

## **An Investigation of the Causes of Informal Sector Preference among Workers in Egypt**

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**Abstract:** *The research targets to investigate for the causes of the worker preference to work in the informal sector in Egypt. The study was conducted in Cairo using primary research methodology. The sample targeted streets vendors in Cairo to be synthesis their internal factors that motivate them to enroll in the gray market. The questionnaire aims to explore the reasons that formulate the workers preference to be in the informal sector and don't join the formal sector. The results revealed that the main factor in the widespread of the informal sector is the malfunction to provide appropriate work conditions in the formal sector system. Reasons focuses basically on the culture of the community in all educational levels and through the registration requirements and fees, followed by the lack of an integrated program that works to encourage the community and respect the nation's rights. These findings made the researcher recommend an inclusive program for transforming informal workers to formal via adopting an incentives package, insurance rights and more labor rights.*

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### **I. Introduction**

The informal or shadow economy refers to the businesses and income that are partly or completely out of the governmental framework and regulations, taxation, and monitoring. The financial issues are the main attractions of the informal business activities, working in the informal economy allows all the activity's members like employers, employees, and the self-employed persons to boost their earnings or minimize the costs by getting rid of the taxation system and the other social responsibilities and commitments. Nevertheless, the informal economy is considering the most important alternative channel of employment for whom cannot find a vacancy or opportunity in the official employment system; however, this results in a massive loss in the national budget revenues due to the tax evasion.

Informal economy is difficult to be managed because of its illegality and some insecurity issues related to its activities, in addition, the informal activities lacking the high technology systems in supply and storage process which causing a low quality products and products loss. Because of all the losses mentioned previously, which cause the lack of good supply of products and commodities and affect negatively on all economic indicators the researcher decide to investigate the causes of the worker preference to work in the informal economy in Egypt depending on one segment of the informal economy, the street vendors, which represent a large proportion of the retail business in Egypt and them many citizens deal with them to buy their daily needs.

### **II. Material And Methods**

The main objective of this research is to investigate the causes of informal sector preferences among workers and factors affecting their decision to join the formal sector. this survey of the research was conducted in Cairo which is the capital and the largest city in Egypt, with a population of 22.5 million people according to the population census conducted by Central Agency for Public Mobilization and Statistics (CAPMAS);

**Study Design:** Descriptive study

**Study Location:** The Locations for collecting the data for this research were considered to get a representative sample of street vendors in Cairo. Therefore it collected from three public markets (Al Megharbleen, Al Giza, and Al Omranya).

**Study Duration:** October 2016.

**Sample size:** 66 street vendors.

**Sample size calculation:** The study population by nature has no specific addresses, mails or any contact mean for communication, therefore it was difficult to determine the total size of the population and the sample size too, The Data collected by conducting sample survey method; the researcher preferred this method because it uses less time and money. And also better observing and quality control accuracy, the survey was conducted by the researcher herself interviewed 66 street vendors during one month.

**Subjects & selection method:** Due to the difficulty of collecting data, the researcher conducting the survey among the street vendors in three informal markets in three different region with total amount of 66 respondents, the respondents vary from male or female, Educated or not educated or have a certain level of education, in different level of ages and also from different regions and governorates in Egypt.

**Procedure methodology**

Questionnaires for this survey involved two sets of questions(individuality of respondents & data on the activities in the street vending) also it should be mentioned that the interview cannot be recorded because of reluctance of vendors related to absence of trust and it was difficult due to respondent working behavior, the questionnaire was prepared and done in Arabic language due to the limited education status of the respondents.

**Statistical analysis**

Data was analyzed using SPSS version 20, Descriptive analysis has been done and it focused on the most important results of the survey in addition to the analysis of the reasons that people operate in the informal sector with different factors such as gender, age, educational level, number of dependents, migrant status.

**III. Result**

This analysis is done by test the personal characteristics of street vendors like age, sex, education status, number of dependence, marital status, origin and reason of migration, choosing of location and reason of joining street vendor activities, constraints, obstacles and risks in street work.

