

**From the “Margins” to the “Engine of Growth”
“Conceptualisation of the Informal Sector in Egypt”
من "هامشي" إلى "محرك للنمو" مفهوم القطاع غير الرسمي في مصر**

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تتناول هذه الورقة وضع تصور للقطاع غير الرسمي وتحديد الإطار الذي تعمل فيه وحداته، إلى جانب دراسة العوامل التي تؤثر على خيارات الدخول إلى سوق العمل. وتقدم الورقة مناقشة حول وضع تصورات للقطاع غير الرسمي من خلال مجموعة من الأبحاث والدراسات التي أعدت حول البلدان الأقل نمواً مع التركيز على حالة مصر. كما تغطي مناقشة المصطلحات والتعريفات المستخدمة، والإطار الذي تعمل فيه وحدات القطاع غير الرسمي من الناحية النظرية، والمحددات والعوامل التي تؤثر على القطاع غير الرسمي من ناحية نقطة إنطلاقه و تلك التي تؤثر على نموه من ناحية أخرى. من النتائج الرئيسية للبحث هي أن وجود تعريف واحد دولي للقطاع غير الرسمي أمر لا يمكن تطبيقه في سياق كل دولة. بالإضافة إلى ذلك، أتجه الباحثين من تعريف الوحدات التي تنتمي إلى القطاع غير الرسمي إلى تعريف العمالة غير الرسمية. ومن المعايير المقترحة لتحديد العمالة بالقطاع غير الرسمي: عدم تسجيل مكان العمل، عدم وجود عقد عمل، إنعدام التأمين الاجتماعي، وإنعدام التأمين الصحي.

تبين من الورقة تغيير التصورات والإطر الذي تعمل فيه وحدات القطاع غير الرسمي بمرور الوقت. من التقسيم الثلاثي للنشاط الاقتصادي الذي فشل في تمثيل عدم التجانس الذي وجد في النظم الفرعية، إلى المدرسة القطاعية والتي ترى القطاعين الرسمي وغير الرسمي أجزاء يعملان في نظام اقتصادي وحيد تربطهما علاقة تكاملية أو علاقة تنافسية. كما حدث تحول هام وجوهري في مفهوم القطاع غير الرسمي، من فكرة أنه قطاع "هامشي" بالنسبة للاقتصاد "الحديث" إلى "محرك للنمو" الاقتصادي.

يبدو أن العوامل التي تؤثر على نمو القطاع غير الرسمي تختلف بين البلدان المتقدمة والبلدان النامية، في حين أن هناك عوامل مشتركة بين المجموعتين تؤثر على نموه. ومن ناحية أخرى، يتأثر نمو القطاع غير الرسمي في البلدان المتقدمة والنامية بذات العوامل، مثل: الأنظمة والتشريعات، الركود الاقتصادي، وسياسات الاقتصاد الكلي. وعلى مستوى الفرد، الفقر، المستوى التعليمي، ومستوى المهارة، بالإضافة إلى عدم توفر فرص عمل بالقطاع الرسمي، هي العوامل التي تؤثر على نمو القطاع غير الرسمي.

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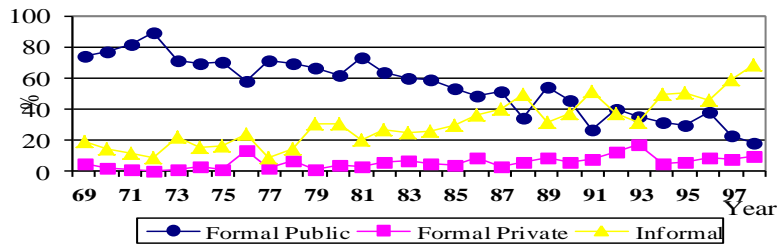
Introduction:

Informality has been a challenge for Egypt for some decades. The informal employment accounts for about 40% in 2012, and growing at faster pace than the formal employment.¹ The Economic Research Forum in 2004, stated that 40% of the new entrants to the labour force in 1980s were informal, compared to 65% in 1998, resulting in about 57% of all employment were informal.² Other data on the pattern of new entrants to the Egyptian labour markets since 1969 till 1998 (Figure 1) show that new entrants (18+) to the labour markets were disproportionately drawn into informal sector. Figure (1) shows that in 1969, around 75% of new workers (18+) were drawn into formal public employment and 20% into informal jobs. In 1990's, and due to the decline of employment opportunities in the public sector, and the formal private sector, Informal sector has been providing more employment than formal employment creating an unabated trend toward informalisation of the labour market. Thus, by 1998 about 70% of new workers (18+) were drawn into informal sector employment, and only about 20% into formal public jobs. The relative share of formal private employment has doubled, however remain modest.

