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► **Guidance on leveraging sustainability pathways to accelerate formalization:** The role of companies in mitigating informality in Egypt



**Guidance on leveraging
sustainability pathways to
accelerate formalization:
The role of companies in
mitigating informality in Egypt**

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The primary objective of this guidance note is to show the relationship between corporate sustainability and formalization in Egypt's business landscape. It provides actionable strategies for companies to integrate sustainability into their operations while supporting formalization efforts. By showcasing pathways and entry points for sustainability, the guidance note empowers businesses to align growth with ethical practices and contribute to the transition to a formal economy.

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I. About the guidance note

Introduction

In the dynamic landscape of Egypt's business environment, a significant paradigm shift is underway as companies increasingly embrace corporate sustainability practices including Corporate Social Responsibility (CSR). The country's economy, while showing remarkable resilience and growth, also grapples with challenges posed by informality. This sector's prevalence hinders the nation's overall economic structure and equitable development.

The extensive reach of the informal sector in Egypt presents a complex economic hurdle for businesses across the board. This not only skews competition and market operations but also limits the potential revenue streams for formally established enterprises, obstructing their development and innovation amidst an environment of inconsistent regulations and practices.

Moreover, the prominence of informal labour within Egypt's economic framework intensifies the economic consequences on businesses. Unregulated labour practices compromise employee safety and rights, creating an imbalance in labour standards that may destabilize businesses' overall productivity and stability. This, in turn, restricts the possibilities for sustainable socioeconomic growth.

There is an integral role that companies can play in mitigating the risks presented by informality, subsequently expediting the transition towards a formal, sustainable economic structure. In this context, this guidance note aims to delve into the transformative journey Egypt is experiencing, focusing on how diverse corporations and businesses, spanning various sectors, can leverage sustainability pathways to expedite the formalization process. Particularly, against the backdrop of Egypt's escalating emphasis on CSR and sustainability, this document serves as a comprehensive resource to aid businesses in understanding and harnessing their potential role in mitigating informality.

The guidance note has been developed as part of the ongoing collaboration between the Federation of Egyptian Industries (FEI) and the regional ILO project (Social Dialogue for Formalization and Employability in the Southern Neighbourhood (SOLIFEM), co-funded by the European Union, aims at supporting the transition from the informal to the formal economy, through social dialogue, in Algeria, Egypt, Lebanon, and the Occupied Palestinian Territories (OPT). This objective will be pursued through strengthening the capacity of ILO Constituents to act and initiate social dialogue, on two fronts:

1. Development of integrated strategies on formalization in line with ILO Recommendation 204 on the transition from the informal to the formal economy.
2. Strengthen skills and recognition systems, to enable young people and women to access formal employment.

Methodological approach

The guidance note adopts a comprehensive, systematic approach to create a link between corporate sustainability and practices led by companies and the ability to innovatively create a new channel and pathway to decipher and address the



phenomenon of informality within Egypt. It utilizes a methodology based on extensive desk research delved into existing literature, government policies, and corporate reports, providing a foundation for understanding the landscape of informality and sustainability. Complementing this is an in-depth examination of the prevailing informal economy, and a private sector consultation process that took place. The ILO and FEI delivered three workshops with a total of 87 participants to 52 private sector firms representing 9 economic sectors. The aim of these workshops was to engage them in learning and discussing possible existing pathways within corporate sustainability that can help them have a role in promoting formality. The feedback, experiences and suggestions of participants have been a key contributor towards developing this guidance note. This multi-faceted approach ensures a refined understanding of the issue at hand, incorporating a range of perspectives and experiences.

The conceptual framework on which this guidance is built on is a range of publications, recommendations and frameworks adopted by the ILO including:

- ILO Recommendation R204 - Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)¹.
- ILS on Social Protection and ILO Policy Brief on Extending social protection coverage to informal economy workers: What workers' organizations need to know².
- Theory of Change: Transition from the informal to the formal economy - Theory of change³.
- The ILO MNE Declaration Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) (ENTERPRISES)⁴.

