on feature that the informal sector occurs outside the legal framework.

### Box 1: Definition of the Informal Economy

1. Informal economy is a separate marginal economy not directly linked to the formal economy, providing income or a safety net for the poor (ILO-1972).
2. The informal economy is subordinated to the formal economy. In order to reduce costs, privileged capitalists seek to subordinate petty producers and traders (Castells and Portes 1989).
3. Informal work arrangements are a rational response by micro-entrepreneurs to over regulation by government bureaucracies ( de soto).
4. The informal sector is regarded as a group of household enterprises or unincorporated enterprises owned by the households that includes:
  - Informal own-account enterprises ,which may employ contributing family workers and employees on an occasional basis; and
  - Enterprises of informal employers, which employ one or more employees on a continuous basis.( International Conference of Labor Statisticians 1993)
5. The informal economy is regarded as "the economic unit which does not adhere partially or totally to the enforcement of official procedures". These procedures are: license to exercise activities, trade or industrial registration, social insurance coverage, and payment of taxes on economic activities based on regular auditing.  
( Dr. Alya El Mahdy jointly with Mr. Abdullah Shehata , December 1999.)
6. The informal sector is comprising firms with limited ownership ( i.e self employed) that is utilized unpaid family members, domestic servants, less educated employees, and have less than five workers ( including the owner. ( Tokman 2001).
7. The informal sector is seen as a set of economic units that do not comply totally or partially with the government regulation.  
( Loayza.1997)

### **5.1 The main features of the informal sector<sup>3</sup>:**

In 1972 the International Labor Organization (ILO) in its report about the informal economy in Kenya set out seven Criteria that constitute an overview about the informal economy anywhere in the world. These criteria are as follows <sup>3</sup>:

1. Easy access to the activity.
2. Usage of the local resources.
3. Family ownership of the enterprises.
4. Reduced scale of activity.
5. Labor-intensive activities.
6. Non-regulated competitive market
7. Low qualifications and skills of the workers.

### **5.2 Who are the informal workers?**

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As a matter of fact, the informal sector includes two types of employments. The first type is the self-employed and unpaid family workers; the second type includes wage-employed workers, casual workers without fixed employer, part-time and temporarily formal sector workers, whom workers, who work from home and mostly women<sup>4</sup>.

We can see the informal worker in different jobs. The workers in informal sector are either visible or invisible. Visible worker include barbers, cobblers, garbage collectors, waste recycles, vendors of vegetables, fruits, meat, fish, snack-food, and a myriad of non-perishable items ranging locks and keys to soaps and detergents, to clothing.

### 5.3 Comparison between formal and informal sectors<sup>4</sup>:-

Characteristics	Formal sector	Informal sector
Nature of the firms	<ol style="list-style-type: none"> <li>1. Registered, large, corporate firms.</li> <li>2. Specialized firms.</li> <li>3. Domestic and/or foreign ownership.</li> <li>4. Large –scale production.</li> <li>5. Jobs are permanent and full time with high rate based upon formal labor contracts.</li> <li>6. Profit maximizing firms, with limited tax evasion.</li> <li>7. Main goal is capital accumulation.</li> </ol>	<ol style="list-style-type: none"> <li>1. Unregistered, micro, small unincorporated firms</li> <li>2. Diversified units.</li> <li>3. Mainly family enterprises.</li> <li>4. Small –scale production.</li> <li>5. Permanent self employed, non-remunerated family individuals, seasonal and part-time wage –employed.</li> <li>6. Income-generating firms, with nearly full tax evasion.</li> <li>7. Mostly the main goal is work absorbers.</li> </ol>
Technology	<ol style="list-style-type: none"> <li>1. Sophisticated technology (modern).</li> <li>2. Use advanced tools and skills.</li> <li>3. Production based on intensive capital.</li> <li>4. Requires formal education.</li> <li>5. Imported inputs.</li> </ol>	<ol style="list-style-type: none"> <li>1. Utilization of adopted technology.</li> <li>2. Simple tools and low skills.</li> <li>3. Production is labor intensive.</li> <li>4. Learning by doing.</li> <li>5. Local inputs.</li> </ol>
Factor market (input)	<ol style="list-style-type: none"> <li>1. Access to raw material may face barriers.</li> <li>2. Employees are subject labor legislation.</li> <li>3. Access Availability of both local and foreign financial institutions with fairly low interest rates.</li> <li>4. Transaction may be made on credit.</li> </ol>	<ol style="list-style-type: none"> <li>1. Easy access to raw material as they are from the surrounding local environment.</li> <li>2. Workers are not subject to labor legislation.</li> <li>3. No access to any financial institution and rely on self financed, or informal credit with high interest rates.</li> <li>4. All transactions are made in cash.</li> </ol>
Output markets	<ol style="list-style-type: none"> <li>1. Barriers to entry.</li> <li>2. Oligopolistic firms.</li> <li>3. Products are standardized.</li> <li>4. Government organizes markets via tariffs, import licenses, etc.).</li> <li>5. High return to both human and physical capital.</li> </ol>	<ol style="list-style-type: none"> <li>1. Easy entry.</li> <li>2. Competitive firms.</li> <li>3. Products are not standardized.</li> <li>4. Markets are left alone.</li> <li>5. Low return on money and capital.</li> </ol>