Moreover, 75 % percent of new entrants who entered the labor market during 2000-2005 were entering into informal work, resulting in the share of informal workers escalated to 61% of all employment in 2006.³ This trend continued, as another nationally representative data set, specifically the Egyptian Labor Market Survey (ELMS) of 2012, shows that among the 66.7% of young men who had a paid job, about 52% of them joined the informal sector, however, women's situation was different with lower share entering the informal sector.⁴ Moreover, data from Egypt "school-to-work transition survey" 2014 dataset suggests that this pattern remains.⁵

Recent research argues that the era of the government being the major employer is gone as the role of the government shifted to be a regulator and facilitator for job creation and for the protection of workers' rights.⁶

Figure (1) Percent of New Entrants to Formal & Informal Employment 18 years old or more⁷



Source: El-Bakly, A. (2001) "The Informal Sector and Urban Labour Markets in Egypt: A Life Path Approach", Unpublished PhD thesis, The University of Liverpool, UK.

The negative impacts of informality are not restricted to individuals, households or institutions that are working in the informal sector but on the economy of Egypt as a whole. Many attempts were trying to deal with informality for different purposes, some attempts to integrate informal sector into formal one as a crucial approach to rescue Egypt's economy, and get it out of the unforeseen future.⁸ Others see the economic unites or individuals belong to the informal sector as potential tax payers, and that the informal sector has lost the government EGP 300bn in potential taxes.⁹ Moreover, others, have given the fact, that the government is no long a provider of Enough jobs, are seeking to find decent work in the informal sector.¹⁰

To formalise the informal sector, the main target should be eliminating freedom to choose between joining the formal and informal sectors, or encourage people to join the formal sector. However, such approach requires conceptualizing the informal sector, and identifies the framework in which it operates, and

examining factors that influence people's choices in entering labour markets.

Any approach which recommends mandatory legislative, executive and judicial reforms, aiming at depriving individual from joining the informal sector will not be fully effective, unless considering the socio-economic background of those, who joined or intend to join the informal rather, than the formal sector. Also attempts to integrate informal sector into formal one on the individual or firm basis, will go vain without knowing the main factors that play the major roles in determining people's choices in entering the labour market.

Therefore, conceptualizing the informal sector in Egypt and identifies the framework, in which it operates is essential. Also, examining factors that influence people's choices in entering labour markets are also of major importance for policy and decision-makers. Therefore, the current research is an attempt for conceptualizing the informal sector in Egypt.

1- Definition of Informal Sector:

Though the informal sector has been closely investigated for more than 40 years, a universal and satisfactory definition for it is not yet established. Part of the problem is that attempts to define the informal sector were just reversing formal sector features, indicating that the two sectors were distinct and contrasted.¹¹ However; subsequent studies have revealed that, there is a considerable overlap between formal and informal sector activities.¹²

The informal sector has been given various terms e.g. "informal", "unofficial", "non-organised", "unprotected", "residual", and "transitional".¹³ It seems that these terms imply a certain preconception of this sector, as well as a biased comparison of it, with the other sectors, which are often referred to as "formal", "official", etc. In the case of Egypt, the term "marginal sector", of the modern economy was used by a number of Egyptian researchers, perhaps because it implies characteristics, such as

small, unstable, with irregular revenues and lack of organisation. This negative view of the informal sector was perhaps due to the fact, that the Egyptian government was looking always for establishing large-scale state-owned projects, aiming at the efficiencies of scale. Therefore, the other activities that would be outside this definition could be considered marginal. Such term 'marginal' could have also meant that this sector of the economy is in fact being set aside, while it has a potentially important social role to play.

