

FEMISE RESEARCH PROGRAMME

A Survey of the Basic Features and Problems of the Informal Small and Micro-Enterprises in the Arab Region

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the Informal Small and Micro- Enterprises
in the Arab Region**

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Table of contents

I. Conceptual Issues

1.1 The Problematic of the “Informal Sector”	4
1.2 Shades of Informality	5
1.3 The Size-distribution of Establishments in the Arab Region	6
1.4 The Stylised Facts	11
1.4.1 Low Capital-intensity	11
1.4.2 Family-owned Enterprises	11
1.4.3 Reliance on Personal Saving and Informal Finance	12
1.4.4 Weak Management Structure	12
1.4.5 Poor Training and Skill Structure	12
1.4.6 Lack of Social Protection	13
1.4.7 Growth Constraints	13
1.4.8 Strong Elements of Vulnerability	14

II. Features and Profiles in Selected Countries

2.1 The Case of Egypt	16
2.1.1 General Properties of the Sample	17
2.1.2 Contribution to Production	18
2.1.3 Gender Distribution of the Labour Force in the Informal Sector	20
2.1.4 The “Child Labour Force” within the “Informal Sector”	22
2.1.5 Educational Status of the Labour Force in the “Informal Sector”	24
2.1.6 Levels of Earning and Wages	24
2.1.7 Work Conditions and Social Protection	25
2.2 The Case of Lebanon	26
2.2.1 Share of the Informal Activities	26
2.2.2 Some Basic Indicators of the Industrial Informal Sector	28
2.3 The Case of Morocco	30
2.3.1 The Contribution to Employment Creation and Value Added Generation	30
2.3.2 Informal Employment Characteristics	31

III. Analytical Issues

3.1 The Informally-employed Population	34
3.2 The “Absorptive Capacity” of the Informal Sector	36
3.3 The Flexibility of “Profit Margins” and “Rationing” in the Informal Sector ..	39
3.4 The Dynamic Linkages between Formal and Informal Sectors	40

IV. Issues of Public Policies

4.1 Micro Credit	44
4.2 Sub-Contracting	44
4.3 Poverty Alleviation	45
4.4 Productivity Upgrading	46
4.5 The Graduation Problem of “Informal Sector” Units	46
4.6 The Clustering and Networking	48

References	49
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I. Conceptual Issues

1.1 The Problematic of the Informal Sector

According to the ILO Director-General, “The term “informal sector” is usually understood to refer to very small-scale units producing and distributing goods and services, and consisting largely of:

- (a) independent, self-employed producers in urban areas of developing countries;
- (b) operate with very little capital, or none at all;
- (c) utilise a low level of technology and skills; and
- (d) provide low and irregular incomes and highly unstable employment to those who work in it”.¹

In spite of their heterogeneity, however, what all informal sector activities have in common is their **vulnerability**. This vulnerability is due to the fact that they have to rely as best they can on self-supporting and “**informal**” **institutional arrangements**, which operate separately and independently of the institutions of the modern economy.¹ Lacking access to official social security schemes, they have to rely on family or group solidarity.

These socio-cultural and institutional features of the units, operating within the confines of the “informal sector”, were largely ignored in most of the literature on the subject. Nonetheless, these aspects acquire special

significance, in the countries of the Arab and MENA regions, in order to better understand the dynamic forces underlying the development of the “informal sector” in the region.

1.2 Shades of Informality

The concept of “informality” used in many studies in Less developed countries, is mainly based on empirical observations. Given the various **shades of informality**, our analysis would focus on the following aspects:

- (a) the density of informal activities in various lines of economic activities in the sample countries of the Arab region;
- (b) the growing phenomenon of the “**commuters**”, as is an increasing number of individuals who belong to the “formal sector”, are operating **part-time** within the confines of the informal sector;

In short, the term “informal economy”, in our analysis, covers broadly two components:

- (a) the activities of all micro-enterprises (1-4), with a small margin of error,
- (b) an important portion of the universe of small enterprises (5-10).

Given the many difficulties surrounding the process of locating the “cutting-off” point, which distinguish between the “micro” and “small” enterprises in the Arab region, Table (1) provides some useful benchmarks in this respect, in terms of:

¹ ILO, Report of the Director – General, “The Dilemma of the Informal Sector” (1991), p. 4

- (a) resource endowment;
- (b) production processes;
- (c) financial conditions.

1.3 The Size-distribution of Establishments in the Arab Region:

In the light of the data available from **Censuses** and **sample surveys**, the picture that emerges from Table (2) is a highly **segmented** structure of the private sector establishments in countries of the Arab region: with a vast majority of informal “small” and “micro” enterprise sub-sector, at one end of the spectrum, and a small group of formal large and modern enterprises sub-sector, at the other end.

This, in turn, points to the fact that there is a “**missing middle**”, in the structure of the private business sector in most of the Arab region (Handoussa and Potter, 1992).

¹ Ibid., p. 5

Table (1)

Distinguishing features of micro enterprises and small enterprises

Feature	Micro Enterprises	Small Enterprises
Resources:		
Sources of Finance	<ul style="list-style-type: none"> ▪ Household savings ▪ Retained earnings 	<ul style="list-style-type: none"> ▪ Household savings ▪ Retained earnings ▪ Loans from formal and informal sources
Workers	<ul style="list-style-type: none"> ▪ Working owner ▪ Unpaid family members ▪ Low skilled 	<ul style="list-style-type: none"> ▪ Working owner ▪ Unpaid family members ▪ Paid outside workers ▪ Low and medium skilled
Assets	<ul style="list-style-type: none"> ▪ Very few, mostly current ▪ Some low-value fixed assets ▪ Insecure tenure ▪ Limited access to services 	<ul style="list-style-type: none"> ▪ Greater mix of current and moderate-value fixed assets ▪ Secure tenure ▪ Limited access to services
Inputs	<ul style="list-style-type: none"> ▪ Narrow range, few sources, mostly retail ▪ Low quality, irregular supply, uncertain and variable costs 	<ul style="list-style-type: none"> ▪ Broader range, more sources, mix of retail and wholesale ▪ Better and more predictable quality, more stable supply, and lower costs
Production processes		
Output	<ul style="list-style-type: none"> ▪ low volume ▪ narrow range ▪ low quality 	<ul style="list-style-type: none"> ▪ higher volume ▪ broader range ▪ mixed quality
Technology	<ul style="list-style-type: none"> ▪ Traditional 	<ul style="list-style-type: none"> ▪ Mix of traditional and modern
Management practices	<ul style="list-style-type: none"> ▪ Informal 	<ul style="list-style-type: none"> ▪ Mix of informal and formal
Markets	<ul style="list-style-type: none"> ▪ Uncertain and limited size ▪ Unstable ▪ Customers mainly individual and local end users 	<ul style="list-style-type: none"> ▪ Moderate to large ▪ More specialized and more predictable ▪ Customers a mix of local and nonlocal end users and informal and formal businesses.
Financial Performance		
	<ul style="list-style-type: none"> ▪ Often moderate to high profitability but low absolute amounts ▪ Uncertain income 	<ul style="list-style-type: none"> ▪ Moderate profitability ▪ More stable income

Source: Judith Brandsma and Rafika Chaouali, (1998), **Making Microfinance work in the Middle East and North Africa**, (Washington: World Bank), p. 6.