Guidance objectives

By identifying synergies between formalization and sustainability, the guidance will provide actionable pathways and models that can be adopted by companies to adopt approaches and initiatives that can support Formalization and embed sustainability at the core of their operations. This approach ensures that the guidance note serves as a versatile resource, adaptable to the evolving dynamics of Egypt's business ecosystem and the different dynamics and business models of companies as well. The document aims to facilitate informed decision-making across sectors. It seeks to empower companies with practical insights that enable them to align their growth ambitions with ethical and sustainable business practices. Main document objectives include:

- Highlight the connection between corporate sustainability including CSR and efforts to support the Formalization of enterprises and informal labour.
- Showcase corporate sustainability pathways or entry points that can be used by companies to support Formalization.
- Utilise companies to support talent, and skills to enable young people and

1 https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:R204

2 https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/publication/wcms_855076.pdf

3 https://www.ilo.org/empent/Publications/WCMS_820591/lang--en/index.htm

4 <https://www.ilo.org/empent/areas/mne-declaration/lang--en/index.htm/>



women to access formal employment.

- Utilise companies to align to ILO recommendation 204 on the transition from the informal to the formal economy through CSR, economic community and market development.
- Facilitate knowledge-sharing that encourages collaboration among various stakeholders, fostering a collective effort towards reducing informality and promoting sustainable economic growth in Egypt.

II. Key considerations

Decoding essential terms and the scope of informality

Navigating the discourse around formalization, sustainability, and the informal economy requires a clear understanding of key terms that shape the narrative. This section aims to decode these essential terms for companies, providing concise yet comprehensive explanations that lay the foundation for a deeper exploration of the intricate interplay between formal and informal economic activities. Key definitions include:

- ILO Recommendation 204: provides guidance to facilitate the transition of workers and economic units from the informal to the formal economy, while respecting workers' fundamental rights and ensuring opportunities for income security, livelihoods, and entrepreneurship. It also promotes the creation, preservation and sustainability of enterprises and decent jobs in the formal economy and the coherence of macroeconomic, employment, social protection, and other social policies; and prevent the informalization of formal economy jobs.
- Informal Economy: As per ILO Recommendation 204 refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; and does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties.
- Informal work may be found across all sectors of the economy, in both public and private spaces.
- Within this definition the term 'economic units' refers to organizations/ companies and or enterprises that employ hired labour; and or owned by individuals working on their own account, either alone or with the help of contributing family workers, or cooperatives and social enterprises.

While the term 'workers' refers to own-account workers/ entrepreneurs, owners of informal economic units, contributing family workers, irrespective of whether they work in economic units in the formal or informal economy. In addition, to employees holding informal jobs in or for formal enterprises, or in or for economic units in the informal economy, including but not limited to those in subcontracting and in supply chains, or as paid domestic workers employed by households.



- Corporate sustainability as defined by the UN global compact is the company's ability to provide long term value to across society by operating responsibly safeguarding international principles related to human rights, labour, anti-corruption, and the environment. Ensuring that it operates responsibly and has a development impact on the society and the communities surrounding these companies.

Targeted audience

In essence, this guidance note caters to a wide spectrum of stakeholders, aiming to create a shared platform for collaboration, informed decision-making, and collective action toward accelerating formalization and sustainable growth in Egypt. Audience includes:

- All types of companies including national, multinational, SMEs, among others.
- Public institutions, non-governmental institutions, and the civil society sector in general.
- Labour advocates, experts and researchers interested in understanding how businesses can contribute to Egypt's sustainable development will find this guide informative. Labour rights related organizations, cooperatives and other advocacy groups can also leverage the information to promote responsible business practices within communities.

