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## Views on the Crisis

# The Informal Sector



### Introduction

While the whole world shares the broad outlines of the economic and social repercussions of the Coronavirus (COVID-19), which are unprecedented in its recent history, the implications thereof for each country are linked to the nature of each country's economic system, its ability to withstand the entailed repercussions and the speed of its recovery.

In light of the need to study the sectoral implications of these repercussions in order to address the crisis properly, the Egyptian Center for Economic Studies (ECES), in its initiative, is producing a set of daily reports entitled "Views on Crisis". The reports aim to analyze the implications of the coronavirus crisis for Egypt in relation to a number of vital production and service sectors and to key macroeconomic variables. This ECES initiative comes

from the belief that the current critical conditions require directing state's efforts towards achieving two main goals: providing a decent life for Egyptians during the crisis and in the recovery phase, preserving the existing investments-especially domestic investments- and helping to overcome the crisis and prepare for a rapid launch with the gradual decline of the crisis and recovery of the global economy.

The methodology used in these reports is based on an analysis of the supply and demand shocks associated with the crisis cycle in its various stages. Given the lack of detailed data on the sectoral impact of the crisis, the sectoral analysis is based on logical assumptions related to the nature of each sector and the degree of sector vulnerability to previous severe crises that were certainly less severe than the current crisis and different in nature. However, it is a starting point for the urgently required scientific diligence at this stage.

The reports attempt to provide a detailed perception of the magnitude and direction of crisis impact on each sector at present and until the end of the crisis. They aim to propose quick solutions to reduce the adverse impacts of the crisis in a balanced and integrated means that complement the serious efforts made by the state in this regard, and to offer other longer-term solutions to the existing institutional flaws, clearly revealed by the crisis. It is high time that these flaws are radically removed, which will improve post-crisis development efforts.

*“The pandemic will strengthen the state and reinforce nationalism. Governments of all types will adopt emergency measures to manage the crisis, and many will be loath to relinquish these new powers when the crisis is over.”*

**Stephan M. Walt**

Professor of International Affairs  
at Harvard University

## **1. Brief description of the subject of the report**

The informal sector has always played a fundamental role in the Egyptian economy, especially in times of crisis. However, that role has never been a subject of agreement between academics and professionals. Some see it as an economic system from which a social protection network emanates to provide a source of income and support when the State's role is diminished and formal sector activity is declining. Others do not see but a huge mass of resources that have yet to be covered by taxes, not to mention its close association with most of the problems that have spread in the Egyptian society over the past decades such as working in unsafe places, slums, child labor and school dropouts, among others.

Accordingly, understanding the repercussions of the current Corona crisis on those working in the informal sector in Egypt, whether individuals or companies, requires a disciplined scientific understanding of the nature of this sector, its dynamics, and the fundamental changes it has undergone in recent decades, as well as how it responded and interacted with the economic crises Egypt has gone through previously, and finally, the repercussions on the sector's role in the current crisis.

### ***The size of the informal sector in Egypt (compared to other countries, as well as its development over time)***

- To begin with, the size of the informal sector is large in developing countries compared to developed countries (Figure 1), as the

percentage of workers in the informal sector decreases substantially with the rise of the standard of living as measured by GDP per capita.

- The informal sector employs about 50 percent of non-farm employment in Egypt, 63 percent of the total employed in all sectors,<sup>1</sup> including agriculture, contributing equivalent to 30-40 percent of GDP.<sup>2</sup>
- This percentage is high compared to neighbouring and comparator countries such as Tunisia, Jordan and Turkey, as well as in comparison with developed countries such as Britain and Sweden, where workers in the informal sector accounted for 59, 44, 34, 13.6 and 8.2 percent of the total employed, respectively, as shown in Figure 2.
- However, the informal sector has not always been this large in Egypt. But, it grew strongly during implementation of the economic reform program in the nineties and specifically during the privatization process, as well as after the global financial crisis of 2008 and the Revolution of January 25, 2011 up to the Revolution of June 30 as shown in Figures 3 and 4.

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<sup>1</sup> ILO. 2018. "Women and men in the informal economy: A statistical picture", Third edition

<sup>2</sup> Medina, L. and F. Schneider. 2018. Shadow Economies Around the World: What Did We Learn Over the Last 20 Years? IMF Working Paper 18/17.

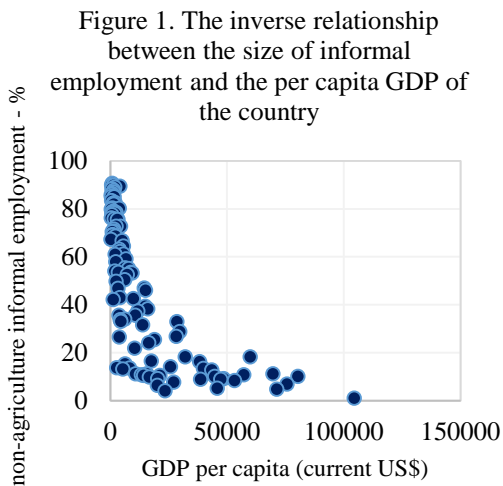
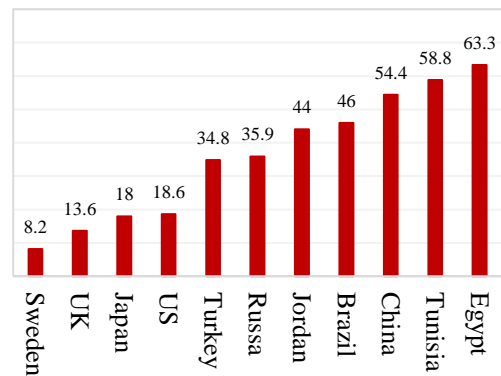
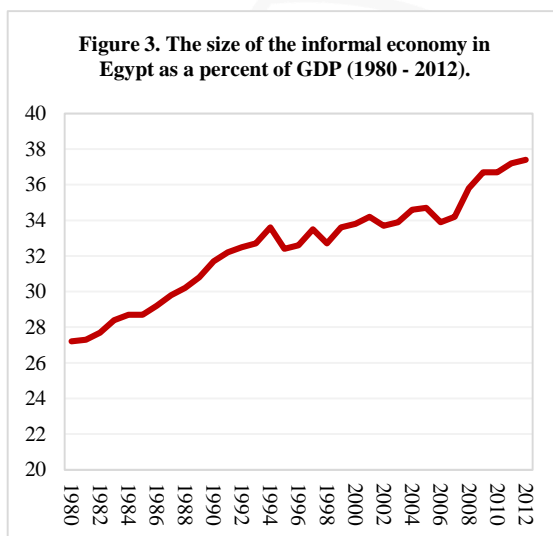