Table (2)
Distribution of establishments and employment by size for selected Arab countries
(1990s)

Country	Year	Size-class	% of establishments	% of employment
Lebanon	1994	1-9	88.8	44.7
		<i>middle</i>	<i>10.8</i>	<i>36.2</i>
		More than 100	0.4	19.1
Egypt	1996	1-9	98.3	77.3
		<i>middle</i>	<i>1.7</i>	<i>20.6</i>
		More than 100	Negligible	2.1
Jordan: <i>Industry</i>	1995	1-5	89.5	45.7
		<i>middle</i>	<i>8.7</i>	<i>15.3</i>
		More than 24	1.8	39.0
<i>Trade</i>		1-5	93.2	60.7
		<i>middle</i>	<i>5.8</i>	<i>11.4</i>
		More than 24	1.0	27.9
Syria	1993	1-9	98.3	90.6
		More than 10	1.7	9.4

Sources: Table constructed by the author, based on a variety of sources, notable among them:

- Lebanon: Lebanese Republic, Ministry of Industry and Petroleum, Directorate of Industry, **Report on Industrial Census – Final Results**, (Beirut: December 1995)
- Egypt: CAPMAS, the **1996 Census for Population, Housing and Firms: the Detailed Results for Firms**, 1997.
- Jordan: Government of Jordan, Department of Statistics.
- Syria: The Syrian Arab Republic, Central Bureau of Statistics, **Results of the Industrial Survey for the Private Sector of 1993**.

Since the late 1970s, the informal sector in the countries of the Arab region has proved to be sufficiently dynamic and resilient, by maintaining its lead in “employment creation”, and by increasing its relative share in certain

lines of activities such as: transport, furniture, leather and shoe manufacturing, metal products, and repair shops. In most Arab countries, both the number of establishments and of employees have risen significantly faster than the rate of growth of the labour force

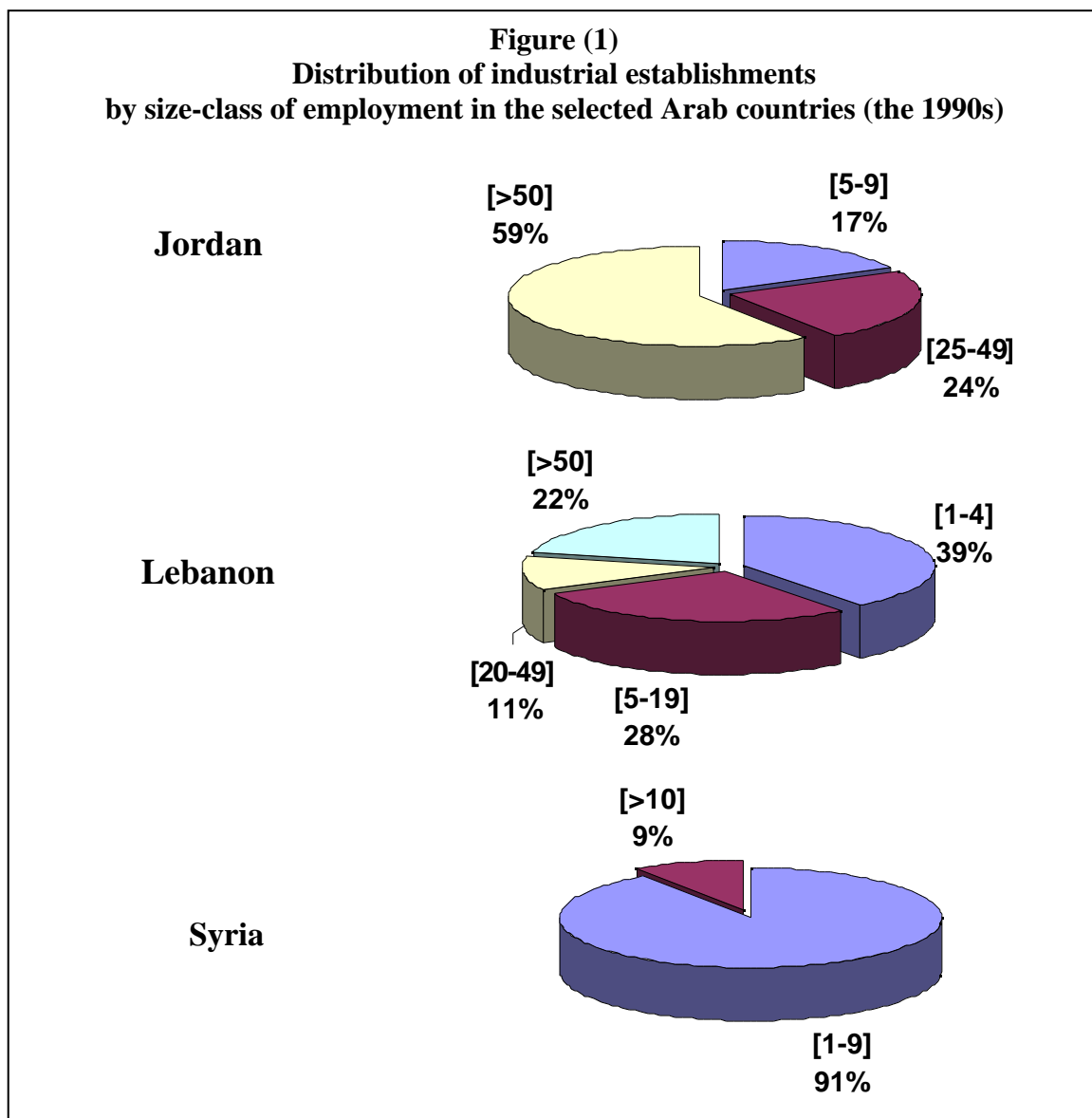
The one activity where small-scale enterprises suffered in some Arab countries was “clothing and weaving”, as illustrated by the case of Egypt, with an actual decline of 34 percent in employment in weaving over the period: 1976-1986.¹

Figure (1) depicts a “comparative picture” of the size-distribution of **industrial establishments** in Jordan, Lebanon, and Syria in the 1990s. While the data is not comparable, in terms of size-classes, the dominance of **micro** and **small** enterprises is very clear in the case of **Syria** and **Lebanon**. In the case of **Jordan**, the missing data for micro enterprises (1-4 employees) do not allow us to draw similar conclusions, with great confidence in this respect.