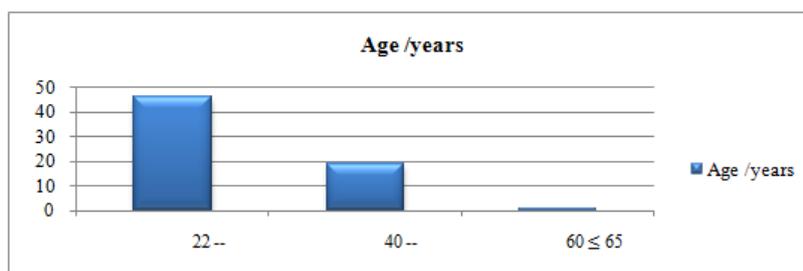
Table no 1 illustrated that (70% and 29%) of the study subjects their age between 22 < 40 and 40 < 60 years respectively and (2%) was 60 ≤ 65 years old. (86.4 %) of them were males, whereas (13.6%) were females.

**Table 1:** frequency and percentage distribution of demographics among respondents (n=66).

Variables	N	%
Age /years		
22 --	46	70
40 --	19	29
60 ≤ 65	1	2
$\bar{X} + SD$	37.2 + 7.9	
Gender		
Male	97	86.4
Female	9	13.6
Marital Status		
Single	10	15.2
Married	49	74.2
Divorced	1	1.5
Widowed	6	9.1
Educational level		
Can't read or write	14	21.2
literacy	5	7.6
Primary/preparatory school	18	27.3
Secondary/diplome	25	37.9
College/ post graduate	4	6.1
Place of birth		
Cairo	17	25.8
Giza	20	30.3
Other governorates	29	43.9

Source: collected from the sample of the research.

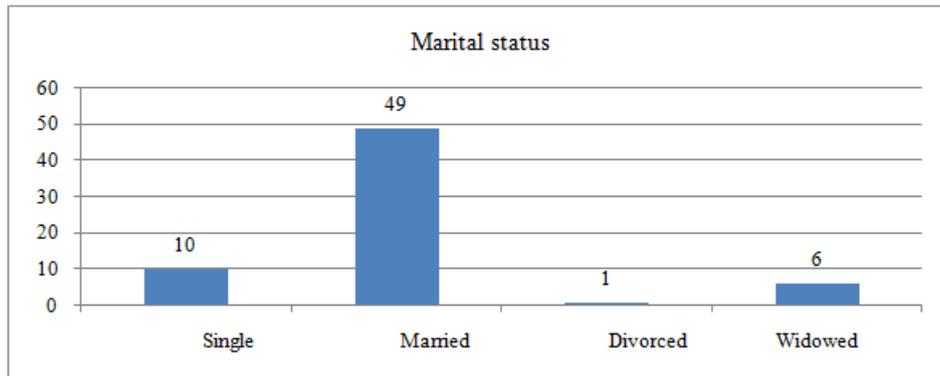
**Figure 1:** Age of respondents



Source: Prepared by the researcher

As regards to marital status (74.2%) was married, (15.2%) single, (1.5%) Divorced and (9.1%) was widowed.

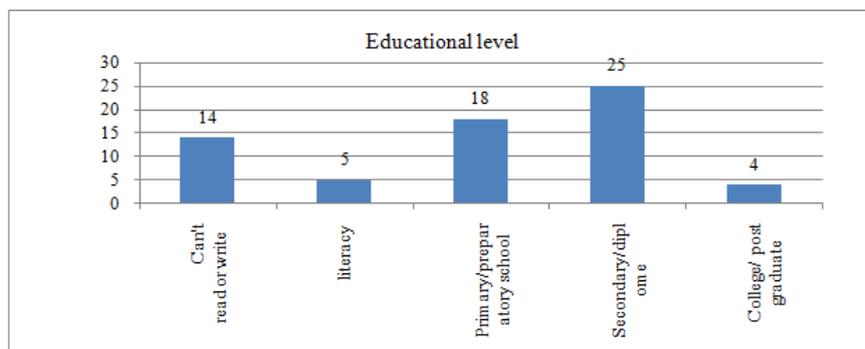
**Figure 2:** Marital status of respondents.