It worth noting that, there are two different views in defining the activities encompassing the informal sector. To some, they consist of illegal, criminal or marginal activities hence parasitic; and to others they represent productive, small-scale self-employment and equity objectives. However, the present paper focuses on all activities, except the illegal.

Defining the informal sector to assess its origin and to provide a abetter framework for effective assessment is worth to begin with. The term 'informal' originated in a study on Ghana in 1971.¹⁴ Later, it was adopted by the ILO in 1972 which gave the term 'informal sector' additional boost of popularity. The ILO/UNDP mission to Kenya assigned eight characteristics to informal activities: ease of entry, reliance on indigenous resources, family ownership of business, small-scale of operations, labour-intensive and adapted technology, skills acquired outside the formal school system, operate in unregulated and competitive markets, and outside official government regulations. These characteristics were reconsidered and a number of new criteria to that of the ILO's were added.¹⁵

Subsequently, many definitions concentrating on some of these characteristics or new ones emerged. Out of the various characteristics identified by researchers, the main indicators included: the ease of entry, small scale operation and employment status, irregularity of work, illegal basis of operation, lack of registration, lack of credit from regular sources, low capital.

However, the most commonly used measurable indicator is based on the size of establishment. For example, in Egypt, number of workers in the establishments (less than 10 workers) is used as a basis for differentiating between the formal and informal sector economic units,¹⁶ while others used the less than five workers category to identify informal sector units.¹⁷

Studies on the informal sector can be divided into several groups according to the methodological elements. These includes: the definition of the sector, study unit and study method that includes macro approach studies, micro-level studies for a given geographical area and sectorial perspective studies that, approach the informal sector at the level of specific informal activity. According to the definitions of the sector used in previous studies three main groups can be identified:

- **The Functional Definition:**

Under the assumption that there is a relationship and link between jobs and the stakes of the formal and informal sectors, came the functional definition. Where the informal sector is a source of manpower required for employment in the formal sector, and a receiver of surplus labour of it. Moreover, the informal sector is considered the main producer of low-cost goods and services for low-income population.¹⁸ However, the advantage of this definition requires evaluation of the degree of movement of the labour force between the formal and informal sector that revealed to be very low in Egypt.¹⁹

- **The Operational Definition:**

This definition is based on the application of a number of criteria to describe the nature of the sector or its units. This method was used in the ILO reports on Kenya, where eight standards for the informal sector were assigned to the informal sector, and a number of criteria were added later and the presence of one or more of these standards considered enough for the operational units to be a part of the informal sector.²⁰

- **The Empirical Definition:**

This method based on the utilisation of one single criterion to define the operational units, like for example: lack of registration, the size of the establishment measured by number of workers, the production technique used, among other characteristics.²¹ As mentioned above, the size of the establishments was the most commonly used criterion. This is clear in many previous studies conducted within the Egyptian context.²²

Insinuations:

Here, it might be useful to suggest that a universal definition is not needed, even though it would help in cross-country comparison. Since heterogeneity is one of the characteristics of the informal sector activities,²³ one should not expect that any general definition would hold true for all informal activities. This could clarify the diversity among the definitions used in the literature in the context of different countries. While the diversity found in the definitions used within one country is not justifiable.²⁴

It is also apparent that most of the previous studies were trying either to define the informal sector, or to assign specific characteristics to it. In doing that, most of the definitions and criteria were trying to classify the economic units into either formal or informal, where most of the definitions used criteria relied on size, registration, invested capital, or the used technology. Using economic units as the target in defining the sector, formal or informal, leads in many cases to incorrectly allocating informal sector workers to the formal sector. This especially clear when “number employed in the establishment” is used in differentiating between the two sectors.