Sources: Suarez-Beneruela(1987), Nafzinger (1988), Lubell (1991), Thomas and Vallee(1996) , Gupta (1997), UN 1997)

#### 5.4 The reasons of the emergence of the informal sector:-

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There is more than one reason that leads to the proliferation of the informal economy as follows:

##### 1. Decline in economic performance and the non-pro-poor economic growth:

It has been argued that when the economic growth rate of a region or a country declines, firms in the formal sector tend to contract by retrenching employees in order to cut-down their operating costs ( Ranis and Stewart, 1999). Retrenched employees then seek alternative sources of income, which mostly turn to informal sector (Tokman, 2001). Both deteriorating employment situation and the increasing growth rate of population will lead to the number of job-seekers and consequently the expansion of the informal sector.

The increase in economic growth rate of the country does not automatically lead to shift of employment from the informal sector to the formal. Based on findings concluded (Becker, 2004) that economic growth may negatively affect the size of the informal sector only if such growth is pro-poor growth.

##### 2. Rural –urban migration:

The migration of workers from rural to urban districts participates in expanding the size of the informal sector. The movers from rural to urban normally are non- or low skilled workers therefore they seek for job to earn their income, normally such jobs are in the informal sectors. For every job created in cities and as a result of movement from rural to urban areas looking for jobs there are three seekers

with one get the job and two left unemployed (Michael P.Todaro), the find no option but to work informally.

### **3. Structural Adjustment Program(SAPs):**

The implementation of the Structural Adjustment Programs (SAP) increases the size of the informal sector for many reasons. **Firstly**, privatizing the state- owned enterprises lead to job-retrenching and accordingly increasing those turning to the informal sector. **Secondly**, trade liberalization has contributed to the contraction and closure of some formal enterprises which were unable to compete given the availability of cheap imports (Becker, 2004).**Thirdly**, due to the poor social security system, the retrenched workers- as a result of privatization or trade liberalization- are forced to join self-or wage employment in the informal sector as the sole option income source (ILO 2004).

### **4. Disintegration of production and integration of trade.**

Globalization has led to the integration of production and integration of trade, whereby, the world buyers are outsourcing some of their activities in labor advantageous regions. This has led to retrenchment of workers who were involved the outsourced (Feenstra, 1998).

## **6. The status of the Informal economy in Egypt:-**

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The informal economy in Egypt covers a wide range of activities. It includes both the informal enterprises and the informal employment, each of them constitutes a large portion of the economy. Informal enterprises constitute nearly 82% of the total economic units while the informal employment constitutes nearly 40% of the total labor force in Egypt.

The size of the informal economy in Egypt is large and need the due concern since its importance is paramount of that of the formal sector, at least in the sphere of securing jobs for the vulnerable and the low income classes of the society. In spite of the fact that it is extremely difficult to have the accurate estimation of the informal economy in Egypt, recent surveys estimate that the number of informal enterprises constitutes 82% of the whole economy and the informal employment is 40% of the total workforce in Egypt.

