

# Engaging with the Informal Sector in Egypt

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## ■ 1. Introduction

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“The right to invest” can be defined as the right of everyone to freely engage in the investment process, should they so chose, and establish legal entities in the area of commerce or any non-criminal profit generating industry. Similar to other rights, the “right to invest” imposes responsibilities on the right holder, such as abiding with the laws, meeting quality and competition standards, providing safe and healthy work environment and protecting the environment. Upholding and protecting the “right to invest” produces benefits for all parties involved- the investors, the government, the workforce and the final consumers. As such, it is imperative to develop a comprehensive institutional framework that upholds and protects the “right to invest”. Such a framework should include enabling constitutional provisions and legislations, policies, procedures and operational practices, and executive and oversight bodies all working in tandem and geared towards improving the overall investment climate.

This paper focuses on the “right to invest” and presents a practical framework for constructively engaging with the informal sector. This issue is particularly relevant to Egypt, as various studies and statistics estimate that the informal sector constitutes between 40 to 60% of the Egyptian economy. While it is difficult to confirm the accuracy of these statistics, nevertheless, it compares to estimates in other developing countries. Including the agriculture sector, the share of the informal sector jumps, in some countries, to 80 to 90% of the entire economy. It should also be noted, that the informal sector is not confined to developing countries, but constitutes a significant part of the economy of developed countries.(1)

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(1) ILO, «Decent Work and the informal economy», Report VI, International Labor Conference, 90th session, Geneva, 2002, p.26.

## 6 Introduction

In an attempt to better understand the phenomena of the informal sector, over the past thirty years, the Center for International Private Enterprise (CIPE) concluded numerous studies all over the world. The studies focused on examining and analyzing the reasons behind the pervasiveness of the informal sector and how best to engage with it in a manner that improves the overall investment climate and achieve not only economic growth but also economic and social development. Specifically, CIPE has concluded a number of studies to examine the Egyptian case. This paper is informed by these studies, and in particular, a paper authored by Dr. Reem Abdel Halim titled “The informal economy and the small and medium-sized businesses.”<sup>(2)</sup> In her paper, Dr. Abdel Halim revisited the definition of the informal economy and reviewed the legal framework and the extent to which it constraints it.

This paper also benefited from the various discussions that took place during the forum titled “Right to Invest” which was organized by Egypt Tomorrow Economic Forum (ETEF) in partnership with Al Ahram Center for Political and Strategic Studies and CIPE. Economists, academics, businessmen, civil society, government officials and members of the current House of Representatives attended the forum.

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(2) [http://www.cipe-arabia.org/files/pdf/Informal\\_Sector/Informal\\_Sector\\_in\\_Egypt.pdf](http://www.cipe-arabia.org/files/pdf/Informal_Sector/Informal_Sector_in_Egypt.pdf)

## — 2. Defining the Informal Economy —

The concept of the informal sector is considered a relatively new concept in the economic literature. In the Egyptian context, and for the purpose of this paper, the concept can be broadly characterized along the following parameters:

### *2.1. Registrations and the Informal Sector*

Some analysts define the informal economy to include unregistered property, titles and productive assets, and non-legalized economic activities engaged in the production of goods or services.

Early in 1997, Peruvian prominent economist, Hernando De Soto, asserted that a formalization process would benefit both the poor and society at large. He presented large numbers: 92 percent of real estate and land in the urban sector and 87 percent in the rural sector in Egypt are informal - over 70 percent of which belong to the poor. This is equivalent to some US\$240 billion of dead capital, suggesting that a process of formalization would do much to eradicate poverty and strengthen support of economic reforms.<sup>(3)</sup> More so, unregistered micro and small enterprises constitute approximately 82% of the total enterprises in the economy representing 40 to 60% of the total registered small entities.

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(3) Hernando De Soto, "Dead Capital and the Poor in Egypt", Distinguished Lecture Series, Egyptian Center for Economic Studies, Egypt, 1997. Online at [http://eces.org.eg/MediaFiles/Uploaded\\_Files/%7B65629E93-107C-47CA-9DE7-2B0660564ACC%7D\\_ECESDLS11e.pdf](http://eces.org.eg/MediaFiles/Uploaded_Files/%7B65629E93-107C-47CA-9DE7-2B0660564ACC%7D_ECESDLS11e.pdf)

## 8 Defining the Informal Economy

However, more recently, a broader definition of the concept of the informal economy was introduced. The newer definition focuses on the informal employment relationships. These informal relationships include unpaid work in the informal enterprises in addition to paid work, however without the provision of formal employment contracts and social insurance benefits whether in the formal and informal enterprises. Others define the informal sector as one lacking some or all the requirements for market entry. Accordingly, constraints imposed by the legal and institutional frameworks regulating the economy are viewed as a primary reason for enterprises working outside the formal economy.