III. Understanding the challenge of informality in Egypt

In Egypt's economy, the integration of informal economic activities has emerged as a crucial objective that the government has been striving to accomplish over recent years. The informality is viewed from the following perspectives:

- A missed economic opportunity and untapped growth potential that could contribute significantly to the country's overall Gross Domestic Product (GDP).
- Unfair working conditions for workers, particularly women and youth, thus aggravating the country's longstanding social challenges including poverty, illiteracy, and vast income disparities.
- A deterrent to the development of a robust business and market landscape with thriving enterprises, predominantly Small and Medium Enterprises (SMEs) and other local businesses.

As part of the ongoing structural economic reforms associated with the International Monetary Fund (IMF) loan, the government has escalated its efforts to combat informal economic activities through regulations and accountability. This process is anticipated to boost economic growth rates, strengthen the private sector's role in job creation, control inflation, reduce the budget deficit, and attract foreign investments. The government has also embarked upon expanding the scale of financial social inclusion efforts in the last couple of years in an effort to empower marginalized populations and to support their formal economic integration to the official economy by creating banking accounts for them.



It is also important to mention that the government has taken significant steps to broaden the scale of its social protection program, thus trying to support marginalized populations and informal workers more efficiently. Government assistance benefits 25 percent of the poorest households in Egypt through its takaful and karama program and the country's social protection registries cover more than 50 percent of the population.⁵ The Takaful and Karama Program was launched in 2015 to support impoverished families with school-age children, the elderly, and people with special needs in Upper Egypt.

Egypt announced that the budget for subsidy and social protection networks would increase from EGP 358.4 billion in FY2022/2023 to EGP 529.7 billion (around \$17.1 billion) in FY2023/2024, an increase of 48.8 percent.⁶

The integration process also promises to enhance the visibility of labour rights, social protection, and empower marginalized population segments. Hence, formalization serves as a conduit to close the country's income gap, alleviate poverty, reduce unemployment rates, and provide economic opportunities to women and youth, going beyond mere tax collection and regulatory coverage.

However, despite these endeavors, Egypt's informal economy still represents 40 percent of the GDP, even with government efforts towards formal integration. With Egypt's GDP hitting EGP 9.8 trillion (\$318.23 billion) in the fiscal year 2022/2023, the informal economy's value could be estimated at around \$127 billion.⁷

Egypt's informal sector is characterized by low barriers to entry, where skill and capital requirements are minimal, allowing many uneducated youths to participate. Many job seekers resort to the creation of small workshops, street stalls, carts, and kiosks as an alternative method to earn money. While, low overheads, minimal salaries provided to informal workers and the lack of taxes or regulations allow informal firms to offer cheaper goods and services. Much of the informal economy consists of family-based and home-based work. Many women, for instance, sew clothes at home while men sell them in the market. Child labour is also common with children assisting parents or working independently.⁸

This is in addition to the rise of new forms of informal work such as part-time freelancing where highly skilled and highly educated Egyptians work in online businesses, even on Facebook pages. Although the government has taken steps to regulate the online freelance sector, when it comes to workers for these online businesses, there are no regulations to protect their rights or provide them with any form of social protection nor business development support. All these new forms of employment are still subject to be officially accounted for with needed legal requirements to protect workers performing these kinds of services.

5 World Bank. (2023). Built to Include: Reimagining Social Protection in the Middle East and North Africa.

6 Ahram online. (2023). Egypt among MENA's leading countries in social protection. Ahram online (2023), Egypt announces substantial increase in budget for social protection programs in FY2023/2024.

7 Information and Decision Support Center (IDSC). (2023). Informal Sector Dashboard. And Ahram Online. (2023). Egypt's informal economy: Untapped potential that could add \$127 bln to GDP.

8 It is worthy to mention that Egypt has ratified the Convention no. 182-Worst Forms of Child Labour and Convention no. 138- Minimum Age Convention.