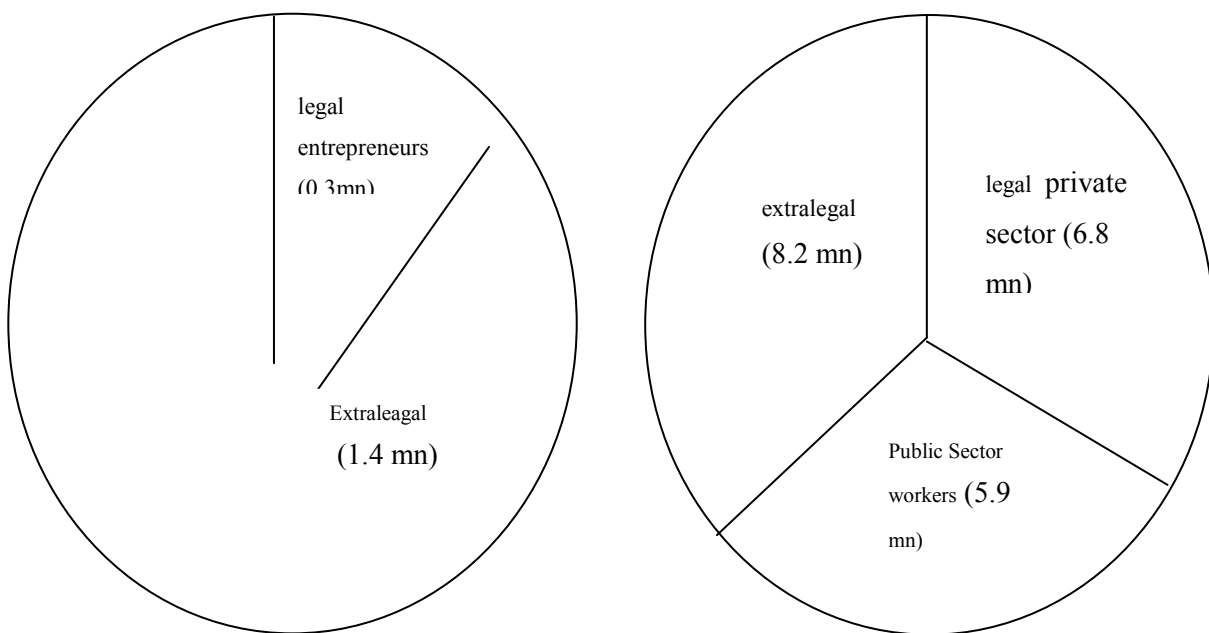
For example, the number of informal units has grown %50 in the last 10 years from 2.5 million in 1988 to 3.8 million in 1998. The informal units constitute around %85 of the total number of small- size units. This steady increase reflects the different changes that took place in the Egyptian economy including the Economic Reform Program (1991), the growth in the role of the private sector in economic activities, the retreat in the rates of external migration, and the slowdown in rates of general operation growth. The number of work opportunities offered by the informal sector in the late nineties came close to 10 million opportunities taking into account that half this number is considered permanent or stable employment <sup>5</sup>.



Another example, in 1991 informal enterprises was estimated to reach 2.28 million (The Alexandria Business Association 1996. EFG –Hermes estimated the informal economy constitutes approximately 40% of the total economy (EFG-Hermes 1997) <sup>7</sup>. Furthermore, some surveys estimated that the volume of informal enterprises (entrepreneurs ) in Egypt by 1.4 million with a percentage of 82% of the total economic activities in Egypt and the informal sector absorbs nearly 8.2 million workers with a percentage of 40% of the total labor force in Egypt<sup>6</sup>.

Entrepreneurs in Egypt

workers



Source : ILD and ECES (2004).

## 7. Poverty in Egypt:

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As any developing country, some of the Egyptian populations live in poverty; the situation is no longer welcomed in the twenty one century. Poverty may be humanly tolerated provided that it is not extreme. Extreme poverty is defined as “Households cannot meet basic needs for survival. They are chronically hungry, unable to access health care, lack the amenities of safe drinking water and sanitation, cannot afford education for some or all of the children, and perhaps lack of rudimentary shelter, -a roof to keep the rain out of the hut , a chimney to remove the smoke from the cook stove- and basic articles of clothing , such as shoes”<sup>7</sup>.

### 7.1 Characteristics of the poor:-

The poor has certain characteristics including high rate of illiteracy, large families, poor health care, poor infrastructure, poor education system, low-skilled and low income.