A main characteristic of an informal sector enterprise is its lack of legal registration. As such, the enterprise does not exist in any official records (such as the Commercial Registry, the Industrial Registry or the Work Permits Registry). More so, the nature sector's relationship with the tax authorities and the extent to which it abides with accounting standards are other features determining the informality of the sector. That said, the fact that an enterprise is considered part of the informal sector should not automatically translate into considering it lacking in any principles and standards governing its activities. In other words, describing the sector as informal or unorganized does not mean that it lacks organization. It simply means that it includes enterprises with structures and forms that do not necessarily render themselves for conventional categorization or neatly fit into the standard classifications adopted by the government. Those engaged in the informal sector do indeed have their own organizational structures and regulations that govern their operations.

It is worth noting that while the concept of registration status is directly relevant to the concept of the informal sector, yet it is not an exclusive detriment for considering an entity to be part of either the formal or informal sector. In other words, not all registered enterprises can be considered part of the formal economy. This issue is particularly significant in the instances that registered entities operate in the shadows of informality such as engaging in activities that fall outside the boundaries of their declared activities, or adopting informal practices such as not providing employees with formal employment contracts, or unaccounting for all sale and procurement operations. As such, registration status is a necessary but not sufficient condition for classifying an entity as formal or informal.

While simplifying the registration procedures remains key to creating incentives for the formalization of informal enterprises, however, it is not enough. In spite of the progress in the area of simplifying registration, investors continue to face other obstacles beyond registration. Obstacles in obtaining licenses, acquiring land titles, accessing credit in addition to other administrative and regulatory hurdles, lead investors, in effect, to opt to operate within the framework of informality.

In brief, while registration remains a key criterion for defining the informal sector, however, the two terms should not be considered synonyms, or used interchangeably. More so, efforts to integrate the sector and formalize enterprises should not stop at simplifying the registration procedures.

## *2.2. The Informal Sector and Crime*

Some analysts view the informal sector only through the lens of crime, defining it as one that embraces criminal activities. Viewed as such, reform narratives focus solely on law enforcement issues—specifically going after non-law abiding entities and prosecuting them. On the other hand, informal sector literature recognizes that informal enterprises operate outside the realm of the laws, which should govern them, however, it makes a distinction between enterprises operating “extralegally” and those engaging in illicit or criminal activities.

While it is important to acknowledge that informal enterprises operate outside the law, it is equally important to acknowledge that legal hurdles act as a key driving force pushing some to participate in the informal sector. In this regard, reasons for non-formalizing enterprises range from the lack of capacity to meet formalization requirements, to simply the desire to avoid such hurdles.

In this context, sound practices in developing enabling legislations that supports improving the investment climate need to take the following into considerations:

- It is important to engage in a genuine pre-legislative stakeholder consultation process, which takes into consideration identifying and targeting relevant stakeholders. In Egypt, such consultations are typically limited to formalized and large businesses centered in the capital, which are in a position to overcome bureaucratic and regulatory barriers. The majority of other businesses

are usually left out of the process. As such issued laws are typically relevant to the needs and conditions of larger business at the expense of others.

- Establishing rule of law requires having in place effective monitoring and oversight bodies. Many participants raised this issue during the forum titled “Right to Invest”. The participants identified the lack of a central entity entrusted with overseeing and manage the informal sector affairs as an issue that needs addressing. This, in their opinion, has led to a chaotic situation with the informal sector issues and concerns becoming lost in the labyrinth of bureaucracy. Other participants however advocated for decentralizing the interaction between the informal sector and the government. In their view, decentralizing the process would reinforce investor-government relationship with the prospect of positively impacting the economic process as a whole.
- Ensuring the clarity of intended objectives, coherence, and consistency of laws is essential for creating an enabling environment for promoting investment. The Egyptian legal framework governing investment remains inconsistent, cumbersome, and overly complex. Over and above, a myriad of ministerial decisions and regulations, usually inconsistent and uncoordinated between the various ministries and governmental agencies, add further bureaucratic and regulatory burdens on investors.