It should be noted, however, that the bulk of micro and small enterprises are concentrated in internationally **nontradable** sectors. In the case of **Lebanon**, micro-enterprises (1-4 employees) contributed, in the mid-1990s, 23.5 percent to total output, and 28 percent of the value-added generated in the manufacturing sector, and employed 40 percent of the labour force in this

¹ Handoussa H. and Potter G., (1992), p. 11.

sector.¹ In **Syria**, micro and small establishments (1-9 employees) contributed 84 percent of the output of manufacturing industry, and employed 91 percent of the labour force in this sector in 1993.²



¹Lebanese Republic, Ministry of Industry and Petroleum, Directorate of Industry, **Report on Industrial Census – Final Results**, (Beirut: December 1995), as reported in Antoine Mansour, **Profiles of SMEs in the Arab region**

² The Syrian Arab Republic, Central Bureau of Statistics, **Results of the Industrial Survey for the Private Sector of 1993**, as reported in Antoine Mansour, (1999).

1.4 The Stylised Facts

Small and medium enterprises in the Arab region countries share generally common characteristics, with very few variations. The salient features characterising these enterprises, may be summarised as follows:

1.4.1 Low Capital-intensity

The most striking feature of micro enterprises in the Arab region is their extremely low **capital – intensity**, estimated at less than one-tenth of that for medium and large-scale industry.¹ The CAPMAS survey in Egypt (1985) indicated that 73 percent of small establishments were equipped with only manual tools. This results in lower labour productivity, and in turn to lower value-added and low earnings per employee.

1.4.2 Family- owned enterprises

Most small enterprises in the Arab region are family businesses, as the "extended" family plays a dominant role in ensuring business continuity and daily survival; providing the needed finance, the moral support, and the necessary networks within the country.²

¹ Handoussa, H. and Potter, G. (1992), **Egypt Informal Sector: Engine of Growth?**, Paper presented in MESA Conference, Portland, October.

² Antoine Mansour, (1999), "**Profiles of SMEs in the Arab region**".

1.4.3 Reliance on personal saving and informal finance

Formal credit system does not play any significant role in the provision of financial support to start-ups or to expand existing enterprises. Entrepreneurs have to raise money through their own informal sources of finance.¹

1.4.4 Weak managerial structure

Most of the micro and small enterprises are owned and managed by one person who takes care of all the managerial functions of the enterprise: organisation, marketing, production, accounts, etc. Such heavy load on the owner-managers prevent them from working-out proper strategic plans for their businesses, as they are usually bogged down with the problem of daily running.

1.4.5 Poor training and skill structure

The workforce engaged in micro and small enterprises in countries of the Arab region suffer from poor training, and low level of skills. Those personnel consider “learning on the job”, and by practice, as the most important venue of training, and skill acquisition. They have low regard for the usefulness of formal education and learning in classrooms.²

¹ Ibid, p. 6.

² Ibid.

1.4.6 Lack of Social Protection

Poor working conditions are widely prevalent in the “informal sector” micro and small enterprises, in countries of the Arab region, as the bulk of the workforce in these enterprises suffer from the lack of social protection, in particular:

- (a) absence of social insurance;
- (b) long working hours of frequently 50 hours or more (El-Mahdi 1992);
- (c) absence of minimal sanitary and safety regulations;
- (d) frequent use of child labour (El-Mahdi 1992).

1.4.7 Growth Constraints

The majority of the micro and small enterprises in the Arab region face serious growth constraints, namely:

- (a) **Demand constraints**, due to the shortfall of demand among those income groups who are likely to buy goods and services of the micro and small enterprises.
- (b) **Financial constraints**, as the lack of access to the formal credit market, led most of the small and micro establishments to match expansion to their internal cash flows.
- (c) **Management constraints**, due to the lack of proper organisational structure and managerial expertise.

1.4.8 Strong Elements of vulnerability

Micro and small enterprises in the Arab region share, with many LDCs', many incidences of "vulnerability", which affect their "chances of survival", and the eventual "death rates". The most fatal elements of vulnerability are:

- (a) the limited personal capabilities of the individual entrepreneurs.
- (b) the sudden loss of a major group of customers.
- (c) the departure of senior personnel.

II. Features and profiles in Selected Countries

2.1 The Case of Egypt

The data drawn from the 1996 Population Census, revealed the great importance of micro and small enterprises. As shown in Table (3), the majority of the Egyptian enterprises are belonging to the micro and small enterprises.

Table (3)
Egypt: Distribution of Establishments and Employees
in the Private “non-agricultural” Sectors (1996)

Size-class according to employment	Establishments		Employment	
	Number	%	Number	%
1	832,996	50.78	832,996	20.96
2	434,549	26.49	869,098	21.87
3	185,074	11.28	555,222	13.97
<i>Less than 4</i>	1,452,619	89	2,257,316	57
4	78,593	4.79	314,372	7.91
<i>Less than 5</i>	1,531,212	93	2,571,688	65
5 -	82,646	5.04	500,893	12.60
<i>Less than 10</i>	1,613,858	98	3,072,581	77
10 -	12,226	0.75	139,390	3.51
15 -	4,416	0.27	72,743	1.83
20 -	2,445	0.15	52,664	1.32
25 -	1,543	0.09	40,944	1.03
30 -	1,772	0.11	59,283	1.49
40 -	1,052	0.06	45,937	1.16
50 -	1,730	0.11	115,049	2.89
100 -	1,174	0.07	227,028	5.71
500 -	102	0.01	64,891	1.63
1000 or more	48	0.00	84,300	2.12
Grand Total	1,640,366		3,974,810	

Source: CAPMAS, the 1996 Census for Population, Housing and Firms: the Detailed Results for Firms, 1997.

The “micro-enterprises” constituted 89% of the total number of non-agricultural private sector, and it engaged about 57% of the total labour force.