However, till the beginning of the 21st century, there was no attempt to define informal sector workers regardless the characteristics of the work place, which could be of great importance at least in estimating the size of the informal sector. Therefore, there was an attempt to define the informal sector workers as “those individuals who own or participate in an economic organisation, that is not formally regulated by legal

sanctions (registration and taxation of work place) and/or those working individuals (self employed, paid or un-paid workers) who, are not protected by any means of formality (no contract, social or health welfare systems) provided by the State".²⁵ Lack of contract is taken for granted when the workplace is not registered. Therefore, non-registration of the workplace, lack of social insurance and lack of health insurance are the three criteria that can be used to identify the informal sector workers.

2- Framework and Conceptualisation of the Informal Sector:

Urban economies have variously been described. As was the national economy, urban economies have been divided into three different sub-systems. These are the primary, secondary and tertiary sub-systems. The **tripartite division of activity** originated from Colin Clark's tripartite division of the economy.²⁶ This approach has been criticised for its inability to represent the heterogeneity of activities found within each sub-system in the third world urban economy. Therefore, it was considered not suitable for studying the third world economies.²⁷

In explaining the developing economies, the term '**dualism**' was introduced. Underdeveloped societies were divided into two different sectors, the traditional or peasant and the modern or capitalist sector.²⁸ A concept which has been adapted by so many subsequent scholars.²⁹ It was argued that dualism stems from the introduction of capitalism into pre-capitalist economies or primitive societies,³⁰ for some, the two 'circuits' are the outcome of the technological modernisation occurred after the penetration of capitalism into the developing economies during the colonial period.³¹ Technological modernisation creates limited numbers of jobs in capital rather labour-intensive industries. This, coupled with the decrease in employment in agriculture, again, through technical modernisation, has resulted in a more small-scale activities belong to the informal economy concentrated in urban areas (or the "lower circuit" as it was termed).

Dualism was considered as a standard feature of underdeveloped countries.³² By contrast, others justify dualism as a feature of the traditional step of the economic development of underdeveloped countries.³³ This theory of transition seems unacceptable. By accepting this theory, we have to consider the current situations in underdeveloped countries are stages toward the contemporary developed countries.³⁴ As that was about forty years ago, the difference between the current situation in LCD's and that of the developed ones in the 1970s justify the unacceptability of the transition theory.³⁵

'Dual' approach still has some shortcomings. For example, it fails to cover activities such as small-scale workshops that are a result of relatively advanced technology and not traditional activities (for example IT companies and computers). Also, by the dual approach, urban economy is divided into 'modern' and 'tradition' sub-systems, and pre-capitalist activities belong to the traditional sector. The use of the term 'traditional' gives the impression that these activities are static and has no elements of dynamism. In the contrary, others consider the traditional sector as a dynamic one, characterised by upward mobility,³⁶ and it was demonstrated by more other scholars.³⁷ Other study titled "Egypt informal sector: Engine of growth", implies that this sector of the economy is a dynamic sector and has the ability to develop and support the development of the national economy, a view that will be discussed below.³⁸

Scholars of the dualism school deal with formal and informal sector as isolated separate economies. This approach fails to take account of the realities in the LCD's, where it was argued that there are considerable relations between the formal and the informal activities as parts of the total economy in LCD's.³⁹ Separate economy approach, for example, fails to account for the movement of some activities from the formal to the informal economy, and vice-versa, mostly on a daily basis,⁴⁰ a phenomenon shared by many others.⁴¹ Separate economy approach fails also to account for the existence of the phenomenon of holdings multiple jobs.⁴²

With more emphasis on the linkage between the formal and the informal sectors of the economy, the **sectorist school** of thought appeared. To them, both the formal and the informal sectors are different and interpenetrated sectors operating under one single economy. The relations between the two sectors “represent the functioning of a single society in which the two poles are integral parts”.⁴³ Although some supports the concept of dualism, they assert that there is a considerable relationship between the upper and the lower circuits.⁴⁴ For them, the relationships between the two sectors may vary from domination to subordination.

Shifting from LDC’s to the Arab world seems appropriate, where the present paper focuses on Egypt. It seems that no analytical work has been done, to integrate the informal sector activities within the framework of macro-economic or urban-economic theories. This could be explained by the fact, that Arab scholars have applied western models, with regard to the informal sector concept within LCDs. On the other hand, the most acceptable reason could be, that the scarcity of available research on the informal sectors in the Arab countries prevents scholars from developing a realistic framework of the informal sector.