Considering the above, “putting the house in order” by addressing the legal deficit noted above, should come first before accusing investors of engaging in the informal sector. Only then, should these practices be considered criminally liable.

### ***2.3. The informal sector and quality standards***

No doubt, high-quality is at the heart of a vibrant competitive economy. It is a consumer right, and an investor obligation. By virtue of operating in the shadows, it is difficult to determine the extent to which informal enterprises abide by quality standards, which, in many instances, might pose risks and dangers to their employees and/or the final consumers. That said, generalizations are not entirely proper in this context. Many times, especially in the virtual space, informal transactions abide with high quality considerations. Accordingly, and generally speaking, while one cannot assert that all informal enterprises intentionally avoid meeting quality standards, one can claim that ensuring that standards of quality are being met, necessitates integrating the informal sector into the formal economy.

### ***2.4. Why do investors lean towards the informal sector?***

While some factors driving investors to engage in the informal sector are country-specific and determined to a large extent by the context in which they operate, studies have confirmed that there are number of general and fundamental factors that cut across many of the countries that witness the proliferation of informal activities. These factors include barriers to market entry and exit, high transaction costs related to formalization, complexity of formal market regulations and related cumbersome tax and social insurance burdens, in addition to onerous health and environment regulations. Overregulation of the formal sector, and requiring exceptionally formidable guarantees, as proof of good intentions, which informal entrepreneurs are in no position to provide pose further challenges to formalization. In some cases though, the prospect of quite profitable income-earning

opportunities, evasion of registration fees and taxation, or merely the inability to provide safety and insurance for employees are other reasons for not formalizing enterprises. Some investors too view informality as a stepping-stone to joining the formal economy.<sup>(4)</sup>

This tendency of investors to engage in the informal sector has had its impact on the employment patterns, skewing it more towards the informal sector. As such, the organized private sector has not been able to play much of a significant role in creating jobs and absorbing unemployment. This is particularly significant as the informal sector is attracting a new cohort of youth, namely university graduates, thereby alerting its workforce composition, which traditionally included rural migrants and Egyptians return from abroad. This increased role of informal sector in absorbing unemployment is indicative of its increasing significance making it no longer secondary to the formal sector, but rather a primary actor in the economy. In other words, the informal sector is not only absorbing surplus labor that is unable to secure employment in the formal sector, but rather, job seekers are going directly to the informal sector for employment. This situation presents major challenges, especially in light of the expansion of the informal sector. Besides causing labor market instability, it poses major challenges for policy makers and regulators in their effort to organize the sector in a manner that responds to the needs of society.<sup>(5)</sup>

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(4) Jan Lousy, et others, "The Informal Economy: Experiences of African Americans", Institute for Social and Economic Development (ISED) Solutions, September 2003.pp 33-39.

(5) Abdel Fatah El Gibaly, "The Informal Sector and Mechanism for Developing it", Al Ahram Newspaper, September 2, 2015. P. 10 (Arabic)

***2.5. Why is it important to engage positively with the informal sector and work towards its integration***

Given the growing significance of the informal sector, and in the context of formulating a strategy to formalize, it is important to begin with clearly highlighting key benefits expected from formalizing the sector. Among the widely-cited benefit are:

- Increasing state revenue from taxes and fees
- Improving the health services and social insurance provision
- Safeguarding the rights of employees
- Promoting innovation and entrepreneurship
- Facilitating access to funding
- Protecting the Environment
- Promoting quality assurance and consumer protection
- Reducing the cost of corruption
- Attracting foreign investments

## — 3. Working towards a strategy for integrating the informal sector —

### *3.1. The employment question*

Among the frequently cited arguments for not actively pursuing the integration of the informal sector in the formal economy is its contribution to reduce unemployment. Indeed Egypt suffers from a chronic unemployment problem with official statistics recording an all time high unemployment rate of 13.4% in December 2014.

More so, according to 2011 statistics, the unemployment rate among youth under the age of 30 reached 30%. On the other side, by and large, those employed in the informal sector view their employment as temporary, awaiting opportunities in the formal sector, which continues to struggle with job creation. Accordingly with the informal sector absorbing much of the unemployment, especially among youth, it is playing a key role in addressing the unemployment problem in Egypt.