Source: Prepared by the researcher

Regarding educational level, secondary/ deplom education and primary / preparatory were (37.9% and 27.3%) respectively. Also persons who can read and write (literacy), cannot read and write college and post graduate were (7.6 %, 21.2% and 6.1%) respectively

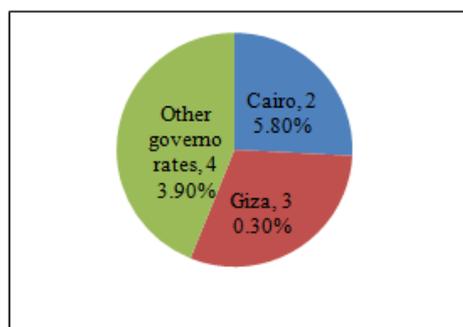
**Figure 3:** Educational level of respondents



Source: Prepared by the researcher

As regards to place of birth, (25.8 %) of the study subjects were from Cairo, whereas (30.3 %) from Giza, and (43.9%) were from other governorates which mean there is a percentage of internal migrations from

**Figure 4:** Place of Birth of respondents



Source: Prepared by the researcher.

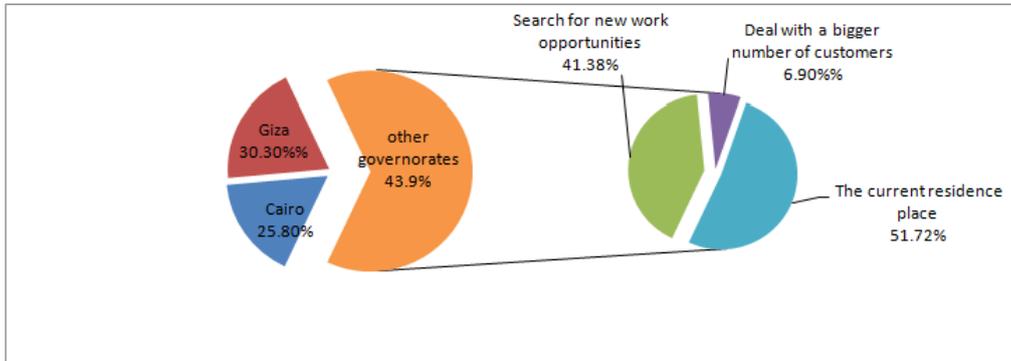
Table no 2 reveals that 29 of the study subject are from another governorates, table no 3 illustrate their answers about the reason to work in great Cairo and the result was (41.38 %) search for a new work opportunity, (6.9%) come to deal with a bigger number of customers, and (51.72) leave their governorate and become a residence in Cairo and Giza permanently.

**Table 2:** frequency and percentage distribution of the reason of working in great Cairo in case of internal migration (n=29)

Variables	N	%
Internal migration causes		
Search for new work opportunities	12	41.38
Deal with a bigger number of customers	2	6.90
The current residence place	15	51.72

Source: collected from the sample of the researcher.

**Figure 5:** percentage distribution of the migration to Cairo and its causes



Source: prepared by the researcher

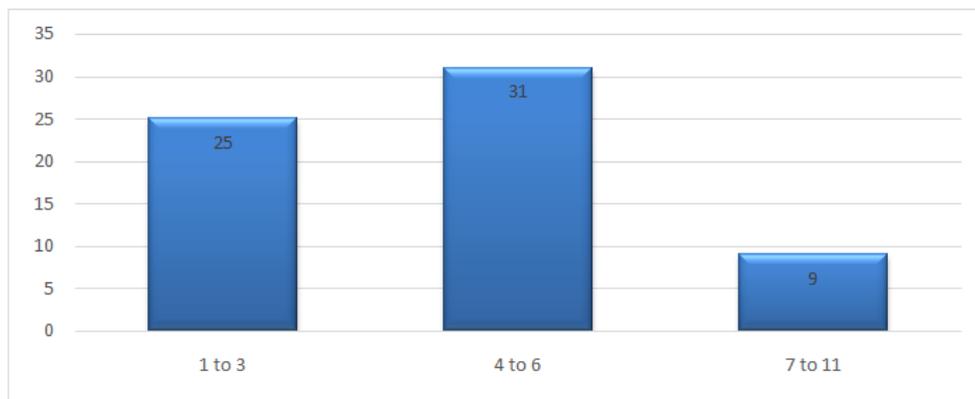
Table no 3 shows that (38.46 %) of the subjects family are have from 1 to 3 members, (47.69 %) are have from 4 to 6 members and 13.85%) are have from 6 to 11 members. Which mean that all the respondents have dependences which may be the primary cause to work in the informal sector?

**Table 3:** frequency and percentage distribution of the number of dependences among the subjects(n=65- One of the respondents was not given an answer).

