



Instituto Libertad y Democracia

# FORMALIZATION OF THE EXTRALEGAL SECTOR IN EGYPT

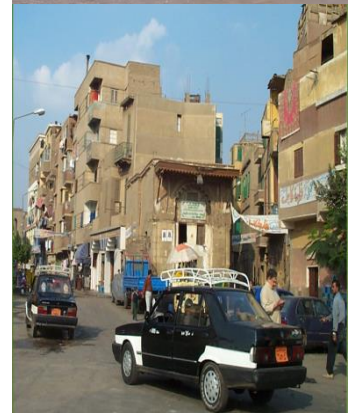
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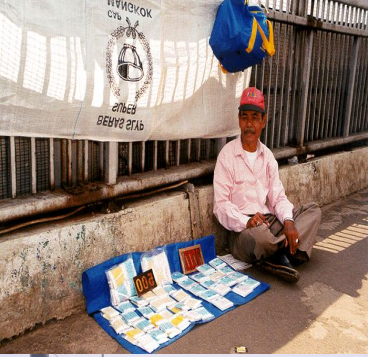
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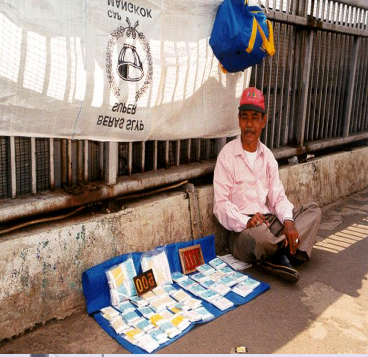


# Three Main Questions



- I.** Is formalization good for the Egyptian economy?
- II.** If yes, what is preventing formalization from taking place?
- III.** Finally, what can be done to promote formalization?

# I. Is Formalization Good for the Egyptian Economy?



The short answer is *yes, if* pro-formalization reforms are adopted:

- It is good for rapid economic growth, job creation, and poverty reduction.
- It is good for:
  - Entrepreneurs in the informal sector,
  - Workers,
  - The government budget, and
  - Partly for consumers.

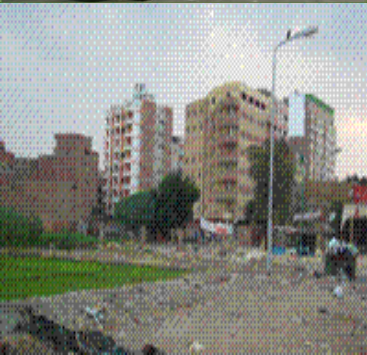


# I. Is Formalization Good for the Egyptian Economy?

## How did we reach this conclusion?

We estimated three values of a “typical firm” in the informal sector under:

1. Continued informality;
2. Formalization under the existing framework of entry, operation, expansion and exit; and
3. Formalization under a reformed regulatory framework.