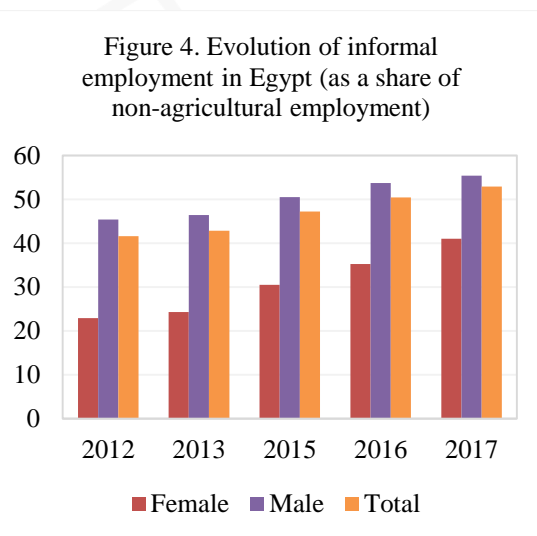
Figure 2. Informal employment as a percentage of the total employed in Egypt, 2018



Sources: International Labor Organization, 2018; World Bank, 2018.



Source: International Labor Organization, 2019<sup>4</sup>.



Source: Elshamy, 2015<sup>3</sup>.

## ***The informal sector in Egypt: Types, reasons, and features***

The following table distinguishes between three main types of informality, namely, employment, enterprises, and informal transactions, explaining the characteristics of each, as well as reasons for the increase of its magnitude.

<sup>3</sup> Elshamy, M. H. 2015. Measuring the Informal Economy in Egypt. International Journal of Business Management and Economic Research (IJBMER), Vol 6(2), 2015, 137-142

<sup>4</sup> World Bank. 2019. World Development Indicators.



| Type                | Features  | Reasons  |
|---------------------|---|--|
| Informal employment | <ul style="list-style-type: none"> <li>▪ 60.4 percent of informal workers works in the informal sector, while the rest (39.6 percent) works in the formal sector under informal arrangements, that is, without contracts or insurance, as shown in Figure 5.</li> <li>▪ Regarding the professional distribution of workers in the informal sector, 41.2 percent of them are employees, 18.8 percent are employers, 20.5 percent are own-account workers, and 19.5 percent of them are contributing family workers as shown in Figure 6.</li> <li>▪ As for sectoral distribution, agriculture comes first, with 44.8 percent of total</li> </ul> | <ul style="list-style-type: none"> <li>▪ The Egyptian economy has long been unable to generate enough formal jobs to absorb the new entrants into the labor market, whose inflows have increased significantly since the 1990s.<sup>5</sup> This is because of Egypt's industrial policy bias for capital intensity, not employment intensity, since the 1980s.</li> <li>▪ The 1962 decision regarding the state's commitment to appointment in the government and public sector has not been cancelled yet, and most benefits and official services are linked to the governmental background. This makes about 81.6 percent of the unemployed in Egypt await a government</li> </ul> |

<sup>5</sup> The proportion of the population of working age (15-64 years) increased from 54.6 percent in 1990 to 62.6 percent in 2010.

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|  | <p>informal employment in Egypt, then industry (24.6 percent), mainly concentrated in small workshops such as blacksmithing, carpentry, small food factories, as well as recycling factories such as plastic, then services ( 30.6 percent), and are mainly concentrated in the construction, retail, and catering sectors, as shown in Figure 7.</p> <ul style="list-style-type: none"> <li>▪ As for distribution by gender, Figures 6 and 7 show the concentration of women in unpaid domestic work and in agriculture. Moreover, the percentage of female employers is clearly lower compared to males.</li> </ul> | <p>job,<sup>6</sup> and given the limited official alternatives during the waiting period, they are often forced to accept an informal job.<sup>87</sup></p> <ul style="list-style-type: none"> <li>▪ Weak positive social mobility in Egypt, which drives the vast majority of young people to seek for achieving their aspirations through informal work.</li> <li>▪ Poor living standards make families send their children early to the labor market, which means that there is no chance to obtain a formal job in the future.<sup>9</sup></li> </ul> |
|--|---|--|

<sup>6</sup> Dimova, R., S. Elder and K. Stephen. 2016. Labor market transition of young women and men in the middle east and north Africa. ILO, work4youth, publication series No. 44.

<sup>7</sup> Assaad. R. 2007. labor supply, employment and unemployment in the Egyptian economy, 1988-2006. ERF, Working Paper 0701

<sup>8</sup> 75 percent of all new entrants to the labor market between 2000 and 2005 were forced to work informally because there was no formal alternative.

<sup>9</sup> Assaad, R and C. Krafft. 2016. labor market dynamics and youth unemployment in the middle east and north Africa: evidence from Egypt, Jordan and Tunisia. ERF, Working Paper 993.

|                             |   |  |
|-----------------------------|---|--|
|                             | <ul style="list-style-type: none"> <li>▪ Informal employment lacks health and social insurance and paid vacations, which makes them extremely vulnerable to any unexpected shocks.</li> </ul>   |  |
| <p>Informal enterprises</p> | <ul style="list-style-type: none"> <li>▪ Informal enterprises constitute about 90 percent of small and micro enterprises in Egypt. These enterprises are very vulnerable because they lack access to finance, land, technology and the required technical knowledge.</li> <li>▪ Their vulnerability has been proven by The World Bank. It estimated that only 20 percent of the small enterprises that were established in Egypt in 2006 were able to survive until 2012.<sup>10</sup></li> </ul> | <ul style="list-style-type: none"> <li>▪ Existing formal enterprises suffer from many problems related to rigidity of the business environment in Egypt, difficulty in obtaining the necessary licenses, high tax rates and other problems. This drives most start-ups to work informally from the start to avoid going through the same problems and obstacles.</li> <li>▪ Hence the weak formal system is the main reason behind the huge increase in informal enterprises.</li> </ul> |

<sup>10</sup> World Bank. 2014. Arab Republic of Egypt More Jobs, Better Jobs: A Priority for Egypt. Report No. 88447-EG



Informal transactions

- These transactions take many forms, starting with dependence of formal enterprises on the services and products of informal enterprises. Formal enterprises might also employ workers informally to reduce costs. Finally, many informal enterprises can export indirectly through other formal enterprises.