In this regard, it is worth examining whether the lack of employment safeguards in the informal sector, compared to the formal sector, does in fact act as a deterrent to engaging in informal sector employment. According to a World Bank study/report, Egypt witnessed rapid and sustained economic growth in the period 2005-2008, with unemployment rates falling to 8.7% compared to 11.7%. Over the same period, however, employment in the formal sector decreased from 34% to 27% while increasing in the informal sector. Ultimately, achieving high economic growth rates does not necessarily ensure the sustainability of development. More so, notwithstanding its

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contribution to dampening the acute unemployment rates, arguments for maintaining the status quo of the informal sector are untenable, for multiple considerations among which are unprotected employees' rights, including job security, and tax evasion.

This issue is further compounded as the formal economy continues to struggle, unable to generate uninterrupted growth in the coming years. In fact, it is anticipated that in 2016, the formal economy will probably face major and fundamental challenges, in the lead a "liquidity challenge" which will impact the growth the trajectory in the near future.

In some cases, formal enterprises engage in informal employment practices due to the complex nature of the labor law. Some employers view the law as working against their interest, curtailing their ability to hold employees accountable for poor performance. To circumvent such limitations imposed by the law, some employers request new employees upon being hired, to sign off on a resignation form (Form #6) to allow them the flexibility of terminating their employment, if needed, without facing legal repercussions. In other instances, and in an effort to avoid costs associated with social insurance and health benefits and other hurdles contained in the law, some employers do not provide employees with formal written contracts. In this regard, it is recommended to revisit applicable laws governing labor, social insurance and health care to address these issues.

In summary, both sectors have their limitation when it comes to the employment question. While the informal economy is unable to generate sustainable employment, and in many instances, undermines labor rights, the formal sector is in shambles unable to generate adequate jobs or attract job seekers.

### ***3.2. Bridging the gap between legislations and innovation***

Another chronic challenge that needs exploring is the extent to which legislative processes are able to keep pace with the speed of progress in the business arena. This is particularly relevant considering the rapid growth and prevalence of entrepreneurial orientation, which in essence pushes traditional boundaries and promotes creativity. The influential technological advances in the 21 century have herald an “Information Revolution”, described as the “Third Industrial Revolution” or the “Third Wave”, following the first and second waves triggered by the agriculture and industrial revolutions respectively. This “Information Revolution” has ushered in the “Information Economics” with its own theories, forms, structures, and mechanisms, and which stands in contrast to conventional economics. More so, it added a new sector to the economy besides the traditional agricultural, industrial and services sectors. It is worth noting that not only is economic growth closely linked to technological advances, but also, it appears to be more significant than growth generated from both financial and non-financial capital accumulation. As such, it is the consensus that technological advances are key determinants of economic growth. Recognizing the interconnect between economic growth and technological advances has moved the focus to a “new growth theory”. The new theory postulates that economic growth is generated through innovation and creativity and the adoption of sophisticated approaches to risk management, the latter entails incorporating risks along a sequence of independent stages of the production process. In contrast to conventional economics, it gives less attention to the assumptions about equilibrium comparative statics, shifts in demand and supply curves and market adjustments. By virtue of being knowledge-centered, the theory puts much more emphasis on institutions, primarily for their role in shaping the environment for the production knowledge. As such, it gives much

attention to a wide range of institutions including governmental bodies, markets, and businesses, and others, regardless of geography. With the established connection between economic growth and technological advances, the ability to access to real-time information, and efficiently utilize it, is now assuming an increasingly important place in promoting economic growth.<sup>(6)</sup>

With these advances, new services and industries are becoming available. For example, with the possibility of on-line presence, electronic commerce (e-commerce) emerged, producing profound impact and advantages to enterprises, consumers and national economy at large.<sup>(7)</sup> At the enterprise level, e-commerce has led to expanded markets, improved competitiveness, reduced business transaction costs, and improved inventory management options. At the consumer's end, e-commerce provides users with the convenience, ease and speed of shopping, expanded options, reduced prices, ease in delivery of products, in addition to interactive opportunities with other consumers to exchange information regarding products. At the national level, three main areas benefit from e-commerce, namely, foreign trade, employment and technology-related industries. Increased prevalence of ecommerce at the national level creates an enabling climate for the emergence of new and specialized sectors in the area of information and communication technology (ICT). As such, expansion in e-commerce has the likelihood of creating investment opportunities in the area of e-commerce infrastructure and other ICT-related services, which ultimately can significantly

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(6) Abdel Hafeez Abdel Rehim Mahboob, "Impact of Technological Progress and Information Revolution on Economic Growth", Om el Kora University. (Arabic) <http://uqu.edu.sa/page/ar/85834>

(7) Egypt4trading. "Impact of E-commerce on the Economy", August 31, 2010 (Arabic) [www.drabid.net](http://www.drabid.net); <http://kenanaonline.com/egypt4trading>

## Working towards a strategy for integrating the informal sector

support the national economy through the emergence or localizing of advanced technology sectors.