Variables	N	%
Number of dependences		
1 - 3	25	38.46
4 - 6	31	47.69
7 - 11	9	13.85

Source: collected from the sample of the research

**Figure 6:** Number of dependences for each respondent



Source: Prepared by the researcher

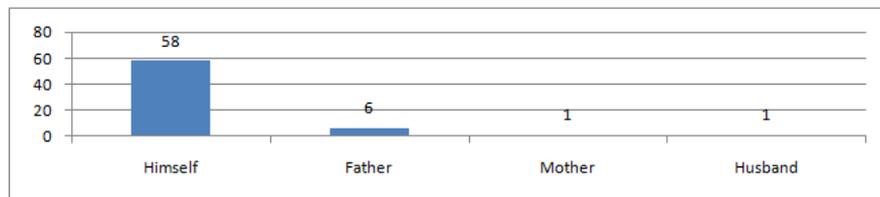
Table no 4 illustrates that (87.9%) of the respondents are responsible themselves for the family, (9.1%) are responsible from the father, and regard to the mother and husband (1.5%) for each.

**Table 4:** frequency and percentage distribution of the responsible for the family (n=66).

Variables	N	%
Responsible for family		
Himself	58	87.9
Father	6	9.1
Mother	1	1.5
Husband	1	1.5

Source: collected from the sample of the research

**Figure 7:** The type of the responsible for family



Source: Prepared by the researcher

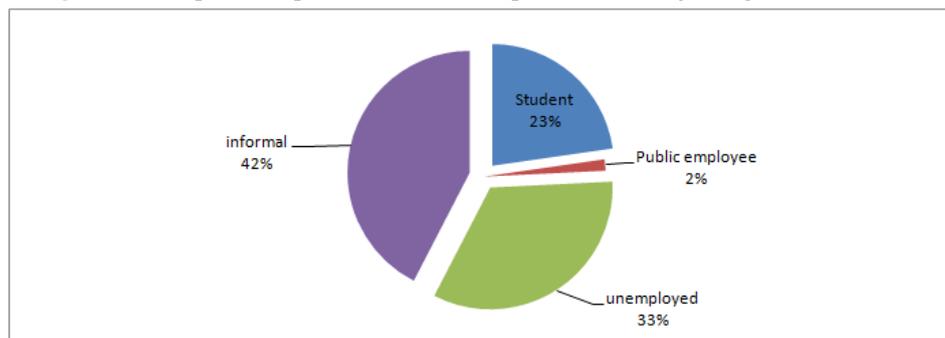
Table no 5 reveals that (22.7%) were students before they join the informal sector while (33.3%) didn't have a job (unemployed), and the majority of the respondents (42.4 %) were work in the informal sector as inherited from their families.

**Table 5:** Frequency and percentage distribution of the respondents previous position (n=66).

Variables	N	%
What were you doing before working in the informal sector		
Student	15	22.7
Public employee	1	1.5
unemployed	22	33.3
informal	28	42.4

Source: collected from the sample of the research

**Figure 8:** The previous position for each respondent before joining informal sector



Source: Prepared by the researcher

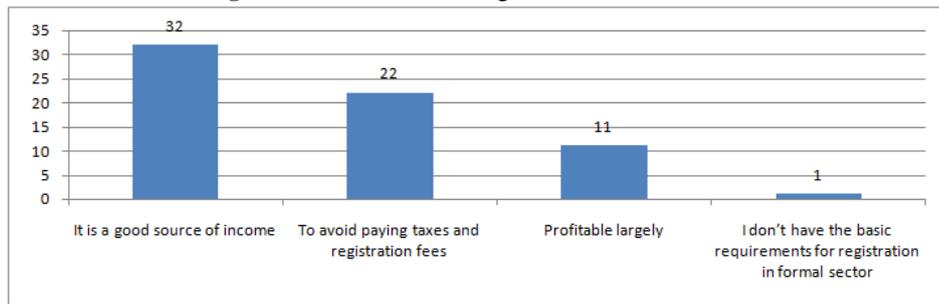
Table no 6 reveals that (48.5%) of the respondents work in the informal sector because they believe that it is a good source of income, at the same time (33.3 %) to avoid paying taxes and registration fees, (16.7 %) consider the informal sector is a profitable business, and (1.5 %) working in the informal sector because they don't have the basic requirements for registration in the formal sector.