However, what little literature is available, although not fully concerning the informal sector conceptualisation, suggests that the informal sector in the Arab countries studied, Jordan and Egypt operate within the sectorist school. With reference to class differentiation and the informal sector in Amman, Jordan, a study gives the impression that the informal sector is an integral part of one single economy, even if it is not regulated by the state.⁴⁵ Jordanian informal sector (small-scale industries) is described as ‘complementary and inseparable from the industrial pyramid in a manner that they prepare the inputs for large firms or assemble and complete the final products’.⁴⁶ For Egypt, it was indicated, the informal sector is part of the national economy and the relationship between the formal and the informal sectors not just a relationship

of complementarity but also the informal sector is a competitive sector to the formal sector.⁴⁷

These interest in the informal sector within the Egyptian context as a resilient and dynamic sector⁴⁸ and its complementarity and competitiveness features⁴⁹ could be a response to two main features of the Reform and Structural Adjustment Policy (ERSAP) Egypt went through.

Firstly, negative consequences or the recessionary conditions that the ERSAP inflicted on the poor. Structural Adjustment creates severe economic conditions for the most unprivileged group of the population: increased unemployment and decrease in real incomes for waged and salaried workers, it was imperative for the government with scholars support to look for alternative economic sector to bear the responsibility of employment creation and income generation for those unemployed and poor segments of the population.

Secondly, redefinition of the role of the state due to the ERSAP resulted in growing retrenchment of the public sector role,⁵⁰ in the wake of the negligible role of the formal private sector, the informal sector is recognised, where it absorbed a huge segments of the labour force over decades, and even encouraged to act as a key element of the development growth. Some concluded that the main benefit of informality stems from its role as a shock absorber, providing employment to those who cannot find jobs in the formal sector during difficult times.⁵¹

In conclusion, the shift of discourse on the informal sector is, by any definition, a substantial change, from the notion “margins” of the “modern” economy to the “engine of growth” of the economy. From the early 1950s till the end of the 1960s, the “margins” population or the informal sector was a problematic segment of any society, to the extent that it became the focus of some charity organisations and international agencies.⁵² Suddenly, this problematic segment of the economy became a solution to the economic crisis, just by redefining this part of the society from being the “marginal” as “informal economy” and the “survival”

strategy of the poor as “micro-business” to the “engine of growth”. In Egypt, for example, plenty of studies and reports start to appear arguing that the informal sector can play an important role in addressing Egypt’s employment crisis.⁵³ These studies follow the general interest in small enterprises in Developing Countries since the early 1970’s.⁵⁴

By this changing discourse informal sector instead of being marginal part of the economy or encompasses poor people trying to survive, became an essential segment of the economic development and entrepreneurs who could make it themselves independently of any government subsidies or handouts. More importantly, instead of encouraging those people to survive, the government and the IMF officials saw them as segments of the economy that are not taxed. Therefore, the poor became a mine of gold that could be utilised to help balance national budgets through taxation, direct and indirect.⁵⁵

In sum, to help the informal sector population, and relying on previous study we have to define them properly and realise that they are neither entrepreneurs nor micro-business owners.⁵⁶ Simply, they are poor people trying to find a way of survival, either a self-employed worker or an employed worker.

3- Determinants of People’s Choices on Entry into the Informal Labour Market:

Possible determinants of people’s choices in the labour markets can be set out at two different levels (macro and micro) and the determinants were viewed from two perspectives (starting point of the informal sector and its growth).

4-1 Macro Factors:

Initiatives of the informal sector in Developed Countries are likely to be determined by different macro-factors than those in the informal sector in Developing Countries. Failure of the modern economy in the Developed Countries to provide sufficient jobs for the growing number of job seekers was suggested to be the main cause for the appearance of an informal sector. While the sudden

insertion of capitalism associated with the twentieth-century techniques was assumed to create the initiatives of the informal sector in Developing Countries.