### 7.2 The ratio of poverty in Egypt 1990/91-2004/05<sup>8</sup> :-

Indicator	1990/91	1995/96	1999/00	2004/05
<b>P0</b>	24.18	19.41	16.74	19.56
<b>P1</b>	6.54	3.39	2.97	3.9

Source: Hana Khier El din, estimation based on HIECS

\*Measure of incidence of poverty ( the ratio of the poor to total population).

\*\* Measure of depth of poverty( the ration of poor under poverty line).

The above table shows that the ratio of poverty in Egypt is shocking. In spite of the fact that most of the poor in Egypt are involved in the informal sector, at any rate , being involved in the informal sector is better than not working at all, in the next section we will discuss how the informal sector can reduce the poverty.

## **8. Informal sector, economic development and poverty reduction in Egypt:**

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The challenge of development is to improve the quality of life. A better quality of life commonly secures higher income and involves much more. Development encompasses better education, high standard of nutrition and health, less poverty, a cleaner environment, more equal opportunities, greater individual freedom, and finally a richer cultural life, asserted The World Development Report (1991)<sup>9</sup>.

The drafters of the World Development Report were very successful in determining these ends of development. Looking carefully in the report, we note that it involves all the features of the poor people all over the world, including the poor of Egypt, who working in informal sector.

The poor household members are either self-employed or employees in the informal sector. Furthermore, incomes of families in extreme poverty are mainly from the informal sector (Orlando 2001). Workers in the informal sector are poorly remunerated, underemployed, enjoy no social protection. Workers in informal sector are subject to a high risk and injury on a daily basis and they have no safety net to help them and their families survive on a reduced or cut-off income ( ILO2003)<sup>10</sup>.

Now after we discussed the features of the informal sector at the early pages of this paper and the World Development Report we move to what the literature said about the informal sector and development. First of all, I would like to draw the attention to one notice which is that, most of us believe that the informal economy term came to the forefront with the Conference of the International Labor Office Mission to Kenya (ILO1972).

The literature proved that the informal economy was there before that under different terms. The literature tells us that, in 1942, Boeke, a Dutch anthropologist introduced a vision of a developing economy as a “dual” economy involves both market economy part and a part that lays outside it. An influential two -sector model of development that had a sector with modern capitalist firms with a profit maximization as a goal, and the other sector encompasses peasant households where the role of sharing output prevail, conceptualized Arther Lewis (1954).Furthermore, a model of economic of development had brought the dual economy to the standard of two sector framework by the Harris and Todaro (1970)<sup>11</sup>.

The above paragraph shows that there is a relationship with between informal sector and development. Now we move to see what the literature said about informal sector and poverty reduction. We mentioned earlier that those working informally are poor, the question that poses itself here is that: is the informal reduce poverty?. The answer is yes. In an attempt to examine the situation of poor in case there is no informal sector, Anderson (1998) surveyed the households in Ulaanbaatar/ Mongolia, and concluded that in the absence of the informal sector there is 53 percent of the households under the poverty line, while with the existence of informal sector 38% percent of households are under poverty line.

In light of the discussion above we concluded that there is a relationship between informal sector and development and poverty reduction. As a matter of fact these relationships per se are not our goal. Our goal is to achieve to the quality life of the poor as stated in the World Development Report referred to above. We will discuss this in more detail below while discussing formalizing the informal sector.

## 9. Formalization of the informal sector in Egypt:-

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The actual reality of the economic activities proves that practically it is impossible to imagine that both formal and informal sectors are working in a total separate business environment. Few informal firms that can work in total separation of formal sector. In this regard, the supplying of raw material or the distribution of the finished goods to or from the formal firms takes place through linkage between both sectors. Both informal sector and formal sector interact through the individual transactions (as informal firm deals with the formal one on a pure market exchange, in a mere sense of independent firms dealing with each other), sub-sectors (a networks of independent informal firms that are involved in the production and distribution of goods and services with the formal sector ones) and value chain (where industrial out workers are involved in producing goods within the chain) <sup>12</sup>.

The question poses itself is that: is formalization a solution for the Egyptian informal sector to secure an important pillar to move development ahead and accordingly reduce poverty?