Box one: Select challenges that the country faces when it comes to the informal sector include:

- Lack of information, awareness and trust between informal workers and enterprises and the government and its affiliated public bodies that are entrusted with addressing informality.
- Lack of schemes and education systems that will support and build the capacities of informal workers to enable them to adequately join the formal workforce.
- The emergence of new types of freelance workers that have not yet been addressed by regulations thus creating a new type of informal workers lacking appropriate social security and insurance coverage.
- Similarly, the emergence of entrepreneurial initiatives and activities that sometimes operate without a formal setting which require the registering of these initiatives to become formal companies due to lack of funding or not knowing what is required to be formal.
- Limited funding and financing opportunities to support the Formalization of informal enterprises acts as a deterrent to owners who do not have the ability to pay the cost of Formalization.
- Costly long, complex, and burdensome administrative procedures related to registration also act as a significant challenge.

The economic impact of informality translates into a tax revenue loss of approximately EGP 400 billion (\$13 billion) annually⁹. Furthermore, a recent World Bank report reveals that informal employees constitute 62.5 percent of Egypt's labour¹⁰ force, underlining the severe consequences of informality on a significant portion of Egypt's population's wellbeing and livelihood. While half of Egypt's informal wage workers lost their jobs between February 2020 and February 2021 due to the COVID-19 pandemic. Thus, exacerbating poverty and social insecurities.

This current situation suggests that the government should contemplate innovative policy approaches to integrate the informal economy and its informal workers within the formal economy. This should extend beyond mere official registration and tax collection and should be viewed as a social effort to rebuild connections with the informal economy.

It is crucial to offer tangible benefits to motivate informal establishments to legitimize their activities and provide additional social protection and benefits to informal employees. This could include skills development, employability training programs, and specialized certifications. The government also needs to consider simplifying regulatory registration procedures for informal enterprises.

⁹ Ahram Online. (2023). Egypt's informal economy: Untapped potential that could add \$127 bln to GDP. Information and Decision Support Center (IDSC). (2023). Informal Sector Dashboard.

¹⁰ World Bank. (2023). Built to Include: Reimagining Social Protection in the Middle East and North Africa.



IV. Corporate sustainability as a vehicle for advancing formalization

a. Understanding corporate sustainability

Corporate sustainability, or sometimes referred to as corporate social responsibility (CSR), is a comprehensive approach adopted by businesses to operate in a manner that not only generates profit but also considers its impact on society and the environment. At its core, corporate sustainability means that companies strive to balance economic, social, and environmental concerns as integral parts of their business strategies. This philosophy recognizes that businesses are not isolated entities but are deeply interconnected with the communities they operate in and the natural world they rely upon.

Box two: The three pillars of corporate sustainability

- In the realm of economic sustainability, companies aim to achieve profitability and long-term financial stability while adhering to ethical business practices. This involves responsible financial management, fair labour practices, and transparent governance. Sustainability recognizes that economic success is not an end in itself but a means to achieving broader societal and environmental goals.
- Social sustainability entails a commitment to the well-being of all stakeholders, including employees, customers, suppliers, and the communities where a company operates. This means fostering diversity and inclusion, ensuring workplace safety, providing fair wages, and actively engaging in philanthropic efforts. By investing in its social capital, a sustainable corporation seeks to create positive social impacts that extend beyond its immediate bottom line.
- Lastly, environmental sustainability centers on minimizing the ecological footprint of a company's operations. This involves reducing resource consumption, minimizing waste, and adopting eco-friendly practices that mitigate climate change and protect natural ecosystems which in return protects people and operations and protects the market preserving this system for future generations to come. By integrating these aspects into their strategies, businesses embrace a more comprehensive and responsible approach to operations.

Specifically, through corporate sustainability companies have a significant role to support employees and workers and other workplace practices related to their supply chain. Additionally companies can also support fair and just labour practices in the market at large by becoming role models, champions, and advocates. They can also generate employment opportunities and support the emergence of smaller enterprises through their market activities and community development efforts.

The ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policies (MNE Declaration), is an example of existing global approaches and frameworks that aims to “encourage the positive contribution which multinational enterprises can make to economic and social progress and to minimize and resolve



the difficulties to which their various operations may give rise” (MNE Declaration, para 2, pg.2). It has a special focus on the creation of sustainable workplace and providing decent circumstances for employees as a core practice of corporate sustainability of companies at large.

b. Corporate sustainability as a catalyst for formalization in Egypt.

Corporate sustainability can therefore serve as a catalyst for integrating Egypt's informal sector into the formal economy by creating employment opportunities, improving skills, fostering regulatory compliance, and expanding market access. These initiatives align with the broader goals of sustainable development and economic inclusion.

Due to the defining pillars of corporate sustainability, companies that have strong and proactive sustainability practices have certain key aspects which make them ideal for supporting the country's efforts for Formalization of both workers and enterprises when relevant. *These key aspects include:*

1. **Responsible business values:** Businesses that prioritize corporate sustainability and ESG factors are inherently committed to ethical values. They recognize the importance of fair labour practices, decent work and fundamental rights and principles at work¹¹, transparency, and responsible governance. These values promote formalization by discouraging unethical practices often associated with informal work arrangements.
2. **Social inclusion:** Sustainability efforts promote inclusive workplaces, respecting diversity and providing equal opportunities. Inclusion is an essential element of formalization, as it encourages the inclusion of marginalized groups and informal sector workers into the formal economy such as women, youth, and people with certain disabilities.
3. **Skill development:** Corporate sustainability often involves investing in employee training and development, aligning with the goal of formalization. As companies offer skill enhancement programs, informal workers can acquire the competencies necessary for formal employment, making the transition smoother.
4. **Regulatory compliance:** Sustainability is often aligned with existing labour and regulatory standards. Companies committed to these principles are more likely to comply with formal employment regulations and legal requirements, reducing the prevalence of informal work arrangements that evade oversight.
5. **Additional self-imposed standards:** These companies also often adhere to international frameworks or export contractual commitments that calls for social audits and the need to comply with strict inclusive work-related employee rights, social security, protection, and wellbeing rights in general.
6. **Market expansion:** Sustainability initiatives can open up new markets and opportunities. Informal businesses and formal businesses with informal operations that engage with these initiatives can tap into these markets, increase their sales, and subsequently formalize their operations to meet the demands of a wider customer base.

¹¹ For more information on ILO's Decent work agenda, please visit: <https://www.ilo.org/global/topics/decent-work/lang--en/index.htm>.



7. **Supply chain formalization:** Companies committed to sustainability practices tend to demand transparency and ethical practices from their suppliers. This encourages informal sector participants within the supply chain to formalize their operations to meet these standards, effectively integrating them into the formal economy. This also holds true for companies in the supply chain that have informal workers or workers without adequate protection.
8. **Managerial flexibility and agility:** These companies are expected to have the flexibility to develop and accommodate new and different employment models that can accommodate freelancers, part time consultants without compromising their rights, social security, and protection.
9. **Government partnerships:** Governments may collaborate with sustainable companies to drive formalization efforts in the informal sector. By leveraging corporate sustainability, governments can achieve their policy goals of promoting formal employment and economic development more effectively.
10. **Community development and CSR initiatives:** Corporate sustainability often goes hand in hand with CSR projects that aim to uplift the communities where companies operate. These projects may include investments in education, healthcare, infrastructure, and vocational training. By engaging in such initiatives, companies can directly contribute to the development of the communities where informal sector workers reside. This not only improves the quality of life for community members but also provides informal workers with access to essential services, education, and skill development programs.

Companies embracing this identity not only contribute to formalization but also inspire positive change across industries. They lead by example, showing that profitability can coexist with ethics, sustainability, and social responsibility. In doing so, they pave the way for a new era of business, one where corporate responsibility isn't an afterthought but an integral part of a company's identity and mission. This proactive approach heralds a future where businesses are not just profit-driven entities but responsible stewards of a more equitable and sustainable world.