Most studies on the “informal sector” in Egypt adopted the criterion of the **number of workers** in the firm. They assumed that a number of “10 workers or less” is sufficient to consider the firm as part of the informal sector. The study of Soad Rizk (1993)¹, provides the most comprehensive survey of the informal sector in Egypt. This survey was based on two approaches:

- **The first:** the “living family” approach, as an additional component to the **Labour Force Sample Survey** (conducted in October 1988)
- **The second:** the “economic unit” approach (versus the establishment), to cover those who are operating “outside the establishments” through a complementary research conducted in May 1990

Cairo governorate was chosen to represent the urban governorates, where the study covered five areas, which are: Gamalia, Ain Shams, Helwan, Heliopolis and Boulak. **El-Gharbiah** governorate was chosen to represent the rural & urban areas of the north side, and **El- Menia** governorate to represent the urban &rural areas in the Upper Egypt.

2.1.1 General properties of the sample

To distinguish the “economic units” of the informal & the semi-formal sector from those covered by the formal sector, the study relied on the following criteria:

- (a) The registration status of the economic unit (whether it is inside or outside the establishment);
- (b) The number of workers in the economic unit;

¹ Rizk , Soad (1993), *The Final Report for the informal sector ,definitions & characteristics*, Cairo: CAPMAS

- (c) The value of the invested capital in the economic unit;
- (d) The social & health insurance coverage;
- (e) The degree of the use of seasonal & casual workers;
- (f) The existence of a “tax file”.

In the light of these criteria, an “economic unit” was defined as part of the informal sector **if it is unregistered & the size of the workforce** is less than five. It follows that a registered economic unit with more than five workers is considered as a part of the formal sector. However, an unregistered economic unit with more than five workers or a registered economic unit with less than five units is considered, according to this study, a part of what is termed **semi-formal sector**. We do not think that it was important to define a semi-formal sector. It was better to restrict the definition to the two basic sectors: the informal and the formal.

According to the suggested double criteria, the study distributed the workforce between the informal & the semi-formal sector as shown in Table (4). These data indicate that 45% of the workforce are engaged in the **informal sector micro-enterprises**. The ratio in the **rural** areas exceeds their ratio in the **urban** one. On the other hand, it was revealed that the relative importance of those working “**outside the establishments**” exceeds those who are engaged “**inside establishments**”. This phenomenon is more pronounced in urban areas.

2.1.2 Contribution to production

Data presented in Table (5) indicate that **industrial & construction activities** constitute more than 50% of total workforce in the informal sector, while those who are engaged in **commercial & services activities** constitute only 43% of total workforce. The sample survey data also reveal that the percentage of workers in the “industrial sector” “**inside establishments**” is more than double those employed “outside establishments”. As for

“**construction** activities”, they are mainly exercised “outside establishments”. Finally, the “service sector” workers represent only 7.6% of the total number of workers in the informal sector.

Table (4)

Egypt: Distribution of workforce by sector, according to location and the nature of the economic unit (1990)

Total in thousands	Informal		Semi-formal		Sector Location & nature of the economic unit
	%	Thousand	%	Thousand	
					A-Inside establishments
1216,00	13.82	168,00	86.18	1048,00	Urban
597,00	34.67	207,00	65.33	390,00	Rural
1813,00	20.68	375,00	79.32	1438,00	Sub-total
					B-Outside establishments
882,00	66.33	585,00	33.67	297,00	Urban
886,00	71.33	632,00	28.67	254,00	Rural
1768,00	68.83	1217,00	31.17	551,00	Sub-total
3581,00	44.46	1592,00	55.54	1989,00	Total

Source: Soad Rizk (1993), Table (6)

Table (5)
Egypt: Percentage distribution of the workers of the informal sector, according to the main lines of economic activities.

(%)

Services	Commerce	Construction	Industry	Economic activity
				Location & nature of the economic unit
16,07	46,26	2,38	37,50	A-Inside establishments
4,35	36,71	–	58,45	Urban
9,60	39,20	1,07	49,07	Rural
7,18	35,73	36,58	14,19	B-Outside establishments
6,80	34,18	25,95	27,06	Urban
6,98	34,84	31,06	20,87	Rural

Source: Soad Rizk, (1993), Table (24)

2.1.3 Gender distribution of the labour force in the informal sector

Data presented in Table (6) indicate the extent of participation of **females** in the labour force in the informal sector in Egypt, both in rural and urban areas, as well as “inside” and “outside” establishments. These data also indicate that the share of “females” constituted **one-third** in the labor force of the informal sector. This share works out at 37% “inside establishments”, and falls to about one **quarter** “outside establishments”. The participation of the “females” in the “informal” labour force is higher in the rural areas than in urban areas.

Table (6)
Egypt: Female participation in the informal sector, according to the place
and the nature of the economic unit(1990)

Total	Male		Female		Gender
	%	In thousands	%	In thousands	
					Place &nature of the economic unit
					A-Inside establishments
168,00	70,24	118.00	29.76	50,00	Urban
207,00	56,04	116.00	43.96	91,00	Rural
375,00	62,40	234.00	37.60	141,00	Sub Total
					B-Outside establishments
585.00	84,62	495.00	15.56	91.00	Urban
632.00	65,98	417.00	34.02	215.00	Rural
1217.00	74,94	912.00	25.14	306.00	Sub Total
1593.00	71,94	1146.00	28.06	447.00	Overall total

Source: Soad Rizk ,Table (13)

On the other hand, data shown in Table (7) indicate that this percentage of “self-employed” females within the total “self-employed” is about **42%** on average, **and** it is higher in the rural areas than in the urban areas, whether “inside” or “outside” establishments.

The data drawn from the 1990 “sample survey” also indicate that the percentage of **female employers** to the total women employers is about **one third** in case of economic units that are operating “inside establishments” and about **one fifth** in case of the economic units operating “outside establishments”.

Table (7)
Egypt: The share of “self employed” women in the “self-employed”
workforce in “informal sector” (1990)

(%)

Male	Female	Gender
		A-Inside establishments
43,9	56,10	Urban
38,24	61,76	Rural
40,37	59,63	Sub Total
		B-Outside establishments
77,83	22,64	Urban
47,46	52,54	Rural
61,61	38,17	Sub Total
57,45	42,55	Overall total

Source: Soad Rizk, Table (14)

2.1.4 The "child labour force" within the "informal sector"

In order to measure the extent of children’s participation in the labour force of the “informal sector”, the 1990 sample survey relied on a **questionnaire** called “The work conditions of children”. This questionnaire was answered by children between the age of 6-15 years old, except those who are working as “unpaid family labour”. The data revealed by the “questionnaire” are summarized in Table (8).