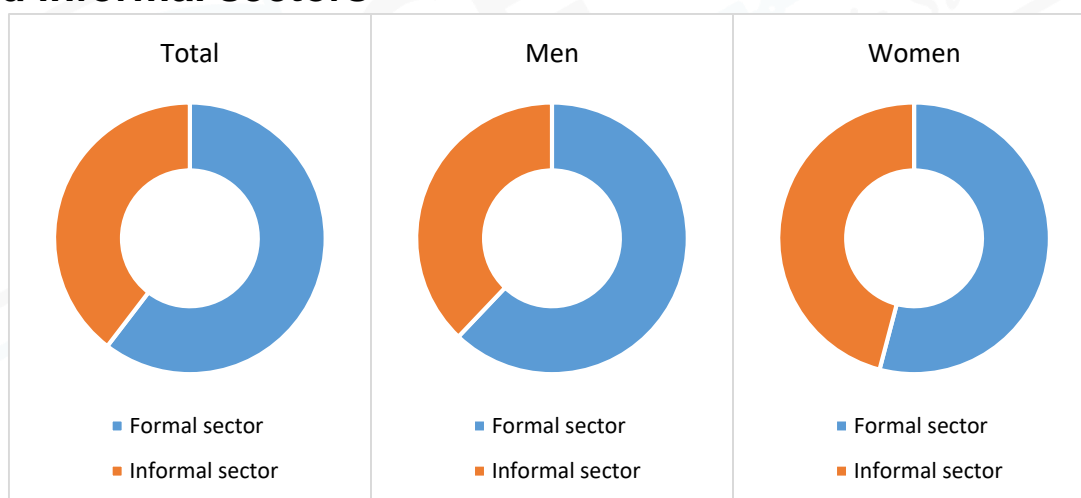
- Many enterprises resort to informal transactions in order to enjoy greater flexibility and freedom on the one hand and avoid restrictive government bureaucracy and exorbitant fees and taxes on the other. In addition, 45.8 percent of formal enterprises in Egypt said that competition with informal enterprises is one of the most important constraints facing them, and this forces them to resort to informal practices to reduce costs and remain competitive.<sup>11</sup> This means that enterprises compete to reduce costs rather than for product quality, which negatively affects the competitiveness of the economy and reduces the well-being of society as a whole.

<sup>11</sup> The World Bank. 2016. "Enterprise Surveys - Egypt"

In addition to the above, the informal sector is characterized by rapid recovery from crises in general and the current crisis in particular for the following reasons:

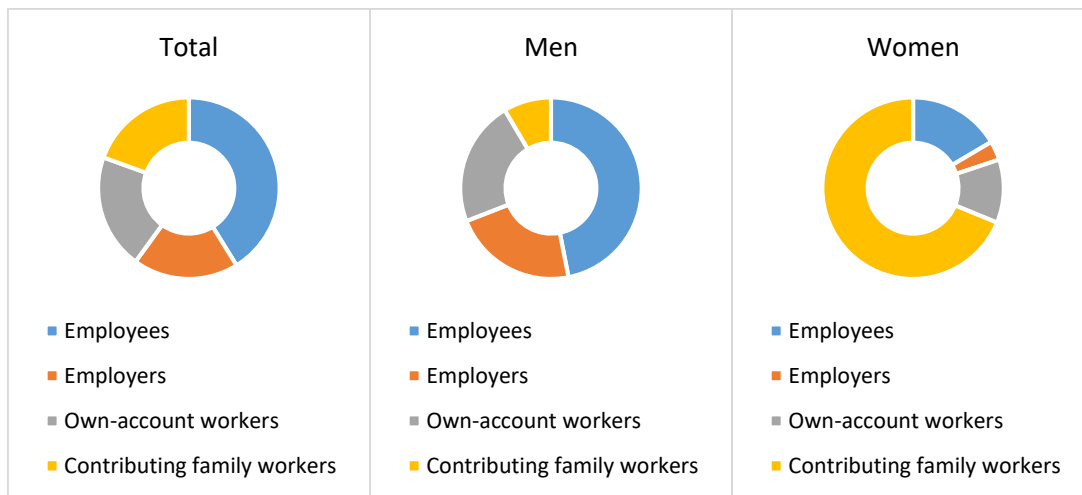
- The sector is closely linked to Chinese supply chains, which will often recover before the rest of the world's economies.
- The informal sector has dynamism, flexibility and the ability to respond to market demands and to restart operations more quickly than the formal sector, since it is not shackled by bureaucratic restrictions.
- It relates to the basic and direct needs of citizens, especially low-income groups.

**Figure 5. Distribution of informal employment within the formal and informal sectors**



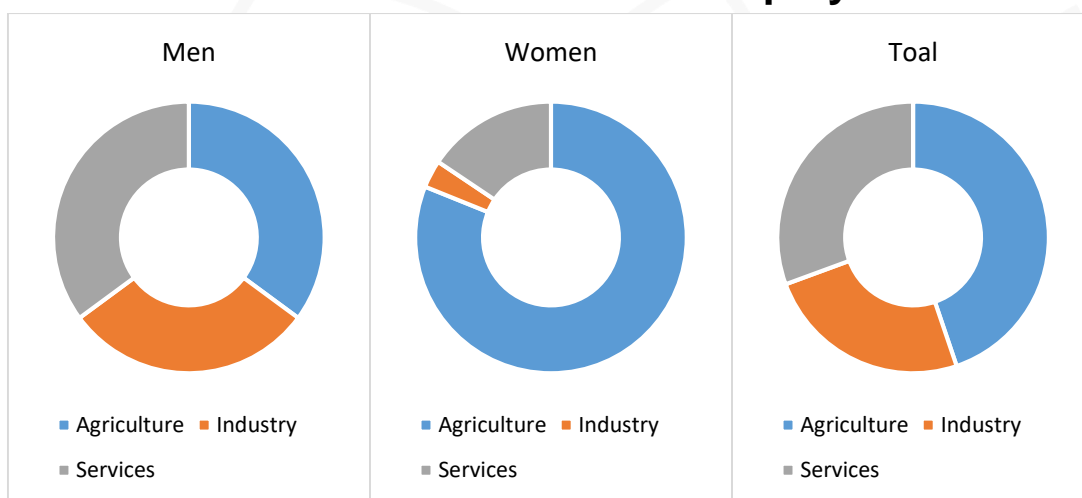
Source: International Labor Organization, 2018.

**Figure 6. Professional distribution of workers in the informal sector**



Source: International Labor Organization, 2018.

**Figure 7. Sectoral distribution of informal employment**



Source: International Labor Organization, 2018.