Box three: Corporate sustainability and ILO recommendation R204

Corporate sustainability by the virtue of its definition and main pillars can be a platform to support the implementation of the main recommendation of ILO Recommendation R204, especially those related to:

1. Implementing employment policies that promote decent work and quality job creation.
2. Ensuring rights and social protection for workers in the informal economy, including social security, maternity protection, and social insurance.
3. Providing incentives and enforcing laws to assist the transition.
4. Upholding the freedom of association and promoting social dialogue.
5. Collecting, analyzing, and monitoring data to inform policy decisions.
6. Promoting gender equality by providing affordable childcare and other care services.
7. Lowering compliance costs and improving access to social security coverage for micro and small economic units.

The above-mentioned key aspects of a company's corporate sustainability efforts can become transition channels or entry point through which companies can promote and directly support efforts of Formalization.

V. Exploring sustainability pathways for companies to mitigate informality

Companies eager to contribute to Egypt's commendable efforts in integrating informality into its formal economic landscape can harness the power of corporate sustainability. By leveraging their governance structures and existing sustainability activities, businesses can serve as catalysts for implementation and integration. This transformational journey can be facilitated through the adoption of a two-dimensional corporate sustainability framework, providing a strategic platform for effective engagement and positive impact:

- An internal dimension: institutional level.
- An external dimension: community development.

At the core of the Internal Dimension lies the internal institutional level, which refers to all facets of the company's operations including workplace practices and supply chain management. While the external dimension includes the stakeholder engagement and partnerships in addition to community development under corporate social responsibility practices.

Within each dimension, various sustainability pathways are proposed and practices to create a comprehensive guide and blueprint on how companies can leverage sustainability initiatives to address the challenges posed by the informal economy. The following sections serve as a detailed guide, outlining a series of strategic steps and activities for businesses that aim to adopt this model and instigate meaningful change.



It's important to note that the sustainability practices outlined in this guide are not one-size-fits-all solutions. Instead, they are presented to offer a diverse range of options, ensuring that different types of companies can find practices that align with their unique needs, available resources, and the scope of their operations. Every company is distinct, with its own set of challenges and opportunities.

Therefore, the guide aims to provide a comprehensive toolbox of strategies, allowing businesses to select and tailor sustainability practices that best suit their specific circumstances. By embracing this flexibility, companies can embark on a sustainability journey that is both meaningful and feasible, contributing to the integration of informality in ways that make sense for their individual contexts.

a. Regulatory baseline adherence and due diligence

For any company aiming to endorse formality, it is crucial to initially ensure strict adherence to all workforce and labour regulations without any violations. Corporate sustainability governance becomes truly influential and applicable when a company goes above and beyond the minimum regulatory requirements, emphasizing related due diligence. Hence, the starting point of this journey involves confirming the company's full compliance with regulatory requirements, statutory duties, and international baseline labour practices as an essential prerequisite.

b. Conducting a comprehensive assessment

This initial step involves conducting a comprehensive analysis of the company's current practices to detect any indications of informality. To ensure a thorough examination, this analysis encompasses both proposed dimensions, thereby covering all facets that may reveal gaps and opportunities associated with informality.

These insights will serve as a strong foundation for developing a strategic and effective approach to promote formalization with the corporate sustainability framework, ensuring that the organization can capitalize on opportunities and address the unique challenges specific to your organization's context. The scope and scale of the assessment should include the following:

Proposed dimensions	Areas to assess
Institutional level	● Conduct a thorough internal audit to identify informal work practices within the organization. This includes practices such as hiring of child labour, underpaid informal refugees, migrant workers unregistered labour, and off-the-record employment agreements if relevant. ● Review employment contracts to identify any irregularities or informal arrangements. Pay close attention to contract durations, job descriptions, and compensation structures.