Table (8)

Egypt: Allocation of “child labour force” between the informal & the semi-informal sector, according to the place & nature of the economic unit (1990)

Semi-formal		Informal		Sector
%	in thousands	%	in thousands	
				A-Inside the establishments
66,9	97	50	8	Urban
33,1	48	50	8	Rural
100	145	100	16	Sub total
				B-Outside the establishments
30,4	7	31.9	15	Urban
69,6	16	68.1	32	Rural
100	23	100	47	Sub total
72,4	168	27.6	64	Overall total

Source: Soad Rizk, *op. cit.*, Table 16

The sample survey also reveals the concentration of the **child labour force “outside establishments”** in Egypt’s **informal sector**. Their numbers are three fold the number of those who are working “**inside establishments**” (see Table “8”). When turning to the **semi-formal** sector, we find that the bulk of the “child workforce” is concentrated “**inside establishments**”, and their numbers is nearly **six fold**, those who are working **outside establishments**. The sample survey also revealed that the percentage of “illiterates” and “school-leavers” constitute **two-thirds** of the child workforce in the informal sector.

2.1.5 Educational status of the labour force in the “informal sector”

The 1990 “sample survey” revealed that workforce in the Egypt’s “informal sector” **are illiterates or can simply read & write**. Only 2.2% of the “informal sector” workforce have an upper intermediate or a high degree.

2.1.6 Levels of earnings and wages

The data presented in Table (9) indicate that the “informal” and “semi-informal” sub-sectors receive their wages in a **monetary form**, whether they are located in urban or rural areas, “inside” or “outside” the establishments. It was also found that—except those who work “outside establishments” in the urban areas- **all the workers receive less than L.E. 1500 annually** (at 1990 prices).

Table (9)

Egypt: Percentage distribution of wage earner in the informal sector, according to method of payment, (1990)

(%)

Semi-formal sector		Informal sector			Method of payment
cash	cash & barter.	Pure cash	Pure barter	cash & barter.	Location & nature of the economic unit
					A. Inside establishments
95,77	4,06	94,44	–	2,78	Urban
92,31	8,08	91,3	–	8,7	Rural
					B. Outside establishments
99,54	0,46	99,22	–	0,78	Urban
97,83	1,63	96,68	0,47	2,84	Rural

Source: Soad Rizk, (1993), Table (52)

2.1.7 Work conditions and social protection

Data in Table (10) indicate that the absolute majority of the workers in Egypt's informal sector are not covered by any type of insurance.

Table (10)

Egypt: Percentage distribution of the workers in the “informal sector”, according to their participation in social and health insurance (1990)

(%)

Doesn't participate at all	Participates in both social & health insurance schemes	Participates in health insurance schemes	Participates in social insurance schemes	Participation in insurance
				Residence & nature of the economic unit
				A-Inside establishments
92	–	–	6	Urban
93	–	–	7	Rural
93	–	–	7	Sub Total
				B-Outside establishments
92	0,67	0,33	7	Urban
95	0,32	–	5	Rural
93	0,66	0,16	4	Sub Total
93	0,54	0,13	6	Overall total

Source: Soad Rizk, (1993), Table (30).

2.2 The Case of Lebanon

There is no well-established literature to define the boundaries of the ‘informal sector’ in Lebanon. Most authors define it according to two criteria:

- (a) Type of organisation;
- (b) Production & technology.

Thus, a typical firm in the informal sector is characterised by family ownership, small-scale operation, reliance on own financial resources, as well as intensive use of labour as the major input. Other authors take a **regulatory approach**, to define the “informal sector” as a group of firms and establishments that escape official regulation, while operating in a legal or social environment in which similar activities are regulated.

2.2.1 Share of the informal activities

The Census on **buildings and establishments**, taken in 1997, recorded the existence of about 200,000 enterprises concentrated mainly in the regions of Mount Lebanon & North Lebanon. The majority of these enterprises are engaged in commercial activities (about 39% in retail trade), and no more than 15% are engaged in industrial activities.

The majority of the recorded 200,000 establishments (86%) are **legally registered** as individual firms, but the legal form of these entities does not imply their **formality**. On the other hand, the number of enterprises registered with the National Social Security Fund (**NSSF**), was estimated at 31,612 enterprises in 1997, i.e. only 16% of total number of establishments recorded by the Census.

Among the main economic activities that may be classified under ‘informal sector’ in Lebanon are the **handicraft activities**. A recent sample survey of these activities, conducted in 1998, which covered around 7200

production units, revealed some of the salient features of the “units” belonging to the “handicraft sub-sector”:

- (a) 50% of workshops occupy an average space of 10-19 m²;
- (b) 84% of these workshops are located within the owners’ home grounds;
- (c) The majority of these workshops (88%) employ only one worker, other than owner;
- (d) The majority of these workshops (63%) are characterised by **low capital intensity** that range between \$65 and \$650 per workshop;
- (e) The majority of these enterprises have their main ‘marketing outlets’ in the neighbouring areas.

Table (11)

Lebanon: The size distribution of industrial micro and small enterprises according to the size of workforce (selected years)

Year	Size of enterprise	Less than 5	5-9	More than 10
1964	No of enterprises	7,459	1,078	2,099
	%	78	11	22
	No of workers	15,500	5,297	41,093
	%	27	9	73
1971	No of enterprises	11,955	1,984	2,980
	%	80	13	20
	No of workers	33,800	11,904	60,356
	%	36	13	64
1994	No of enterprises	15,935	3,770	6,270
	%	72	17	28
	No of workers	38,291	24,082	101,397
	%	27	17	73
1997	No of enterprises	25,556	3,932	5,721
	%	82	13	18

Sources:

For the years 1964/71/94: **Industrial Census**, Directorate of central statistics, in the respective year. 1997: Census of Buildings & Establishments.

The data in Table (12) indicate that the number of enterprises that hire less than 10 workers as the constituted 93% of the total number of industrial establishments in 1997, and around 44% of the total industrial workforce in 1994.

2.2.2 Some basic indicators of the industrial informal sector

If we define the “informal sector” to cover two types of enterprises: (a) micro firms, employing less than five workers; and (b) small firms employing 5-9 workers, we can compute a number of indicators characterising this sector, based on the returns of 1994 industrial census.