### ***The impact of previous crises on those working in the informal sector in Egypt***

- The informal sector played a fundamental role during the Global Financial Crisis as well as during the January Revolution. It absorbed about 1.6 million new workers during the two crises, particularly during the period 2008-2011,<sup>12</sup> compensating for the weak employment ability of the government and the formal private sector.
- However, the absence of any insurance coverage led to the deterioration of the conditions of informal workers during the

<sup>12</sup> ECES estimates based on data from the Central Agency for Public Mobilization and Statistics and the ILOSTAT database.

two crises. They were forced to take greater risks and work for longer periods to achieve weak returns that are not sufficient for their needs. In addition, they were exposed to severe internal competition due to the influx of more workers to the informal sector at times characterized by declining demand, which resulted in a significant decrease in their incomes.<sup>13</sup>

- Both crises have led to reduced job stability in the informal sector, which means shifting from regular to irregular informal employment.<sup>14</sup> Irregularity deprived informal workers of a stable income, which made them even more vulnerable and poorer.<sup>15</sup> Income and spending survey data for 2017-2018 confirm that workers outside establishments that are dominated by informal work are poorer than their counterparts working inside establishments in government and private sectors, and that the poverty rate is higher among unstable workers in particular as shown in Figures 8 and 9.
- Informal work has shifted from a temporary mean of support and income enhancement until a better formal job is obtained to become a closed circle from which there is no escape regardless of type and level of education. This means that informal workers has no chance for social advancement, due primarily to lack of improvement in the economic situation in Egypt in a way that leads to a significant improvement in the lives of all citizens since 2008, in addition to lack of formal job creation by both public and private sectors.<sup>16</sup>

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<sup>13</sup> Women in Informal Employment: Globalizing and Organizing (WIEGO). 2011. Coping with Crises: Lingering Recession, Rising Inflation, and the Informal Workforce. Inclusive cities project, January 2011

<sup>14</sup> This pattern continued until the present time following the start of the economic reform program that the country started in 2016, as the construction sector absorbed about 67 percent of the total new entrants into the labor market in 2016/2017, with these opportunities being mostly informal and irregular. Source: Ministry of Planning and Economic Development, 2016-2017, Economic and Social Performance Follow-up report.

<sup>15</sup> Assad, R. and C. Krafft. 2013. The structure and evolution of employment in Egypt: 1998-2012. ERF, Working Paper 805.

<sup>16</sup> Assaad et al. 2019. socioeconomic status and the changing nature of school-to-work transitions in Egypt, Jordan, and Tunisia. ERF, Working Paper No. 1287

Figure 8. Distribution of the poor according to labor stability 2017/2018

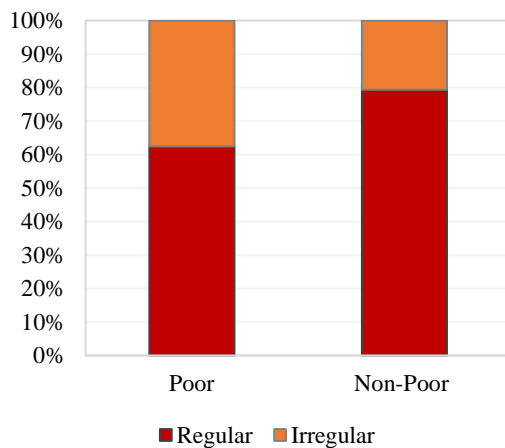
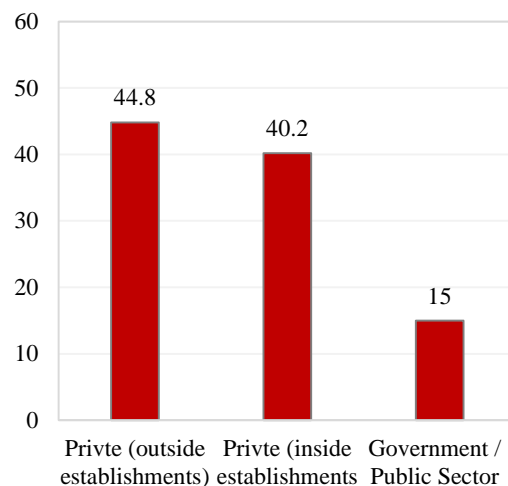


Figure 9. Distribution of the poor by sector of work, 2017-2018



Source: ECES calculations based on data of the CAPMAS Income and Expenditure Survey 2017/2018.

## 2. Demand and supply shocks in the context of the Corona crisis cycle

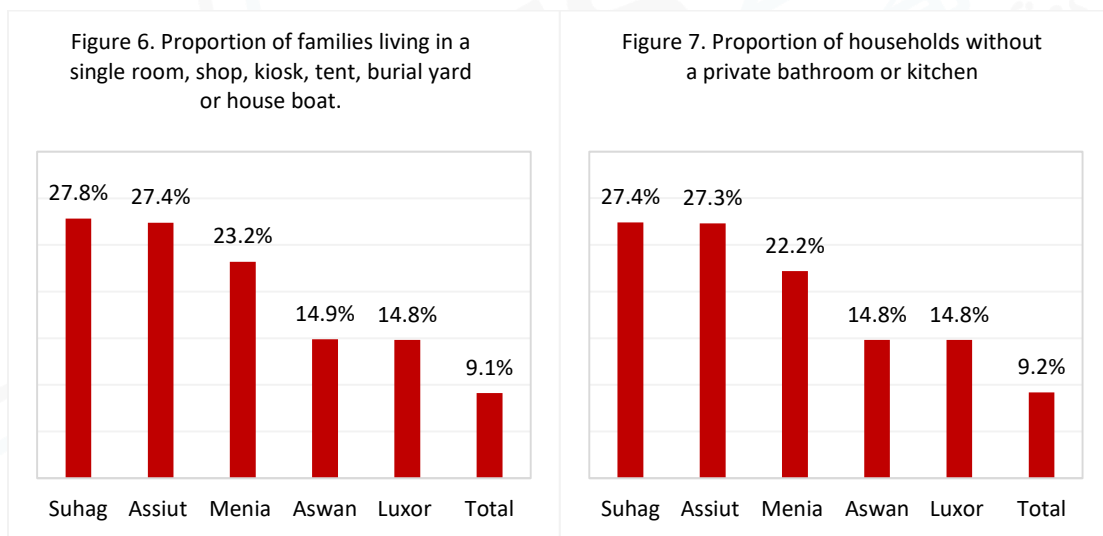
First, we would like to emphasize that the impact of the current crisis on the informal sector is fundamentally different from previous crises, whether it is the Global Financial Crisis or the January 25 and June 30 revolutions, that is in two respects:

- First: The crisis affected the informal sector as much as it affected the formal sector. Thus, it lost its main feature which is the ability to compensate for the decline in employment in the formal private sector during crises. This will compound the impact of the crisis on the Egyptian economy in general and on the poorer classes in society in particular.
- Second: Informal employment is the most vulnerable to infection and transmission of the virus, given that the absence of insurance coverage or paid leave limits the ability of informal workers to adhere to the lockdown, in addition to the fact that their workplaces often lack health and occupational safety standards.