Informal sector growth is likely to be affected by diversity of factors that are common between the Developed and Developing Countries: state regulations and legislation, economic recession, and macro policies.⁵⁷ All of these factors can either hinder individuals from joining the formal sector or stimulate or force them to enter the informal sector. State legislation and regulations, for example, may impose an additional economic burden on capitalists and stimulate them to informally conduct their business to avoid such economic burden.

However, with regard to the informal sector growth in Egypt and its associated factors, over-regulation and over-taxation that occurred during different time periods have contributed to the growth of the informal sector. The restricted permission arrangements applied since Mohammed Ali era by the formalised Guild system, and over-control at the end of the Mohammed Ali administration, were among the factors that hindered people joining the formal rather than the informal sector. Recently, labour market rigidities are considered as drivers of informality.⁵⁸ Recent study on MENA region, including Egypt, concluded that although Labor laws aim to protect workers and increase labor market efficiency, however, over-protective labor regulations may result in higher informality.⁵⁹ The study argues that to reduce the incentives for employers to hire workers informally, it is central increasing the flexibility of labor market regulations, as well as to ensure that employers are not discouraged from creating jobs or resort to using more capital-intensive technologies to get round rigid employment laws. In the case of Egypt, introducing the labor law (Law 12 of 2003) with the goal of increasing flexibility in hiring/firing in private sector and in state-owned enterprises shows that the change in law has had a positive impact on formalization of labor employment in Egypt and has reduced informal work that is non-contracted.⁶⁰

The effect of over-taxation, a long-standing structural feature in Egypt, is clear. The existence of over-taxation is also evident during the 1990's and remains. Tax burden ratio was calculated at about 18.6% for 1991/92 raised to 21.8% in the following year, and further to 23.2% for 1993/1994.⁶¹ However, a 2013 World Bank report "Paying Taxes 2013" finds that Egypt's average total tax rate stands at 42.6%,⁶² the figure remain the same in 2014.⁶³ Annual growth rate of tax revenue increased from 2.6% during the period between 1981/82-1991/92 to over 12% during the period between 1991/92-1996/97, moreover, it was planned to increase tax revenues for the fiscal year 2014-2015 to (FY) 2015-2016 by about 16.8%.⁶⁴

In reducing budget deficit, in addition to cutting public expenditure, the Egyptian government relied on increasing tax rate, especially the indirect one. Direct taxes in 1996/97 accounted for only 36.3% of total taxes,⁶⁵ this figure increased to 40% in 2001.⁶⁶

Also, Economic recession and macro-policies have had a strong effect on the informal sector in Egypt. The economic recession that led by the 1838 free trade convention between Britain and the Ottoman Empire was the main factor that severely affected the industrial project of Mohammed Ali, and led to a more flourishing informal sector. The effect of the economic recession on the informal sector is also observed during the period of post First World War and, late 1940's, 1970's, and 1980's. The inability of the formal sector to generate employment because of different reasons in all these periods increased the informal sector that acted as a last resort, absorbing excess job seekers.⁶⁷

Recently, macro-economic policies of the last three decades in Egypt neither stimulated the growth of the industrial sector sufficiently nor encouraged private sector investment. Empirical evidence suggests that "informalisation" has increased in Egypt during the 90s as a result of economic reforms.⁶⁸ In particular, new entrants to the labor market seemed to bear the brunt where by the end of the 90s, some 69% of new entrants to the labor markets

managed to only secure informal jobs.⁶⁹ This trend sustained during first and half decades of the 21st century.⁷⁰ Structural Adjustment and its associated macro policies had a negative effect on the formal sector to generate employment, stimulating the ability of the informal sector to generate jobs for several segments of the population. The majority of those who joined the private non-agricultural sector might have joined the informal sector.