Table (12)

Lebanon’s Industrial informal sector: some characteristic indicators (1994)

Size of enterprise	Less than 5 (micro enterprises)	5-9 (small enterprises)
1. No of enterprises	15,935	3,770
% of Total	72	17
2. No of workers	38,291	24,082
% of Total industrial workforce	27	17
3. Value of Production (million US\$)	840	537
% of Total	23	14
4. Production per Worker (US\$)	2193	2229
5. Value added (million US\$)	477	256
% of Total	22	14
6. Value added per worker (US\$)	1246	1064
7. Total wages (million US\$)	109	58
% of Total	24.1	12.85
8. Average wage rate (US\$ per worker)	285	242
9. No. of casual workers	17,384	5,474
% of Total No. of workers in this sub-sector	45.52	14.39
10. Total wages of casual workers (million US\$)	14	23
%	24.11	40.11
11. Average wage rate for casual labourers (US\$)	35.36	93.51
12. Average No. of workers per enterprise	3.58	5.16
13. Value added/ production (%)	57	48

Source: Returns of the Industrial Census 1994, as reported in Hamdan (1999).

At first glance, we can notice that despite the big similarity between **micro** and **small** enterprises in the volume of production per worker, the value added per worker is greater in **micro** than **small** enterprises. We can also notice that the **average wage rate per worker** is higher in micro than in small enterprises, and the value added as a percentage of production is higher in micro than in small enterprises.

The problems facing the units operating within the confines of the “informal sector” in are:

- (a) the lack of markets and marketing strategies;
- (b) the competition with imported cheaper product; and
- (c) the high cost of raw materials.

2.3 The Case of Morocco

There is a great deal of confusion in the literature concerning the “cutting-off” point between “micro” & “small” enterprises and what constitutes the informal sector “proper”. The late eighties, witnessed a rapid development of the micro & small enterprises, as a result of the socio-economic impact of the structural adjustment programme in Morocco.

Most of the recent literature on the “informal sector” in Morocco, focused on its relative importance, its diversity, and its dynamics throughout the 1980s and 1990’s

2.3.1 The contribution to employment creation and value added generation

The “informal sector” covers most of the lines of economic activity in Morocco, with different intensities, as shown in table (13)

Table (13)
Morocco: Informal sector contribution to employment & value added (1988)

Sector \ Contribution	Employment (as a percentage of total workforce)	Value added (% of total value added in the sector)
1. Industry	26%	17%
2. Commerce (Retail informal/total wholesale & retail)	37%	44%
3. Services	19%	23%

Source: Hamdouch (2000), p. 8, based on the National Census of the informal enterprises (1988)

Data in Table (13) indicate the importance of the “informal sector”, especially in commercial activities. The data also indicate that the “informal sector” is very important in Morocco, as its contribution to employment vary between 19% in the “service sector” and 37% in “commerce”, where it generates about the half of the value added in this sub-sector.

The importance of the “informal sector” varies from one line of industrial activity to the other. In fact, the “informal sector” acquires some significance in the following lines of activities: ¹

- (a) wood & wooden articles;
- (b) clothing ;
- (c) leather and leather shoes.

Nonetheless, it should be noted that the previous data underestimate the size and the contribution of the informal sector, since it is based on the returns of the “Ministry of Planning survey” (1988), which ignores enterprises that do not pay the tribute.

2.3.2 Informal employment Characteristics

The structure of employment in the informal sector is more akin to the structure of employment in the “handicraft sector”. Table (14) gives the structure of employment in the “informal sector” in Morocco, by various categories in the late 1980s.

It can be easily be gleaned from Table (14) that “**wage-earning**” dominate in the industrial sector, while **employers and associates** constitute the majority in commerce & services.

¹ cf. Hamdouch (2000), p.8 Table (2).

Table (14)
Morocco: Informal employment structure in the “informal sector” by various categories (1988)

(%)

Category Sector	Industry	Commerce	Services
a. Employers & associates	39.0	67	48.4
b. Wage employees	41.7	16.7	38.2
c. Unpaid family labour	9	15.5	9.3
d. Beginners	10.4	1.0	7.1
Total	100	100	100

Source: Hamdouch (2000), Table (3)

Un) Educational status

The levels of “educational attainment” of the workforce in the “informal sector” is very low, as most members of the workforce **didn’t attend schools**; and 40% of them were only in primary schools. The situation of the beginners is even worse.

Deux) Age-Composition

The sample survey data reveals that about 27% of the “beginners” are less than 12 years old, which 60% of the workforce range between 12-17 years .

Trois) Social protection

Ninety percent of micro & small enterprises do not apply any “accounting system” and are not registered in the **social security**.

III. Analytical Issues

3.1 The Informally Employed Population:

There is ample empirical evidence pointing to a sharp increase in the share of “informal employment” in total employment in most countries of the Arab region, in the last two decades (1980s and 1990s). In this respect, the detailed returns of the 1996 Census of Population in Egypt, revealed that around 2.3 million people are informally employed, in urban areas, “**outside establishments**” (see Table “15”). It is striking that around 46 percent of the urban labour force (outside the government and public sectors), are accounted for as “own-account”, operating “outside establishments”.

In **Yemen**, the figure ranges between 35-45 percent of urban labour force, according to preliminary results of the latest Population Census (1994). In the case of **Morocco**, the data drawn from the “National Survey on Non-structured Enterprises”, taken in 1996, indicate that the category localized “informal” enterprises accounted for 37 percent of employment of the commercial activities, 19 percent in services, and 26 percent in manufacturing industry. In **Jordan**, “informal” small and medium-sized enterprises (SME), accounted for 33 percent of total employment (one-third) in the country by the mid-1990s.¹

¹ cf. ERF (1998), **Economic Trends in the MENA region**, Cairo, p. 133.

Such sizeable portion of the “informally-employed” population poses many problems and challenges for countries of the Arab region. **First**, a large proportion of this population is not “productively” employed (i.e. engaged in dead-end activities); **Second**, members of this population are **socially vulnerable**, as they lack social protection and are not covered by any comprehensive insurance scheme.

Table (15)

Egypt: Distribution labour force *

In the private non-agriculture activities, (1996)

Economic Activity	Inside Establishment	Outside Establishment	Total Labour force
Manufacturing industries	1,268,303 84%	244,242 16%	1,512,545 100%
Building & construction	167,454 15%	943,137 85%	1,110,591 100%
Wholesales & retail trade & repair vehicle	819,575 62%	504,993 38%	1,324,568 100%
Hotels, restaurants and cafes	155,400 82%	34,988 18%	190,388 100%
Transport, storage and communications	95,821 17%	469,571 83%	565,392 100%
Education	72,885 83%	14,676 17%	87,561 100%
Social and private services	93,533 65%	50,263 35%	143,796 100%
Grand Total	2,672,971 54%	2,261,870 46%	4,934,841 100%

* 15 yrs and over.