- In the event of an infection, the poorest places can turn into hotbeds for spreading the disease, as it is difficult for the vast majority of them to apply the rules of social distancing and home quarantines recommended by official parties due to limited resources and poor housing conditions.

In this regard, the population census data indicates that more than 8.3 million poor people (2.1 million families) do not live in an apartment but in a single room, kiosk, or tent, and 6.2 million citizens (1.6 million families) do not have running water in the house. About 8.4 million citizens (2.2 million families) do not have a private bathroom or kitchen, and these numbers are significantly higher in Upper Egypt governorates, as shown in Figures 6 and 7.



Source: ECES calculations based on data of the CAPMAS General Census of Population and Enterprises 2017.

As for the current Corona crisis, the expected impact on the demand and supply sides depends on the relevant stage in the crisis cycle. We can trace five stages of the crisis cycle, as shown in the figure below:

# Crisis Cycle



Source: The Egyptian Center for Economic Studies.

Below is a brief description of each stage:

## **The first stage: Emergence of the virus**

The crisis began and aggravated in China only. The rest of the world, including Arab and European countries, were not yet affected by the crisis. Only China took precautionary measures against the virus at this stage.

## **The second stage: Beginning of proliferation**

The spread of the virus in parts of Europe, Asia and the Middle East. These countries initiated limited precautionary measures to prevent the spread of the virus, while China took significant measures such as closing down production facilities.

## **The third stage: Aggravation of the problem**

The situation has worsened in Europe and the Middle East, especially in Italy and Iran, and the beginning of the virus spreading in the US and Canada. At this stage, tougher

measures have been taken, such as a ban on flights and cancelling big events. This stage has also witnessed beginning of the virus's receding in China and South Korea thanks to the governments' preventive measures.

#### **The fourth stage: Crisis recedes**

The beginning of the virus receding in Europe and coming under control in both Italy and Iran, and the resumption of trade between China, Europe and the Middle East, while the United States will continue to suffer.

#### **Fifth stage: Recovery**

Complete recovery in Europe and the United States, but less important economies in the Middle East are still to recover, but their impact on the informal private sector in Egypt is weak due to weak inter-trade between these countries and Egypt, as most of the sector's imports are sourced from China.

***The following table reviews the possible scenarios of the impact of the crisis on workers in the informal sector at each stage of the crisis cycle in the context of the various assumptions of supply and demand shocks.***

**Supply shock:** The inability of workers in the informal sector to provide services to others, either due to disruption of supply chains mainly related to China (such as workers in the field of trade, especially clothing, as well as craft workers dependent on the import of production inputs), or because of the precautionary measures taken by the State such as the curfew and the stoppage of many activities, which left wide sectors of workers in

the informal sector unable to offer their services to others, whether for individuals or formal enterprises.

**Demand shock:** The State's precautionary measures restricted the movement of consumers, with most of them staying home, which led to a decline in demand for products and services of workers in the informal sector and small informal companies in densely populated areas away from industrial places. In addition, the fact that formal enterprises have been affected by the crisis means that their demand for the services of workers in the informal sector, such as transportation services, for example, has declined, especially that informal enterprises are often the first link in the local supply chains.

The analysis is consisted of two parts, the first is descriptive in light of the potential effects monitored so far on the ground. The second is quantitative relying on analyzing the similar effect during the Global Financial Crisis as well as during the January Revolution. The quantitative part is limited only to the impact of the crisis on the number of unemployed for reasons related to detailed data availability, and also because informal workers is the most likely to be vulnerable to unemployment because it is the first to be laid off in times of crises. Also, they represent approximately 83 percent<sup>17</sup> of workers outside the government sector and the public business sector, meaning that they have the largest weight when calculating unemployment in Egypt.

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<sup>17</sup> This percentage was calculated on the basis of data from the International Labor Organization as well as the Central Agency for Public Mobilization and Statistics, using the following formula (the number of workers in the informal sector) / (total number of employed in Egypt - the number of workers in government, the public sector, and the public business sector)

| Stage  | Demand and/or supply shock          | Descriptive Analysis  | Quantitative Effect <sup>18</sup>   |
|--|-------------------------------------|---|---|
| <b>1. Emergence of the virus (December 2019 to January 2020)</b> | A slight shock in supply and demand | <ul style="list-style-type: none"> <li>▪ The supply shock is limited to small enterprises and informal workers due to the disruption of Chinese supply chains such as ready-made garments sector, electronics, carpentry and blacksmithing workshops, as well as handicrafts. It is expected that the shock will be limited due to the possibility of presence of inventory that can be used.</li> <li>▪ There is no shock in consumer demand for services and</li> </ul> | The number of the unemployed in Egypt has actually increased by 5.3 percent in Q4 2019, to record 2329 thousand, compared to 2212 thousand in the third quarter of 2019, an increase of approximately 117 thousand unemployed. <sup>19</sup> The unemployment rate rose to 8 percent in the fourth quarter of 2019 compared to 7.8 percent in the third quarter of the same year. |

<sup>18</sup> The quantitative analysis is based on a Gregorian year, not a fiscal year

<sup>19</sup> This data covers the fourth quarter of 2019 (October - December), that is, it only covers the first month of the virus's emergence stage, which is December, while the second month of this phase, January, belongs to the first quarter of 2020.



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|  |   | <p>products of the informal sector at this stage because no precautionary measures have been taken in Egypt yet.</p> <p>Regarding the demand of formal enterprises for the services of informal workers, it is expected to decline slightly, as informal workers is the first to be dispensed with by enterprises as a result of being affected by disruption of Chinese supply chains.</p> |   |
| <p><b>2-The beginning of proliferation (February through</b></p> | <p>Severe supply shock and moderate</p> | <ul style="list-style-type: none"> <li>▪ The supply shock was mainly due to the crisis reaching its peak in China in February</li> </ul>  | <p>This stage is very similar to the situation during the Global Financial Crisis, in terms</p> |