**Table 6:** Frequency and percentage distribution of reasons of working in the informal sector.(n=66)

Variables	N	%
What were the reasons of working in the informal sector		
It is a good source of income	32	48.5
To avoid paying taxes and registration fees	22	33.3
Profitable largely	11	16.7
I don't have the basic requirements for registration in formal sector	1	1.5

Source: collected from the sample of the research

**Figure 9:** causes of working in the informal sector



Source: Prepared by the researcher

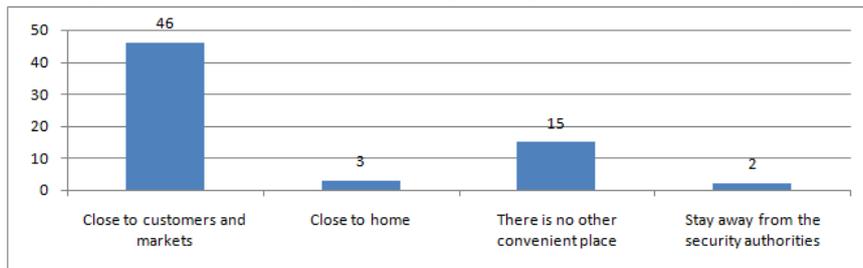
Table no 7 shows that the reason that make respondents prefer to standing in these places in( 69.7 %) because it is close to customers and markets, (4.5%) because it is close to home , (22.7%) because there is no other convenient place, and (3%) to be away from the security authorities.

**Table 7:** frequency and percentage distribution of the reasons of standing in this market place specifically (n=66)

Variables	N	%
Why you standing in this place specifically	46	69.7
Close to customers and markets	3	4.5
Close to home	15	22.7
There is no other convenient place	2	3
Stay away from the security authorities		

Source: collected from the sample of the research

**Figure 10:** The reasons of preferring these places to work informally.



Source: Prepared by the researcher

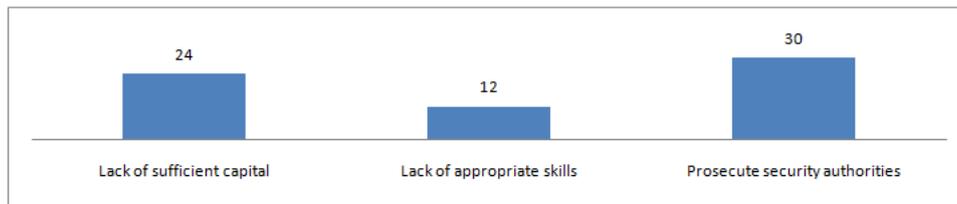
Table no 8 illustrates that the main problems that the respondents encounter were (36.4%) the lack of sufficient capital , (18.2%) the lack of appropriate skills, and (45.5%) prosecute security authorities and this declare that the main reasons that threaten the workers in this sector.

**Table 8:** Frequency and percentage distribution of the main problems that the respondents encounter at the beginning of the work in the informal sector (n=66).

Variables	N	%
What are the main problems that you encounter at the beginning of the work in the informal sector		
Lack of sufficient capital	24	36.4
Lack of appropriate skills	12	18.2
Prosecute security authorities	30	45.5

Source: collected from the sample of the research

**Figure 11:** problems that worker encounter in the informal sector



Source: Prepared by the researcher

Table no 9 shows that there are (97%) of the research subjects experienced some events that affected their work in the informal sector, and just (2%) are not experienced any odd event at all.

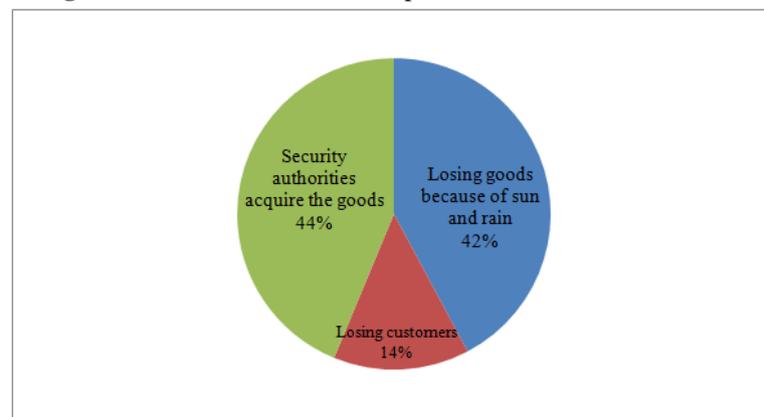
From the (97%) there are (40.9%) who losing goods because of sun and rain, (13.6%) losing customers, and (42.4%) lose their goods because it has been acquired by the security authorities. And this means that the informal workers face many problems that affect their work and their income and they need to find solutions.