To answer this question, first we need to put in mind what the literature said about formalization in the developing countries , second , the cost of formality and informality, third , what the Egyptian government did to make the doing business environment conducive for the Micro and Small Enterprises (MSEs), the issue we will discuss in detailed in a separate section below.

for first, the literature said that the current economic and regulatory environment in developing countries make the opportunity cost of informality lower

than the cost of working formally. This is based upon the fact that the Small and Medium enterprises ( SMEe) with a high degree of formality are facing the same difficulties that the firms with higher level of informality encounter (Weder 2003). This situation of course does not encourage the Micro and Small Enterprises ( MSEs) to work formally. Furthermore, the inefficient in public services , financial services and poor property rights enforcement coupled with corruption , make the cost of transaction is very high ( Ishengoma, 2005).

As for second, the cost of formalization and informality opportunity cost. The formality cost includes the entry cost (registration of the firm, license fee, health and safety certificates, and registration with competent local authorities and concerned central ministries, etc.) and operating costs (time consuming, burdensome and complex tax, unaffordable labor regulations, cumbersome property right registration, formal loan applications, and finally inefficient <sup>13</sup> .

As for informality opportunity cost in includes limited access to public services , no profit expansion, limited access to financial and business development services, and limited possibilities to cooperate with formal sector.

## **The trade off between informality and formality<sup>14</sup>:-**

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After discussing the costs of informality and formality, we now consider the other factors that constitute an assisting incentive to formalize or continue informal.

These factors are as follows:

### **1. Growth and age of the firm:-**

The entrepreneurs normally decide to formalize the informal firm as it grows. After growing the benefit of formality outweighs its cost (Lvenson and Maloney, 1998). Furthermore, the firm wishes to utilize legally recognized systems to enforce contracts with both known and unfamiliar business partners (Loayza, 1997).

### **2. Type of activity:-**

Manufacturing firms tend to be more compliant with the labor regulations as they employ a large number of paid workers compared with the resale sector that seems to have less compliance (Jaekle and Li, 2003).

### **3. Knowledge of anticipated benefits:-**

Those involved in the informal sector may participate in the formal sector if they were aware about the benefits they may obtain. ILO (2003) found that some employers and employees in the informal sector were not aware of the implications of working and employment requirements.

### **4. Level of enforcement exercised by the government:-**

In cases where the quality standards are applicable such as restaurants, where the inspections and sanctions are frequently made, the majority of enterprises tend to comply with the regulations. The lack of participation of informal workers in labor unions allows the enterprises to seize the market situation and give little concern to the regulations (Morrison, 1998; Bass and Kappel, 1997).

### Pros and cons of both formal and informal sector:-

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The stakeholder	pros	cons
Self-employed( entrepreneurs)	<ol style="list-style-type: none"> <li>1. Protection of property rights.</li> <li>2. Access to infrastructure services.</li> <li>3. Access to credit.</li> <li>4. Access to more market share.</li> <li>5. Availability of business promotion.</li> <li>6. Secures benefits of specialization and division of labor.</li> <li>7. Obtaining the inputs at lower price and sell outputs at fair prices.</li> </ol>	<ol style="list-style-type: none"> <li>1. High cost of entry, operation and exit.</li> <li>2. The potential benefits are less than the cost of working informally.</li> </ol>
The workers (Wage –employed)	<ol style="list-style-type: none"> <li>1. Relaxed employment arrangement.</li> <li>2. Independence and entrepreneurial spirit.</li> <li>3. Payment in cash with taxes.</li> <li>4. Best solution to a temporal situation.</li> </ol>	<ol style="list-style-type: none"> <li>1. No employment benefit.</li> <li>2. Lack of social protection.</li> </ol>
The government	<ol style="list-style-type: none"> <li>1. Increase in budget revenues.</li> <li>2. Allocate more resources for social security .</li> </ol>	none
The consumer	<ol style="list-style-type: none"> <li>1. Consume products with high quality.</li> <li>2. Consume goods that are safe and healthy.</li> </ol>	Pay value added tax.
The economy	<ol style="list-style-type: none"> <li>1. High economic growth.</li> <li>2. Poverty reduction</li> <li>3. Efficient utilization of national resources.</li> </ol>	none



**10.The rule of the government in making the business environment more conducive to the informal sector<sup>15</sup>:-**

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The Egyptian government in its endeavor to make the business environment more conducive for the micro and small enterprises it issued on June 10, 2004 the Law no 141 of 2004 to promote the micro and small enterprises. In the Article 2 of the referred Law defined the micro enterprise as” each Company or individual firm that practices productive, service , or commercial economic activity with a paid capital less than L.E 50,000”.