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| <p><b>mid-March 2020)</b></p> | <p>demand shock.</p> | <p>and the partial shutdown of factories in the affected areas, which affected the informal sector dependent on Chinese supply chains at a time the local stock is expected to start running out.</p> <ul style="list-style-type: none"> <li>▪ <b>In February</b>, informal workers unrelated to Chinese supply chains have not experienced a supply shock yet, mainly because they relied on their direct physical effort for livelihood such as microbus and tuktuk drivers, agricultural workers, food cart owners and others.</li> <li>▪ <b>In the first half of March</b>, signs of the</li> </ul> | <p>of an external shock in an economy of the size of China, without violent internal shocks yet. Hence, we assume that the effect in the current period is an increase in the number of the unemployed with the same rate caused by the Global Financial Crisis, which is 14.4 percent by the end of the first quarter of 2020 to record 2,665 thousand unemployed, an increase of approximately 336 thousand unemployed from the fourth quarter 2019. This is mainly due to the shock of supply and demand in</p> |
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|  |  | <p>shock to domestic demand began to appear for most workers in the informal sector, especially in large urban cities, due to the state of doubt and caution regarding the spread of the virus among consumers, which pushed them to limit their consumption of basic commodities such as food and drink.</p> <p>Formal enterprises were also affected by the shock, as their activities were partially suspended until</p> | <p>March specifically.<sup>20</sup></p> <p>This means that unemployment rate will rise to 9.2 percent in the first quarter of 2020 compared to 8 percent in the fourth quarter of 2019.</p> |
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<sup>20</sup> Although 14.4 percent was recorded for a full year during the Global Financial Crisis, we assume that the unemployment rate will increase by the same rate during only one quarter in the current crisis, for two reasons. The first is that the current crisis is more severe in impact, and evidence for that is that unemployment in the fourth quarter of 2019 has already increased by 5.3 percent, though the crisis had not yet intensified. The second reason is the multiplier effect of the violent internal shock to the Egyptian economy.

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|  |   | <p>alternatives to China are found, leading to a decline in their demand for services of informal enterprises.</p>  |   |
| <p><b>3- Aggravation of the problem (From mid-March to May 2020)</b></p> | <p>Greater supply shock and severe demand shock</p> | <ul style="list-style-type: none"> <li>▪ Although China is back to operating the major industrial centers, operation rates are still significantly lower than before the crisis, so the supply capacity of informal labor associated with Chinese supply chains is still weak, especially as it will face many logistical problems in transportation and customs clearance.</li> <li>▪ The precautionary measures taken locally will also make</li> </ul> | <p>The International Monetary Fund announced that the world officially entered a state of recession that is more violent than the Global Financial Crisis, and that its impact will be more severe for countries that suffer from existing institutional weaknesses. In the presence of a more violent internal demand shock than that witnessed by Egypt during the January Revolution, this</p> |

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|  |  | <p>the supply shock worse, especially for workers in activities that the government has banned completely, such as cafes and popular markets, most notably the Ataba market and the Khan al-Khalili market as well as weekly markets in all Governorates of Egypt.</p> <ul style="list-style-type: none"> <li>▪ Also, these measures mean a demand shock at the same time, for example: Stoppage of schooling will lead to a cease of demand on all related activities such as printing, photographing, restaurants, etc.</li> </ul> | <p>means exacerbation of the negative impact in a way that exceeds all crises that Egypt previously experienced.</p> <p>Accordingly, we expect the number of unemployed to increase by the same percentage as during the Global Financial Crisis (14.4 percent) as well as during the first quarter of 2011 (34.3 percent) combined, i.e., by 48.7 percent to record 3463 thousand unemployed by the end of the second quarter of 2020, an increase of 1134 thousand workers compared to the</p> |
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|  |  | <ul style="list-style-type: none"> <li>▪ With the arrival of the virus to Europe and America, this means faltering industrial exporting companies in all fields, hence negatively affecting informal workers and informal enterprises supplying them.</li> </ul>  | <p>fourth quarter of 2019.</p> <p>This means that the unemployment rate will rise to 12 percent in the second quarter of 2020 compared to 8 percent in the fourth quarter of 2019.</p>   |
| <p><b>4. The crisis recedes (June - August 2020)</b></p> | <p>Gradual recovery in supply and continued demand shock</p> | <ul style="list-style-type: none"> <li>▪ Bringing the virus under control almost completely in China, while Europe, America and the Arab countries, including Egypt, continue to try to control it.</li> <li>▪ China's recovery means a recovery of the supply shock to informal workers and enterprises</li> </ul> | <ul style="list-style-type: none"> <li>▪ The biggest shock in the number of unemployed occurred during the second quarter of 2020 already, and the number of unemployed will rise by a smaller percentage just as it happened after the first quarter of the 2011 Revolution.</li> </ul> |

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|  |  | <p>dependent on Chinese supply chains, provided there are no logistical problems.</p> <ul style="list-style-type: none"> <li>▪ The continued local demand shock means weak demand for many activities and seasonal employment that were active during Ramadan, Eid al-Fitr and Eid al-Adha.</li> </ul> <p>Local formal enterprises have not recovered yet, which means that their demand for the services of informal workers and enterprises continues to decline.</p> | <ul style="list-style-type: none"> <li>▪ Accordingly, we expect the number of the unemployed to rise during the third quarter of 2020 by rates ranging between 1% - 5% compared to the second quarter of the same year, which means an increase in unemployment by rates ranging between 0.1% and 0.5%, approximately.</li> </ul> |
|--|--|---|---|

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| <p><b>Recovery</b><br/><b>(As of September 2020)</b></p> | <p>Full recovery in supply and gradual recovery in demand</p> | <ul style="list-style-type: none"> <li>▪ All countries recover from the virus, including Egypt, but economic recovery will occur gradually in both the formal and informal sectors alike, and the overall economic situation will not normalize until June 2021.</li> <li>▪ But it is certain that the recovery of the informal sector will precede the recovery of the formal sector because of its flexibility, allowing it to form and change without cost according to the needs of the market. Informal firms associated with Chinese supply chains will be</li> </ul> | <p>The number of the unemployed decreases by 0.1% - 5% on a quarterly basis, starting from the fourth quarter of 2020 until absorbing the increase in the number of unemployed left behind by the crisis.</p> |
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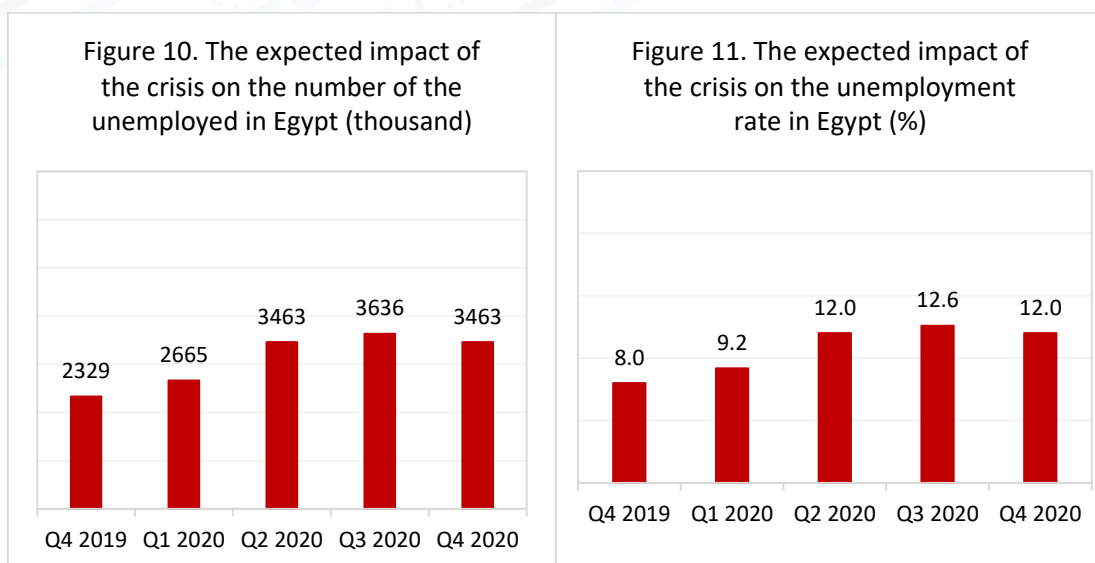
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|  |  | <p>precisely the first to recover from the supply shock.</p> <ul style="list-style-type: none"> <li>▪ A gradual improvement in domestic demand in parallel with the end of the crisis internally. However, demand will not reach the rates of the same period in the previous year due to the decline in disposable income for most Egyptians during the crisis period and not fully recovering yet.</li> <li>▪ A gradual recovery in the demand of formal enterprises for the services of informal enterprise.</li> </ul> |  |
|--|--|--|--|