Source: Egypt: CAPMAS, **the Detailed Results of the Census of Population, Housing and Establishments**, (Cairo: 1997).

More important still, is the fact that the pool of the “informally-employed population” is likely to be inflated in the coming years, by scores of “formal sector” workers who have lost their jobs under **structural adjustment programmes**, implemented in most Arab countries throughout the 1990s. Equally, the impact of “**globalisation**” may well add to these difficulties in the coming years, as the “**globalisation**” process could result in greater **deregulation** of the labour market, and **casualisation** of a large portion of the workforce that was formally employed in “formal sector” enterprises.

3.2 The “Absorptive Capacity” of the Informal Sector

The persistence and expansion of the informal sector in most Arab countries is mainly due to the inability of other “formal” and “modern” sectors of the economy – agriculture, on the one hand, and modern industry and services, on the other – to provide adequate employment opportunities to a rapidly growing labour force.¹

The informal sector has been described, by many authors, as a huge “**labour sponge**”, with an almost “infinite” capacity to absorb those who are at any time excluded from modern formal sector activities. This characterisation is misleading on a number of counts, as the “absorptive” capacity of the “informal sector” runs against many constraints.

¹ ILO, (1991), Report of the Director-General, “the Dilemma of the Informal Sector”, p. 8.

For while we admit that the “labour absorptive capacity” of the “informal sector” is somewhat “elastic”, the fact remains that its assumed role as “unemployment alleviation” mechanism cannot operate unchecked. The fact of the matter is that the volume of “employment creation”, within the informal sector, is not totally divorced from the level of activity and the level of earnings generated within the formal part of the economy.

In a closed economy, the rate of employment creation in the “informal sector” will ultimately depend on the growth of demand for informally-provided goods and services, emanating from an important section of the population who derive their incomes from “formal sector” occupations. As it is now widely accepted that the informal sector plays an important role in the provision of cheap goods and services to lower-income groups employed on the “formal sector”.

We may further argue that with a highly **skewed pattern of income distribution**, as in the case of most Arab countries, the informal sector activities tend to cater for the needs of lower-income groups, regardless whether they are employed by the “formal” or “informal” parts of the economy. In some instances, informal sector units and operators proved to be quite competitive (i.e. low unit costs) in some lines of activities such as repairs,

thus attracting demand from “middle” and “high” income groups with formal sector occupations.

Hence, at any point in time, an equilibrium configuration may be established in terms of the respective shares of the two types of employment (formal and informal) within the total work force.

To illustrate this point, at its crudest, with reference to informal petty-services activities [cf. Fitzgerald (1976) and Abdel-Fadil (1992)], let:

L_a be the urban work force engaged in the “formal sector activities”,

L_b is the urban work force engaged in the “informal services activities”,

L is the total urban work force: $L_a + L_b$

W_a is the average earnings per man employed in the formal sector.

If we assume that persons employed in the “formal sector” spend a certain proportion (α) of their total earnings on services and other output of the “informal economy”, the total earnings of people engaged in informal service activities may be defined as:

$$E_b = \alpha W_a (L_a) \quad (1)$$

In order to establish the equilibrium configuration of the urban workforce, let us assume the average earnings per man engaged in informal economy activities is equal to a minimum subsistence income, $_$, then

$$L_b = (\alpha W_a \cdot L_a) / _ \quad (2)$$

or

$$L_b / L_a = \alpha W_a / _ \quad (2')$$

A good illustration of this point, is the activity of “car washing” – a flourishing informal activity in urban areas in most Arab countries – which is crucially dependent on an expanding and prosperous middle-class - whose earnings are largely derived from formal sector occupations.

3.3 The flexibility of “Profit Margins” and “Rationing” in the Informal Sector:

The “squeeze” on “profit margins”, in response to weak demand and “over-crowding” within the informal sector, leads necessarily to a **rationing mechanism**. This is due to the fact that there is not enough work to go around for all job-seekers in the “informal” segment of the economy. Hence, whatever “work load” available it has to be shared-out amongst “informal sector” operators, thus introducing a **de facto** “rationing mechanism”.

The relative share of the informal sector in aggregate household consumption (C_i / C_f) may be defined as a function of “income distribution” and “relative prices” of the products of formal/informal sectors (P_i / P_f):¹

$$C_i / C_f = C (\theta, P_i / P_f)$$

Where:

¹ Cogneau et al. (1994).

θ is a summary measure of income distribution. (e.g. the ratio of **Bottom** to **Top** deciles)

In this context, the two demand elasticities: η_i , η_p , with respect to **income distribution** and **relative prices** would be negative.

In sum, the degree and extent of “**underemployment**” within the “informal labour market will ultimately depend on fluctuations in the levels of **activity** and the **demand** for informal goods and services, emanating from **within** and **outside** the “**informal sector**”.

3.4 The Dynamic Linkages between “Formal” and “Informal” sectors:

The informal sector activities can not exist in total isolation from the modern sector, and the rest of the economy at large. In fact, a high proportion of modern sector workers are active informal sector customers. On the other hand, the “informal sector” constitutes a huge “labour reserve” (à la Marx), on which the modern sector can draw upon in times of boom and expansion.

Nonetheless, the nature of **formal-informal sector relations** varies, from one country to another. Some informal sector enterprises act as a **subcontractor** to the modern sector, but their weak economic power makes them vulnerable to exploitation by modern and big enterprises.

On the whole, the dynamic linkages between “formal” and “informal” activities are only barely captured in the recent literature on the informal sector. The general indication is that a significant contraction of incomes in the formal sector activities (or from external sources such as tourism and workers’ remittances), would lead to a more than proportionate fall in the incomes and levels of activities of the informal sector.

This result is based on the following assumptions:¹

- (a) The marginal propensity to consume “informal sector” goods and services by the formal sector income earners (α) is much higher than the marginal propensity to buy formal sector goods and services by the informal sector operators (β).
- (b) The marginal propensity to consume “informal sector” goods and services by informal sector operators (λ) is quite high, due to the density of transactions within the “inter-firm” market within the informal sector.
- (c) In the limit: $\beta = 0$, and $\lambda=1$.

Thus, when “formal” sector levels of income fall initially by a certain fraction, this set out a **multiplier process** ($\alpha/ 1-\lambda$), which results in a decrease in the earnings of “informal” sector operators.¹

By contrast, if the “informal” sector is conceived of as a **closed sub-system**, catering only for the poorer sections of the community, the stronger

¹ This “analytical framework” is mainly based on: Dipak Mazumdar, (1975), “**The Urban Informal Sector**”, (Washington, D.C.: World Bank), p. 72

would **be demand impulses** emanating from within the informal sector itself. As income distribution worsens in the society, and the “income mobility” slows down, the “formal” and “informal” sectors become increasingly disjoint.