Article 3 of the Law, stipulates that the Social Fund for Development (SFD), through its offices or in the branches of the General Organization for Investment and Free Zones in governorates, establishes units to provide services for the micro and small enterprises. These units issue licenses within a time period not exceeds 30 days from the date of submitting the required documents to the concerned administrative bodies. In respect of financing the micro and small enterprises, in collaboration between both the governorates and the Social Fund for Development (SFD) fund or more may be established to finance the micro and small enterprises through the national institutions and associations according to the measures and regulations stipulated in this respect.

**Incentives and Facilities provided for the Micro and Small Enterprises (MSEs):-**

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As a matter of fact the government through the Law 141of 2004 to promote the Micro and Small Enterprises (MSEs) provided very encouraging incentives through the Articles from 10 to 16 as follows:

1. Assigning at least 10 percent of land allocated for investment in the industrial and construction communities to the Micro and Small Enterprises (MSEs).
2. The price of the land should not exceed the cost of infrastructure.

3. Binding the ministries and the public units to buy at least 10 percent of the products and services of Micro and Small Enterprises (MSEs).
4. The owner of the micro firm pays 1 percent of the paid capital with a maximum L.E 500 and a minimum of L.E 200 against all governmental services at the time of receiving the temporal license to start activity.

In addition to the above incentives , the referred Law assigned the Social Fund for Development (SFD), to provide to the MSEs the following services:-

1. Information about the investment opportunities in each governorate and each district inside it.
2. Preparing initial feasibility studies about the projects offered.
3. Providing consultancy about the best places and sources to buy machines and equipments.
4. Providing the owners of the firms with a simple booklet of the accounting records and the guidelines to deal with public agencies.
5. Information about risks that the firms may face.
6. Information about the local and international fairs and providing facilities to participate in.
7. Assistance in attaining the knowledge and developments in production and marketing techniques.

## **11. Policy Recommendation:-**

Formalizing the informal economy may lead to economic growth and accordingly reducing and even eradicating poverty in Egypt taking into account the fact that most or nearly all the poor are in the informal sector.

In order to encourage the informal enterprises to transform to the formal sector serious steps needed to overcome the obstacles that hinder formalization.

The following measures seem to be necessary in dealing with the formality issues:

1. Reforming the regulatory framework.
2. Securing the business development services (BDS) to raise the productivity of the informal sector.
3. Improving access to the productive resources.
4. Improving the market access.
5. Reducing the entry and operating costs.

## **12. Conclusion**

There is no doubt that the informal economy in Egypt constitutes a major proportion of the economy. Informal sector is not only jobs absorber but it also provides the society at large, including the formal sector, with the goods and services. Working informally for some is a choice but for others is an obligatory option.

In spite of the fact that informal sector makes a major contribution to the economy , however, the informal sector is characterized by low productivity, and low wages, poor working conditions and long working hours. Therefore, intervention is needed in order to

In Egypt, informal sector plays a crucial role in the development process and this role can be maximized if more concern is given to this sector. Creating the proper environment for doing business is a prerequisite in this respect. To some extent the government took a number of measures that can be of help including the issuance of a law that organizes the activities of small and micro enterprises.

Some economists see there is no problem for the informal economy to continue working informally under the pretext that some societies are capable of producing self-organizing. Others see that as long as the informal economy is creating jobs and value-added there is no problem to continue informal. The student has a different point of view, as he sees that there other factors to look for other than just creating jobs such as social protection, efficient utilization of the national resources, and reduction of poverty.

This paper is not saying formalization is a panacea for all informal sector ills. However, this paper seeks to confirm that the benefits of formalization may outweigh its cost if the proper policies were followed from all those involved in the economic activity (government, entrepreneurs, wage-employed workers, private sector and NGOs). In other words, this paper offers the pros and cons of both formal and informal sectors, then leave the decision of each firm take the right decision from its own perspective.

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