Based on the previous analysis, the crisis is expected to add between 336 - 1307 thousand unemployed to the total number of unemployed of 2329 thousand in the fourth quarter of 2019, which

means that the unemployment rate will gradually increase from 8 percent in the fourth quarter of 2019 to 12.6 percent in the third quarter of 2020, as shown in Figures 10 and 11.

These estimates assume that recovery will start as of September 2020, which means an increase in the number of unemployed, and hence a greater increase in the unemployment rate if the recovery slows and the crisis continues for a longer period.

Moreover, these estimates did not take into account the cessation of the informal sector's role in employment during the current crisis, unlike previous crises. If this is taken into account, 1.6 million unemployed will be added to the previous estimates,<sup>21</sup> which is the size of employment absorbed by the informal sector during the previous two crises (the Global Financial Crisis 2008 and the Revolution of January 25, 2011), and according to this scenario the crisis can add 2907 thousand unemployed to the total number of unemployed of 2329 thousand in the fourth quarter of 2019, which means that the unemployment rate can rise to 18.1 percent.



<sup>21</sup> ECES estimates based on data from the Central Agency for Public Mobilization and Statistics and the ILOSTAT database.



### **3. The impact of the crisis on poverty in Egypt**

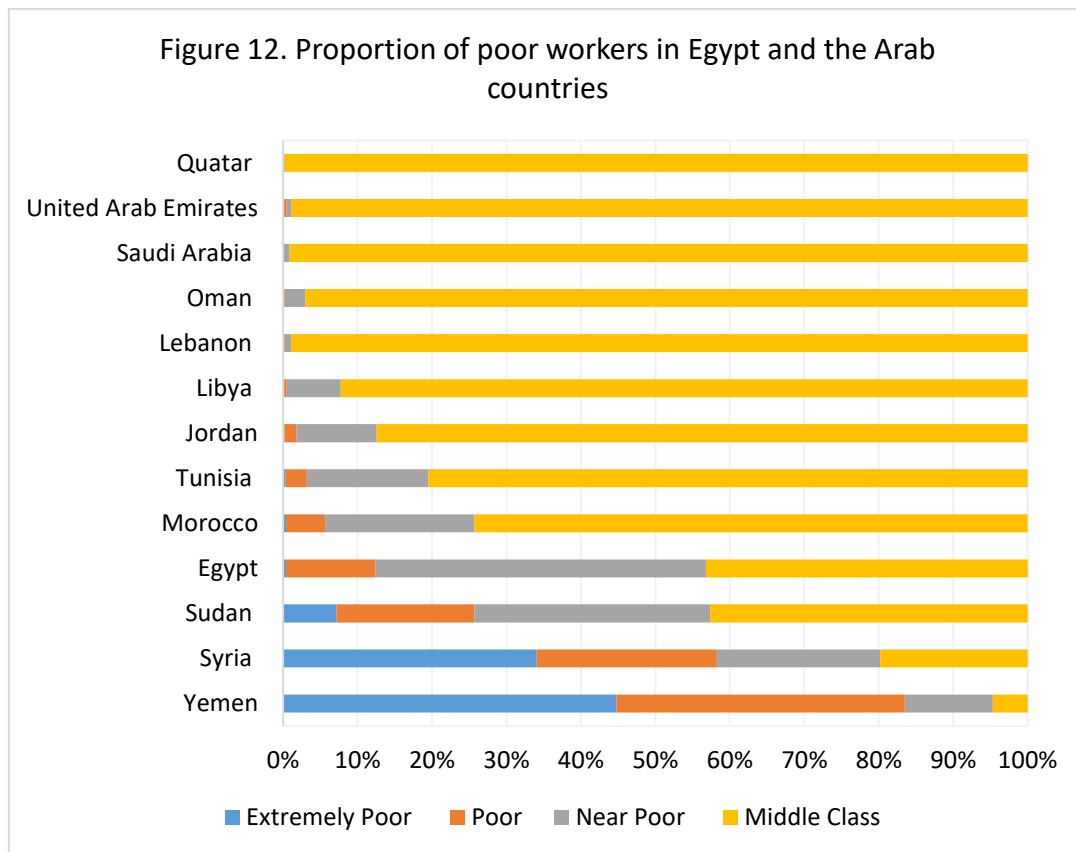
No doubt the current crisis will lead to a rise in poverty rates in Egypt, because the informal sector's stoppage of work means that millions of families lose their only source of income in the absence of any other alternatives. The International Labor Organization indicates that 0.4 percent of workers in Egypt are extremely poor, 12 percent of them are poor, and 44.4 percent are on the brink of poverty, and their situation is characterized by extreme vulnerability to any unexpected shocks, as shown in Figure 12. These are high rates compared to all Arab countries except for Sudan, Syria and Yemen.<sup>22</sup>

The current crisis is expected to cause what is known as the effect of displacement, meaning displacement of the aforementioned 12 percent from poverty to extreme poverty, and driving the 44.4 percent (12.9 million workers) below the poverty line.<sup>23</sup> This is the direct impact, but there are also indirect effects on poverty rates in Egypt. This is because broad groups of people depend on that sector to provide what they need at prices commensurate with their limited incomes, and the sector's stoppage will clearly lead to a decline in the consumption rates of these groups.

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<sup>22</sup> Poverty is measured here according to the World Bank's international poverty lines.

<sup>23</sup> This number is close to the number of workers outside establishments, who are 11.7 million workers according to estimates of the Central Agency for Public Mobilization and Statistics.