Moreover, it is evident that redundant workers, new entrants to the labour markets and low-income group of populations are among the most vulnerable groups seeking employment within the informal sector as their main job or as a second source of income.⁷¹ Life history analysis of informal sector workers reveals that the guaranteed employment policy initiated in early 1960s was the one avenue used to join the formal sector. However, returning migrants in mid-1970 and the unemployed, when scarcity of formal jobs was at its highest during that decade, were forced to join the informal sector. This reflects the effect of the macro-policies implemented in Egypt during the 1970's on the ability of the formal sector to create jobs in sufficient numbers. As mentioned above, economic reforms since early 1990's has a negative impact on formal job creation leaving the new entrants to the labor market but to be drawn into the informal sector. Also, poverty, inequalities and economic exclusion of a large part of the population coupled with economic exclusion, corruption and bureaucratic regulations may have forced the poorest and middle income categories to accept informal employment.⁷²

4-2 Micro Factors:

Micro determinants such as poverty, education, and skill level have been identified as influencing the growth of the informal sector at the individual level. Such factors were considered as consequences of joining the informal sector. However, previous study provides evidence that such individual characteristics are causes of joining the informal sector more than its consequences.⁷³

Although poverty is identified as one of the causes of joining the informal sector in Egypt,⁷⁴ studying the causality dilemma in

Egypt, it is stated that poverty is one of the consequences of joining the informal sector.⁷⁵

Low educational level is one of the factors that push people into the informal sector,⁷⁶ but joining the informal sector in itself hinders individuals from continuing their education. It is evident that those who join the informal sector are different from those who join the formal sector.⁷⁷ Informal sector workers are likely to be less educated, more likely to be married, self-employed, and to be male, compared with their formal sector counterparts. Formal sector workers are more likely to live in better housing conditions, to own more household goods, and hence are more likely to have higher income levels. However, the two groups seem to be similar with respect to their age, family type, and family size.⁷⁸

Education is statistically shown to have the greatest contributions in differentiating between the two groups, where low education is more strongly associated with informal sector workers. It reflects not only the current situation of the informal sector workers, but also their initial status before joining the labour markets. This means that low level of education associated with the informal sector is one of the determinants of people's choices of entry into the labour markets.⁷⁹

It is also revealed, that poverty and low educational status are crucial factors shaping informal sector workers' individual life paths. Individuals can be victims of poverty, and enter the informal labour market to help their families financially. Entry patterns into the informal labour market are affected by family economic circumstances as well, to the extent that young members of the family would be taken out from school and reluctantly enter the informal labour market as a coping mechanism for family survival. Their educational achievement is permanently affected, a step that affect their whole life paths. The little or no education they have acquired has a substantial effect on their subsequent life paths, where they had no alternative but to accept the type of work that has been chosen for them by their families. Those relatively

advantaged with high educational levels have the ability to choose their own working life paths, although within the limited labour market opportunities.⁸⁰

Moreover, family resources, and social networks are also important in shaping individual life paths. In practice, family connections are important in searching for or obtaining a job, especially within the informal labour market. The role of family is clear at the beginning or entry, and at all stages of the individuals' life path. The effect of provision of material subsistence through the family is evidently clear in shaping informal sector workers' life paths. For example, providing a place of work for an individual to start his/her working life as self-employed person is an important element shaping his/her working life.⁸¹

Utilising family social networks in building trust with customers is another mechanism for family impact. Family business is another vehicle for the family role in shaping individuals' life paths. It affects not only the entry pattern into the informal labour market, but also the workers' whole life paths. Moreover, social networks and local community neighbours are revealed to have similar effects as that of the family. They provide alternative means of participation, i.e. business ideas, or in material sense, they provide a real job opportunity in the informal labour market.⁸²

4-3 Macro-Micro Linkages:

National economic transformations of Egypt have not had an entirely positive impact on the employment situation in the formal private sector. Macro economic policies of Egypt in the last three decades neither stimulated the growth of the industrial sector nor encouraged formal private sector investment, as mentioned above. The trend toward downsizing the public sector and privatisation has had a major negative impact on large segment of the labour force, which is not surprising, given that the state was and remains one of the biggest employers in Egypt. Concern is mounting that certain social groups will remain excluded, such as unemployed youth, older redundant workers, those with low skills, and not to mention those with low education. Those social groups are facing even

more obstacles to formal employment. It is clear that those groups are able to take advantage of their place in the informal sector by using their social capital and networks in order to sustain their households, despite pressure from recession and structural economic change.