**Table 9:** Frequency and percentage distribution of the events that affected the respondents work in the informal sector (n=66)

Variables	N	%
Have you experienced the events affected your work in the informal sector		
Yes	64	97
No	2	3
Among Yes, What?		
Losing goods because of sun and rain	27	40.9
Losing customers	9	13.6
Security authorities acquire the goods	28	42.4

Source: collected from the sample of the research

**Figure 12:** events that workers experienced in the informal sector



Source: Prepared by the researcher

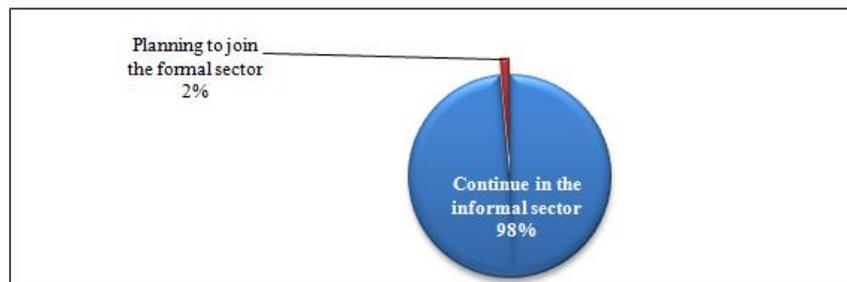
Table no 10 reveals that (98.5%) of the respondents planning to continue working informally as street vendors if there is any change in the circumstances around them, while (1.5%) only planning to join the formal sector.

**Table 10 :** Frequency and percentage distribution of the respondents future plans (n=66)

Variables	N	%
What's your future plan		
Continue in the informal sector	65	98.5
Planning to join the formal sector	1	1.5

Source: collected from the sample of the research

**Figure 13:** The future plans for the informal sector workers



Source: Prepared by the researcher

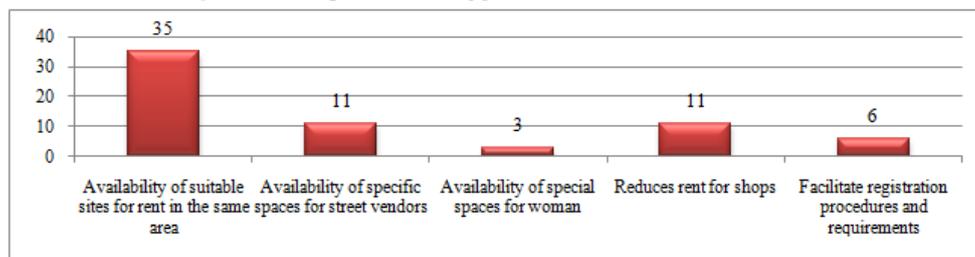
Table no 11 clarify the suggestions of the respondents that can make them join the formal sector and the answers split into (53%) suggest to provide suitable sites for rent in the same area, (16.7%) suggest to determine specific spaces for street vendors, (4.5%) suggest to determine special spaces for woman in the market, (16.7%) suggest to reduce rent for shops, and (9.1%) suggest to facilitate the registration procedures and requirements.

**Table 11:** Frequency and percentage distribution of the suggestions that should be directed to the decision maker to get the benefits from informal sector (n=66)

Variables	N	%
What are your suggestions which should be directed to decision-makers to get the benefits of the informal sector		
Availability of suitable sites for rent in the same area	35	53
Availability of specific spaces for street vendors	11	16.7
Availability of special spaces for woman	3	4.5
Reduces rent for shops	11	16.7
Facilitate registration procedures and requirements	6	9.1

Source: collected from the sample of the research

**Figure 14:** respondents' suggestions for the decision maker.



Source: Prepared by the researcher

#### IV. Discussion

This study has focused on the street vendors who operate their business on the street specifically in public market during one month, Foremost, it should be noted that from the researcher discussion with the respondent she find out that the market structure of the street vending is perfectly competitive, same product with low quality and competitive price that cheaper than the formal sector. Due to the low prices of the street vendor's goods the main customers are come from low income groups who search for the low price with any level of quality.