#### **4. Specific proposals to alleviate the severity of the damage**

The urgent implementation of a set of short-term solutions to alleviate the current crisis on informal workers, in parallel with an integrated strategy of medium-term measures to integrate them into the formal economy and improve their living conditions in a sustainable manner, is necessary for the safety of society in general and to enhance its ability to face any similar crises in the future.

This is in addition to avoiding a state of political and social instability that can prevail in society when broad groups of citizens find themselves trapped in a vicious circle of poverty and disease. It should not be forgotten that the spark of the Arab Spring was launched from Tunisia by an informal worker who set himself ablaze in protest against the confiscation of his only source of livelihood.

## Urgent measures

1. According to the International Labor Organization, the most important measure is to ensure a minimum income for groups whose livelihoods have been disrupted by the crisis in parallel with ensuring effective access to basic health and social services, especially for the most vulnerable groups. The organization also stresses the importance of societal dialogue and the necessity of investigating the economic repercussions on employment and helping those affected with the same efficiency as investigating infected cases health-wise.<sup>24</sup>
2. Accordingly, the initiative of the Ministry of Manpower, which requires granting a subsidy of EGP 500 pounds to irregular labor, should be expanded on, along with introducing the following reforms, so that the crisis can be genuinely mitigated for informal labor on the one hand, and ensuring smooth implementation on the other hand:
  - Increasing the benefit amount so that it covers the basic needs of the family, and to disburse it as long as the crisis persists and not on a one-off basis as required by the initiative.
  - Improving the mechanism of data collection and disbursement of subsidies so that it is accurate, efficient, and preserves the dignity of the beneficiary. This requires linking the applicant's national ID to the databases of the Ministry of Supply and the Ministry of Social Solidarity, and sending a text message stating whether or not the benefit is due.
  - In the case of eligibility, the beneficiary goes to the nearest post office to receive the subsidy, because Egypt Post has

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<sup>24</sup> ILO. 2020. "ILO Standards and COVID-19 (coronavirus)"

about 4 thousand branches throughout the country, which will ensure no crowding.

- The initiative should include all forms of free and irregular employment, instead of limiting it to certain sectors exclusively, as stated by Ministry officials.
- Using the initiative as an opportunity to build a detailed database on free and irregular employment in Egypt, to be updated continuously thereafter.

3. The need to urge all companies to activate their social responsibility and adhere to the standards of the International Labor Organization, which require that workers be granted paid leave in times of crisis and not be dismissed from work except for reasons related to the inefficiency of the worker and his weak ability to perform his duties. Absence from work for health or family reasons should not be an acceptable reason for dismissal from work, and employers must provide adequate levels of occupational and health safety standards for all employees in general and during the crisis period in particular, and provide all the necessary tools for free.<sup>25</sup>

4. The need to establish an effective mechanism for follow-up and evaluation, so as to ensure that companies adhere to these rules, as well as ensure the proper implementation of the initiative of the Ministry of Manpower and that benefits reach those entitled.

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<sup>25</sup> ILO. 2020. "ILO Standards and COVID-19 (coronavirus)"

## **Fifth: Institutional weaknesses revealed by the crisis**

- The size of the informal sector in Egypt has increased despite the Government's continuous talk about the importance of integrating it into the formal economy. This is mainly due to the predominance of a purely tax perspective on the state's engagement with that sector for decades, the absence of a comprehensive strategy based on a sustainable approach as well as poor coordination among all stakeholders. International experience has shown that this fragmented approach often leads to perpetuation of unemployment, poverty and social injustice.<sup>26</sup>
- The crisis also revealed that the informal sector is an integral part of the economy and that it plays a fundamental role during crises. It has also demonstrated a clear deficiency in the country's vision and the way it deals with that sector, and the absence of a comprehensive vision for its development.
- The suffering of workers in the informal sector due to their lack of presence within the formal system of the state, which prevented them from benefiting from many of the privileges that the government granted to the formal sector, which will deepen and entrench economic and social inequality in Egypt because the crisis has hit some more severely than others.
- The existence of a latent crisis of trust between the citizen and the government, clearly demonstrated by failure of citizens to fully comply with the instructions of the Ministry of Health. This can be ascribed to corruption, deterioration of public services, and lack of real political participation in setting priorities and formulating the general vision of the state. This made the

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<sup>26</sup> Loayza, N. 2018. *Informality: Why Is It So Widespread and How Can It Be Reduced*. The World Bank. Research & Policy Briefs. No. 20, December 2018

doctrine of the state significantly different from that of the citizen, pushing the latter to run his life affairs as far away from the state as possible, creating parallel systems for savings and borrowing, others for the judiciary, and working and earning away from the purview of the state (informally).

- The absence of accurate databases on informal employment in Egypt that can be used to target them accurately according to the economic and social conditions of each category separately, and to determine the type of assistance or intervention required according to each case.
- Weak union life in Egypt in general and the absence of any union work for informal workers in particular. The crisis revealed the dispersion of informal workers in Egypt, and absence of any organizational form that unites them and gives them the ability to collectively negotiate and communicate their voice to the government on the one hand, and facilitates the government's mission in dealing with them effectively during crises on the other, as is the case in most countries of the world, especially Latin America.
- Compromising the role of civil society over the past years, which would have been able to play a broader role during the current crisis if its work and ability to move were not restricted before amending the law late last year.
- Dealing with the informal sector from an enterprise based approach which means the state is unable to target informal employment within the formal companies.



## Accordingly, it is important to move in two directions:

- **First**, setting an integrated and serious strategy to rehabilitate the informal sector and integrate it into the formal economy away from the tax purview and dispersed roles of various government agencies, especially in light of the incentive for workers in the informal sector to join the formal system, even if it has problems, because they realized the missed opportunity during crises.

This strategy should start from a developmental perspective and address the direct and indirect causes that led to the expansion of the informal sector and caused the fragility of its workers in the first place. Most importantly, the weak and complex formal system, and the absence of the first steps to shift to the formal system through a strong social protection network consisting of health and social insurance and unemployment benefits, as happened in Latin America.

This strategy must also contain detailed policies that differentiate between informal employment on the one hand and informal enterprises on the other hand, as well as between enterprises that must be integrated into the formal economy and those that should not for economic efficiency considerations. In this regard, the Egyptian Center for Economic Studies is currently preparing a detailed study on the dimensions that must be available for dealing in a sustainable manner with the informal sector.

- **Second**, enhancing the ability of workers in general, and informal workers in particular, to adapt during crises. This can be achieved through the application of the so-called Universal Basic Income, which requires giving each citizen a fixed monthly salary that covers his basic needs, without any conditions related to income and wealth, nor how to spend it, and not even conditional on regular attendance by children in schools and health care.



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