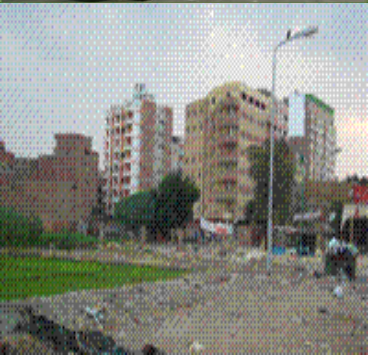
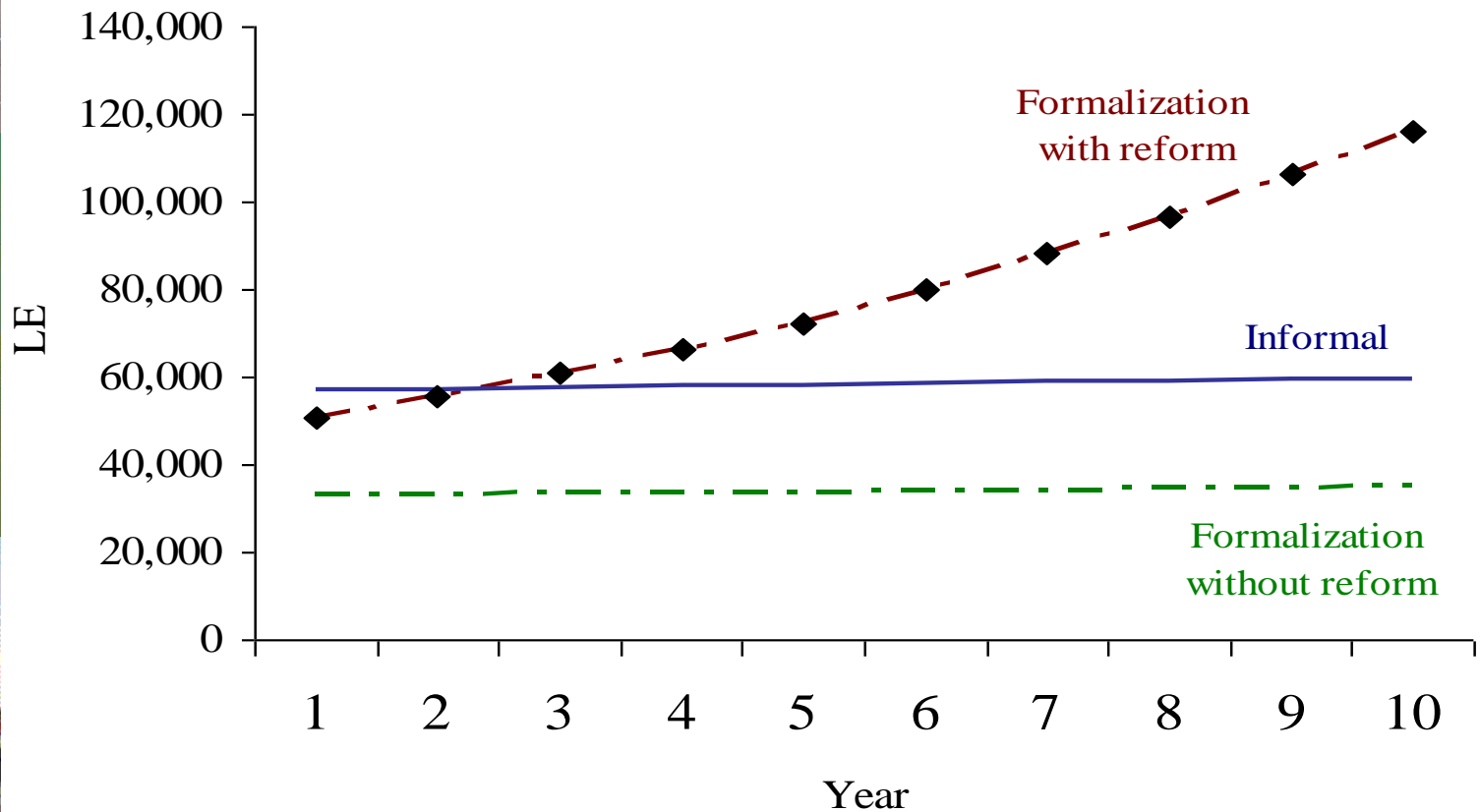


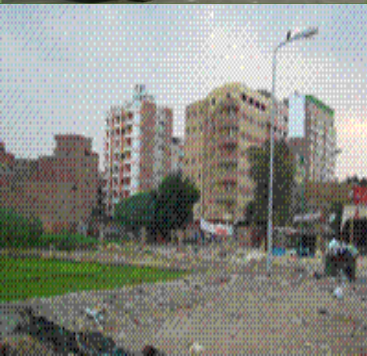


# I. Is Formalization Good for the Egyptian Economy?

## What were the results?

Net profits of a typical firm under different scenarios





# I. Is Formalization Good for the Egyptian Economy?

## What were the results?

	Welfare change of formalization			
	Firm		Economy	
	Without reform (LE)	With reform (LE)	With reform (LE Billion)	Annual change with reform (% of GDP)
Entrepreneur	-148,762	94,244	64.5	1.0
+ Employees	11,378	46,117	49.3	0.7
+ Consumers	-127,980	-167,361	-114.3	-1.7
+ Government	149,502	92,260	90.1	1.3
+ Citizens			-3.0	-0.04
<b>Total</b>	<b>-115,862</b>	<b>65,961</b>	<b>86.6</b>	<b>1.3</b>

# Concluding Remarks

## What will bring about these results?

- Hernando will elaborate the answer.
- From the data analysis, however, a few conclusions stand out:
  - Partial reforms will not work;
  - Entrepreneurs are key because they decide whether to formalize or not; and
  - Policymakers can affect the distribution of the gains through policies, especially taxation.