Advancement in technology has had its imprint on the informal sector. Globalization, by virtue of transforming the world into one big open market with ease of transactions for both the formal and informal sectors, has led to an exponential growth in the informal sector, globally and particularly in developing countries. As a result, transnational transactions have witnessed a corresponding expansion. The wide gap between the national laws and international trade law, in favor of the latter, has also had its impact on increasing informality<sup>(8)</sup> This has led to a global increase in the size of new technology-based business models. In particular, this expansion in informality has created growing concerns in developed countries about ‘sharing economy’ business models. These services are leading to the rapid in formalization of the economy in the name of freedom of choice and freedom from state regulations, However, such services also contribute to massive capital accumulation by those who designed the apps for these services and lead to the erosion of the tax basis of national and local economies, as well as the deterioration of labor rights and health and safety standards – standards introduced by governments in developed countries following 50 years of political pressure by labor movements and social action groups.<sup>(9)</sup>

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(8) John Zarobell, “The Informal Economy and the Global Art Market”, SFAQ, Sept 28, 2015. <http://sfaq.us/2015/09/the-informal-economy-and-the-global-art-market/>

(9) José Ruijter, “The impact of global economic trends on informal economies: addressing the challenges of land governance and new technology”, knowledge Platform Security and Rule of law “KPSRL”<http://www.kpsrl.org/browse/browse-item/t/the-impact-of-global-economic-trends-on-informal-economies-addressing-the-challenges-of-land-governance-and-new-technology>

In the case of Egypt, both the formal and informal sectors face major challenges in keeping pace with the evolution in investment trends that the global technological progress has had on different sectors including industry, trade or services. More so, new trends in businesses, emerging in Egypt and other countries, which promise high profits and benefits to the society at large, are out of sync with national laws and regulations, creating challenges in terms of incorporation and operation.

Generally speaking, and compared to developed countries, Egypt is considered lagging behind in the area of technology advancements. It has not been able to keep up with the industrial revolutions and modern advances especially in the area of technology. Accordingly, it is safe to conclude that Egypt is not in a position to move fast enough to catch up with the new waves of advancements as it has yet to reach the earlier ones. That said, and in spite of lagging behind, still, Egypt has the chance to take advantage of these advances, in some areas such as, for example, the registration of new businesses. For example, in some countries, it is possible to incorporate businesses over the Internet without the need for setting up physical one –stop-shops or the like to manage the process. Security investigations and other details related to the establishment of the business can be handled separately. In the instance that there are material concerns, the government still has the chance of calling in the founder(s) and taking any necessary measures as needed.

On the legislative side, with virtual commerce becoming the new reality, existing laws have become out dated and out of sync with this new reality, especially as the real world continue to change a lot faster than legal frameworks. Compounding the problem is the issue of law enforcement, which is more difficult

in the context of the fast changing reality. To a great extent, this new reality has made governments irrelevant to these virtual transactions, to the extent that, in many instances, governments might not even be aware of them taking place. Even in the instances that government is on board, the virtual nature of such transactions, moves them outside the domestic boundaries providing them with international protection.

## **— 4. The key axes of the strategy —**

The concept of the informal sector has been extensively researched and examined, with a wealth of information readily available. A key lesson learned in the literature confirms that there is no one-size-fits-all approach to addressing issues and challenges related to the informal sector and developing a strategic approach to integrating it. Thus, the section below identifies key issues and variables that need to be considered when developing a strategic approach to formalizing the sector. They are organized along the lines of three axes.

### ***4.1. The Institutional Axis***

In general, comprehensive and effective reform processes should include both structural and institutional reforms. While legislative reform is necessary, however it is not sufficient for achieving desired changes, especially in the area of improving the overall investment climate and encouraging the informal sector to formalize. Thus a starting point for reforms should be a thorough review and reform of the formal sector itself.