¹ Ibid.

IV. Issues of Public Policies

4.1 Micro Credit

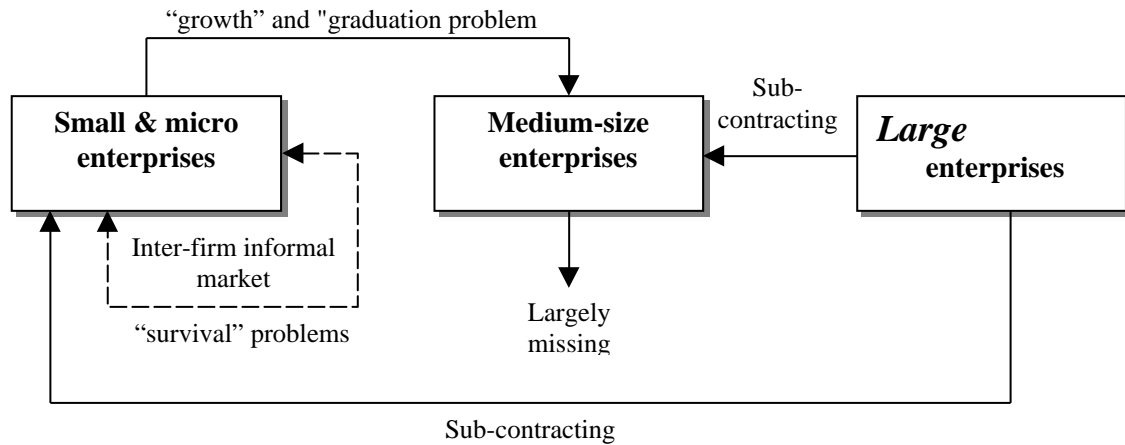
The small and micro enterprises make important investment and employment decisions, and generate important “value added” for the national economy as a whole. Nonetheless, the **low** levels of the “operating surplus” in small and micro enterprises in the countries of the Arab region, means that this units are “**liquidity constrained**”, hence the need for better access to micro-finance at reasonable interest rates, to allow for equipment renewal, upgrading, and further activity expansion.

4.2 Sub-Contracting

The SMEs need to be promoted and upgraded in the Arab region, with the objective of making them an important vehicle for industrial expansion, via the creation of **inter-industry linkages**, through sub-contracting and quality control. This should help to redefine the role of the “informal sector” within the overall growth strategy in countries of the Arab region.

The ideal pattern of “linkages” and “inter-relationships”, conducive to growth, between various types of enterprises in the Arab region is illustrated in Figure (2).

Figure (2)
Ideal pattern of inter-relationships between different types of enterprises in the Arab region



Source: Constructed by the author.

4.3 Poverty Alleviation

The **wage** and **earnings** levels in the “informal sector” units should be a matter of public concern, on two counts:

- (a) the role of this sub-sector in alleviating poverty, and improving personal income distribution within the countries of the Arab region;
- (b) the role of incomes and earnings, generated within the confines of the “informal sector”, to sustain demand for basic goods and services, and thus allowing for the survival and expansion of informal sector activities.

4.4 Productivity Upgrading

The World Employment Report (1995) established an important distinction between two segments of informal sector activities: **productive small-scale activities** with the potential for growth and technical upgrading, on the one hand, and “**dead-end survival**” activities, on the other. Those “dead-end” activities absorb the unemployed and those without any particular skills. As a result, the areas of actions and policy instruments for each segment of the informal sector need to be kept quite distinct.

Concerning the **productive segment** of informal sector activities, policies usually suggested for this segment include technical upgrading, new institutional frameworks, credit policy, and more formal sector subcontracts to improve product design and marketing arrangements.

As for the **survival segment** of the urban informal sector in the Arab region, public action should concentrate on retraining policies, public works programmes, and better social protection mechanisms for the very vulnerable groups.

4.5 The Graduation Problem of “Informal Sector” Units

Graduation problems from “informal” to “formal” status need to be addressed by public policies. This requires:

- (a) Closing the skill-gap between the “formal” and “informal” enterprises.
- (b) Upgrading low-productivity activities in artisanal enterprises.
- (c) Re-skilling the labor force in “informal” SMEs.

In this respect, the State in **Malaysia** adopted a comprehensive package of public policies, designed to foster small business and to prepare them for graduation (see Table “16”).

Table (16)
Malaysia: Public Policy for Fostering Small Business

Issue	Programmes
Marketing	<ul style="list-style-type: none"> - Venture Development Programme. - Integrated Marketing Programme. - SMIs Expose and Industrial Fairs. - Sub-Contract Exchange Scheme.
Technical Assistance	<ul style="list-style-type: none"> - Industrial Technical Assistance Fund.
Finance	<ul style="list-style-type: none"> - Industrial Technical Assistance Fund. - Soft Loan for Modernisation and Automation of SMIs
Infrastructure	<ul style="list-style-type: none"> - SMI Industrial Park
Information Support	<ul style="list-style-type: none"> - Industrial Technology Information Centre

Source: Takesh Aoki and Ken-ichi Takayasu, (1996), “**Development Experience and Issues of Malaysia**”, Table 7.11, p. 179.

4.6 The Clustering and Networking

Another area of concern for public policy is the **regional dispersal** of SME. This issue should receive more attention from policy-makers in the Arab region, not just to achieve a more balanced regional allocation of investment, but also to locate those enterprises to the sources of labour and raw materials, with a view to providing a better geographical spread of existing and new SMEs enterprises. In this context, the opening of new industrial zones and the upgrading of existing ones, helps to enhance the process of **clustering** and **networking**.

Clustering of micro and small firms in communities based on physical proximity, makes the development of institutions and government interventions more easy and effective.¹ This “clustering” process would also help many **agencies** and **donors** to encourage an array of **subcontracting** and collaboration efforts among small enterprises, and between smaller and larger ones”.²

Much recent research in developed countries suggests that local “embeddedness” within a geographical cluster or milieu of technology-intensive firms, may be of crucial importance for the growth of **small** and new enterprises in terms of access to innovative ideas, new technologies, and a range of benefits from “**untraded interdependencies**” (Keeble et al., 1997).

¹ Cf. Meine Pieter Van Dijk, (1997), “Issues in Small Enterprise Developmet: An Overview”, **Journal of Entrepreneurship**, vol. 6, issue 2, p. 216.

² Ibid.

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