The exclusion of those groups from the institutions of the State, for example, is highlighted in the international literature on informality.⁸³ The literature on the informal sector stresses the segments of society that are not in compliance with the State's rules and regulations. This non-compliance can be viewed as a manifestation of exclusion. As it discussed, the State's rules and regulations are conceived in such a way as to make it virtually impossible for large segments of society to secure their livelihoods, thus forcing them to operate outside these rules.⁸⁴ Once they become defined as rule-breakers, it becomes easy to deny them access to the multitude of services, and institutions, provided by the State, and the formal private sector.

The numbers of instances where, for example, the poor are systematically excluded from government institutions in Egypt are striking. Their exclusion from access to formal source of credit is just a start, with the denial of their collective existence as squatters or street vendors, to a denial of their very existence as individuals because of their lack of official identity papers.

In promoting the formal private sector, the government sought to initiate a flexible and responsible training and retraining systems and greater investment in skill development as a prerequisite step for economic structure change and privatisation. Such training systems would have raised labour productivity and hence incomes even in the informal sector through the formal-informal interrelationship such as subcontracting. However, given that the informal sector currently generates most of the new jobs, there is a need to focus on improving productivity, incomes and conditions for informal workers.

The basic message here is that it will no longer be enough for countries to provide basic education, however necessary to meet the increasing demand for new marketable skills and qualifications, training will need to be given the highest priority. Although a serious question can arise when the costs of proper training are enormous and the results not guaranteed, skill acquisition can have an enormous impact on the working life paths of the informal sector workers.⁸⁵

4- Summary and Conclusion:

This paper provides a discussion on the informal sector conceptualisation through range of literature on the Less Developed Countries with the main focus on Egypt. The discussion covers the terms and definitions used, the framework in which the informal sector theoretically operates, the determinants and factors that assumed or explored to affect the informal sector whether the starting point or its growth.

The main result is that a universal definition of the informal sector cannot hold true for every single country context. In addition, instead of defining the informal sector unites a shift occurred toward defining the informal labour market workers. Although, this would help in avoiding the misclassification of the workers, informal sector workers are not explicitly defined, however, there are number of criteria to be utilised in assigning labour market workers into informal or formal sector. As some would use all or part of these criteria depending on data limitations, therefore, a cross-country comparison would probably be less valid. For data limitations or simplicity reasons, each study uses different definition, a phenomenon that is expected to continue in the future. The three criteria suggested to identify the informal sector workers, include non-registration of the workplace, lack of contract, lack of social insurance and lack of health insurance.

The conceptualisation and the framework in which the informal sector operates have changed over time. From the tripartite division of activity that failed to represent the heterogeneity of activities found under each subsystem, to the sectorist school that view

informal and formal parts of the economy as two sectors operating under one economic system characterised by either a complementarity or competitiveness relationship. Dualism view is another school that came in between the other two mentioned views. Dualism suggested that the two sub-systems are operating under one universal system, but not isolated as there is an overlap between the two sectors. Depending on the available studies on the informal sector within the Arab countries, informal sector is assumed to be operating within the sectorist view.

On other hand, a shift of discourse on the informal sector is a substantial change, from the notion “margins” of the “modern” economy to the “engine of growth” of the economy. Till the end of the 1960s, the informal sector (margins population) was a problematic segment. After 1960’s, this problematic segment became a solution to the economic crisis just by redefining it to the “engine of growth” and can play an important role in addressing employment crisis.

Determinants of the informal sector are reviewed and analysed at two different levels (macro and micro) and from two perspectives (starting point of the informal sector and its growth). It seems that the determinants or factors that affect the growth of the informal sector differ between Developed and Developing Countries, while there are common factors between the two groups that affect the growth of the informal sector.

The main results suggest that the failure of the modern economy in the Developed Countries to provide sufficient jobs for the growing number of job seekers was the starting point of the informal sector, while the sudden penetration of capitalism associated with twentieth-century techniques creates the initiatives of the informal sector in the Developing Countries. However, the starting point of the informal sector in the MENA region including Egypt is not clear, as studies investigated the informal sector in the MENA region were using the western model in conceptualising the sector. This is explained by the scarcity of informal sector studies in the region that allows a conceptualisation prospect.

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