The following measures are to be considered in this regard:

#### **4.1.1. Trust-Building**

Generally speaking, Egyptian investors tend to distrust legislators. Incentives promoted by the government tend to provoke suspicion and distrust on the side of formal sector investors. Specifically over the past few years, the frequent changes in government, with no shared or consistent vision, generated conflicting and ever-

changing decisions and regulations and undermined investors' ability to predict fiscal or economic policies (e.g. taxes and customs), thereby contributing to this distrust.

Based on this, building trust and confidence between the government -both the executive and the legislative branches, and investors is a first step for paving the way for undertaking genuine legislative and institutional reforms. Such trust will boost the reform efforts and increases the chances of keeping them on track. Recommended measures for building trust include streamlining and regulating the decision making process, and including the various stakeholders in the decision-making process.

Build trust between the government and the investors is also an important first step towards developing a strategy for improving the investment climate in general and integrating the informal sector into the economy. Well-structured and sustained dialogue between the government and the informal sector would enhance confidence and trust between them. Earlier meetings held between representatives from the informal sector and the government were well-received by both sides. Informal sector representatives indicated their eagerness to continue dialogue and consultations with government in an effort to rectify their status.

Along the line of confidence building, participants in the "Egyptian Economic Forum-Bokra", recommended that government should initiate the process by extending support to informal enterprises in the form of technical training or funding, without requiring prior-registration. In the worst case scenario, employees and consumers would benefit from improvement in services, and such an effort could be viewed as a initial step towards encouraging enterprises to formalize. Participants also

recommended that the Ministry of Trade and Industry, in cooperation with relevant agencies, carryout a comprehensive inventory of all informal activities, and at the same time, make available clear and easily understandable basic information information that could assist with establishing commercial entities and provide best practices for starting businesses.

#### **4.1.2. Creating a body for handling issues related to the informal sector**

The creation of a special body to facilitate formalization is necessary. The body is to be responsible for handling all affairs related to the informal sector with the overall purpose of formalizing informal investments and overseeing efforts aimed at improving the overall investment climate. It should also be responsible for coordinating among the various ministries in the implementation of the strategy, in addition to reaching out and engaging with the relevant standing committees of the House of Representatives and establishing a dialogue with the informal sectors. It should include a large number of representatives from the formal sector. Participants in “Egypt Tomorrow Economic Forum” recommended that this body be affiliated with the Ministry of Trade and Industry.

#### **4.1.3 Transition to a non-cash economy**

A key recommendation generated at the forum focused on transitioning to a non-cash economy, thereby reducing cash-based transactions in favor of non-cash ones. Promoting the use online non-cash payment instruments will allow for better tracking of the movement of money and activities. For more information on this subject, please refer to the policy paper

issued by the Egyptian Federation of Industries in collaboration with CIPE on the subject of transitioning to a cashless economy. (For a copy of the paper, <http://egypt.cipe-arabia.org>)

The following are key features of the transitioning to cashless economy:

- Using non-cash payment instruments in all transactions related to the purchase of assets;
- Make available the use of non-cash payment instruments in making payments to government agencies;
- Use of non-cash payment instruments for transactions related to loans and interest payments, insurance installments, IPOs, increasing the capital of companies, pensions and social insurance;
- Enforcing the law obligating businesses to issue invoices and receipts for all transactions; and
- Promoting mobile phone payment services.

#### ***4.2. The Legislative Axis***

The legislative instrument is among the most important tools of government that can assist in improving the investment climate. Among the main recommendations put forward by “Egypt Tomorrow Economic Forum” is to work towards reducing the number of laws, rather than considering the issuance of new laws. Among other recommendations related to legislative axis are the following, grouped in three main areas:

### **4.2.1. Facilitating market entry and exit**

Simplifying the requirements for obtaining business permits and licenses and reducing associated costs thereby improving accessibility for entrepreneurs is fundamental to formalizing enterprises. Specific recommendations include:

- Allow entrepreneurs a grace period to establish new enterprises. In the instance that existing laws are in conflict with businesses, amending laws to be compatible with these businesses should be priority especially in the instance that these businesses are successfully growing, absorbing unemployment and providing good services,
- Initiate the electronic registration for new businesses, as well as for obtaining licenses and permits,
- Ensure that the guiding principle for both the Investment Law and the Companies Law is permissibility, whereas prohibition is an exception.