Through 66 respondents there is 70% their age ranges between 22 to 40 years old which mean that 70% of them are a good work force and have the ability to do big effort in their working life, Regarding to the education level more than 65% end the preparatory and secondary (Diplom) education level which mean that they have the minimum qualifications that can push them to accept the change.

The researcher found out that about 74% are married and responsible for a family and around 44 % were from another governorates and this for many reasons, one of them is because they search for a new job opportunities and new markets and they count 48%, while 52% became a permanent residences in Cairo and Giza to be close

to their work, and all of them believe that they were obligated to this migration due to the scarceness of work opportunities in their governorates.

Regards to the previous position of the respondents the researcher find out that 22.7% were students and join informal sector just after they ending their study without trying to join the formal sector with any job because they believe that they didn't have the minimum requirements to join it and also because they know the difficulty of joining the formal sector.

From the survey findings the researcher found that about 33% were unemployed before they join the informal sector for a period of time and they decided to work as street vendors after they find it the only way to gain income for their family, Around 42% were inheriting the work in the informal sector from their parents and families and they haven't any other choice but to continue their business.

Regards to the reasons behind the respondents initiatives to work in the informal sector around 64% believe that it is a good source of income and profitable, while 33% avoiding tax and registration fees, from these two points the researcher found out that informal sector is a very important source of income that can support our economy but routines, registration procedures and taxation system considered a big obstacles in their way. The majority of respondents, around 69% preferred their current locations because it is close to the customers and markets, here it should be noted that this result explain the causes that push people to leave their governorates that suffer from the lack of population and low level of income searching the new markets with big number of customers.

When the researcher ask about the location preferences finds that about 23% of respondents preferred their current locations because there is no other location suited to their conditions, but they are never mind to pay for a suitable and secure location, Around 45% of respondents suffer from the security authorities tracking and they are ready to improve their situation in case of finding better working conditions.

Regards to the bad events that the respondents experienced the researcher found that among 66 respondents there are 64 who experienced bad events affected their work, 41% of them losing their goods due to the bad atmosphere conditions, while 42% losing their goods due to the security authorities tracking and acquisition, it is worth mentioning that they welcoming to pay for a good conditioned locations if the government provide it with a good money conditions.

When the researcher asked the respondents about their future plan 98% of them clarify that they will continue in the informal sector if the government doesn't provide a program that improve their situation with suitable conditions, From all the discussion above it is very clear that the informal sector workers are ready to change their decision and move to the formal sector if they find the good attention from the government.

## **V. Conclusion**

The main factor in the widespread of the informal sector is the malfunction to provide appropriate work conditions in the formal sector system beginning with the culture of the community in all educational level and through the registration requirements and fees, ending by the lack of an integrated program that works to encourage the community to respect the nation's rights.

Due to the findings and conclusion above the researcher found that the moving key in this sector is to give the workers valued incentives that help them to understand the benefit of becoming formal, also to create a new environment which give them benefits more than costs.

Accordingly the researcher recommends the following:

1. Create an independent entity under the authority of the institution of precedence or the cabinet with all the responsible authorities' membership to be in charge for coincide a definition and concept of the informal sector including all activities related to the informal work and then develop an integrated program for transition to formality which should include a promotion and esteem for social and labor rights.
2. Distribute the responsibilities among the ministries and authorities involved in that new entity to contribute each in its concern as following:
  - Ministry of man power is responsible for providing new and real job opportunities for all the fresh graduates.
  - Ministry of justice is responsible for modify the recent law (No.33 for year 1957) according to the new conditions in the Egyptian economy.
  - Ministry of finance is responsible for review the taxation system in order to be an attractive system for the informal worker.
  - Ministry of investment is responsible for providing fair finance systems for the small and medium enterprises.

- Ministry of industry and foreign trade is responsible for providing facilitations in the registration procedures in the industrial activities.
  - Ministry of supply and internal trade is responsible for providing facilitations in the registration procedures.
  - Ministry of agriculture, ministry of transportation and ministry of telecommunication are responsible for issuing a license to the activities that related to their field in order to be registered and under their supervision.
  - Ministry of education is responsible for raise the awareness of the students about the importance of formality and its impact in the economy and social life and also strengthening vocational training.
3. Provide suitable locations for the informal workers whereas the location is the main reason to refuse the formality if it is far from the populated areas.
  4. Strengthening social partners who play a key role in engaging with public sector for define and implement public policies and encourage them to provide their initiatives which improve the formalization process.

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