### **4.2.2. Amendment of relevant laws**

There is no doubt that a deliberate effort to review, clarify and simplify existing relevant laws is cortical to this endeavor. Additionally reforming the system of intellectual property rights, the tax system and developing a legislative framework to address the issue of factories and the informal economy in an effort to support the national industry and benefit consumer. Involvement of stakeholders in this process is imperative. Among the relevant laws that need addressing are:

- The Labor Law
- The Social Insurance Law
- The Investment Law
- Bankruptcy Law and Market Exist Regulations
- The Companies Law
- The Microfinance Law
- The Health Insurance Law
- The Industry Law
- The Local Administration Law

#### **4.2.3. Electronic commerce (e-commerce)**

The birth and death of industries are an essential part of the growth process. The phenomenon of e-commerce bears testament to this. It has had a massive impact both on the behavior of consumers and the movement of capital. Key advantages of e-commerce for enterprises, consumers and national economy at large are numerous.<sup>(10)</sup> Enterprises have benefitted from expanded markets, improved competitiveness, and impacted competition and reduced business transaction costs, and allowed for improved inventory management. At the consumer's end, e-commerce provides users with the convenience, ease and speed of shopping, expanded options, reduced prices, ease in delivery of products, in addition to

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(10) Egypt4trading. "Impact of E-commerce on the Economy", August 31, 2010 (Arabic) [www.drabid.net](http://www.drabid.net); <http://kenanaonline.com/egypt4trading>

## **The key axes of the strategy**

interactive opportunities with other consumers to exchange information regarding the products. At the national level, three main areas stand to benefit from e-commerce, namely, foreign trade, employment and technology-related industries. Increased prevalence of e-commerce at the national level creates an enabling climate for the emergence of new and specialized sectors in the area of information and communication technology (ICT). As such, expansion in e-commerce has the likelihood of creating investment opportunities in the area of e-commerce infrastructure and other ICT-related services, which ultimately can significantly support the national economy through the emergence or localizing of advanced technology sectors.

It is critical that legislators be aware of the speed of development in the field of e-business and the relevance of this to the making of laws related to industry, commerce and investment. More so, in developing a law for e-commerce, permissibility should be the guiding principle, with prohibition the exception.

### ***4.3. The formal sector Axis***

Many analysts confirm that formal and informal sectors are more intertwined than commonly thought. It follows that it is in the best interest of the formal private sector to encourage and support the formalization of informal enterprises, at least from the standpoint of promoting fair competition. Generally speaking, the formal sector bears higher costs than the informal, including costs related to registration and permits, social security and taxes. In many instances, the formal sector depends on the participation of small and medium-sized informal enterprises in the production chain for providing them with intermediate

goods. As such, it is in its interest that informal sector formalizes to guarantee the quality of goods and services, and be held accountable.

Existing value chains in addition to business assertions, and other linkages provide good entry points to support the role of the formal sector in formalizing enterprises. For example, linkages with informal sector producers and distributors present opportunities for forming institutional relations that can incentivize the informal enterprises to uphold quality standards, a step that can help with formalization.

The formal private sector, especially large enterprises, in the context of fulfilling their social responsibility, can constructively engage in assisting informal enterprises with registration, rectifying their financial and administrative systems, in addition building their capacity.

Business associations have an important role to play in this regard. By providing a platform for dialogue through which informal and formal enterprises engage, it can champion the cause, act as an interlocutrix between government and informal enterprises, and advocate for facilitating their formalization and the adoption of recommendation cited above. Ultimately, this will lead to improving the overall investment climate in the country.

## — 5. Conclusion —

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Engaging with the informal sector needs to be creative and constructive. Supporting informal investors to improve their businesses should be the point of departure. Ultimately formalization will lead to increase in economic growth, improvements in the condition of the workforce and improvements in the quality of goods and services. Similar to other reform effort, strategies to formalize the sector hinges on a number of pillars; intuitional, legislative and the participation of the private sector. As noted above institutional reform should entail trust-building between government and investors, changing the behavior of investors and transitioning to a non-cash secondly. Institutional reforms should also consider creating a special body to positively engage with the informal sector. Legislative reforms should focus on formulating a cohered and consistent legal framework with the clear objective of providing incentives that would encourage the informal sector to formalize. Last but not least, a comprehensive strategy would include a pivotal role for the participation of the formal private sector in this effort, to improve conditions for fair completion, ultimately encourage investment in Egypt.