Proposed dimensions	Areas to assess
	● Engage with employees through confidential interviews or surveys to gather insights into their perceptions of informal work practices. Encourage open and honest feedback to uncover hidden informalities. This especially applies to blue collar and factory workers.¹² ● Scrutinize payroll records and accounting data to identify discrepancies, and irregular wage structures. ● Regulatory Compliance Check: Review local and national labour laws and regulations to ensure that the company complies with all formal employment requirements.
Market expansion and community development	● Extend the assessment to the company's supply chain. Collaborate with suppliers to conduct audits that evaluate their labour practices, especially regarding informal labour. ● Distribute questionnaires to suppliers to understand their employment practices, labour contracts, and adherence to formal labour standards. ● If applicable, assess subcontracting practices within your supply chain. Identify instances where subcontractors may engage informal workers. ● Review market opportunities and ongoing community development projects undertaken by the company under its CSR activities and check if there are opportunities to promote, integrate or design activities that supports Formalization of workers and or enterprises.

c. Secure internal approval and resource allocation

Based on the findings of the conducted assessment and with the goal of using existing corporate sustainability practices within the company to remedy any detected informality related practices and or to adopt the promotion of formality as a focus area for CSR related community development. It is crucial to secure internal approval and allocate the necessary staff and resources. This step involves:

- Identifying key stakeholders and decision-makers within the organization who need to endorse the formalization initiative.
- Preparing a comprehensive proposal outlining the benefits, goals, and expected outcomes of the formalization process.
- Securing the commitment of top management and relevant departments to allocate staff, budget, and time to work on this formalization project.
- Establishing a cross-functional team responsible for implementing and overseeing the formalization efforts both internally and or externally, ensuring that the right expertise and resources are in place. It is advisable to include

¹² The Due Diligence principles of the OECD require consultants with trade union and worker representatives in the improvement process.



worker and / or trade union representatives as a party to this process.

d. Define clear entry points and targets:

In this critical step, the company will determine how it will actively support "formalization" by aligning it with corporate sustainability practices and pillars. This entails:

- Identifying specific areas and entry points within the company's operations where formalization efforts will be concentrated. These choices should be informed by the results of the previously conducted assessment, as well as the endorsement of senior executives and the board of directors.
- Defining the scope and scale of formalization efforts. Consider whether the company intends to exert related efforts to encompass the internal institutional level exclusively or extend to include the external community development dimension as well. This decision will shape the extent and impact of your formalization initiatives.
- By establishing clear entry points and targets, the company can strategically focus its efforts and resources on areas that align with corporate sustainability principles, ensuring that the scope of selected formalization efforts is both effective and impactful.

e. Institutional-level sustainability pathways to address informalization

Sustainability pathway	Actions for implementation
Ethical workplace practices	● Establishing transparent guidelines for working hours, overtime, and benefits. ● Promoting diversity and inclusion within the workplace, providing equal opportunities for all employees through awareness, training, and workshops. ● Regularly review company employment practices, including contracts, payroll, and workplace policies, to identify informalities. This can help understand the extent of the problem and its specific manifestations within the company. This is especially relevant. ● Develop and enforce clear and comprehensive workplace policies and procedures that align with formal labour standards. Ensure that all employees are aware of these policies and provide training if necessary.



Sustainability pathway	Actions for implementation
	● Highlight the importance of providing social and medical insurance for employees and financial incentives to encourage them towards higher productivity, taking into consideration their social status and family needs. Set incentive conditions in contracts, such as allowances, annual bonuses, end-of-service benefits, and salary increases. Ensure the adherence to hiring contracts and do not employ underage workers. Suggest setting up medical units within factories for the health and safety of employees and adhering to contracts without hiring those who refuse insurance. It is also important to set up an occupational health and safety (OSH) Committee in line with ILO Conventions on OSH, and Egyptian law. ● Ensure the implementation of fair wage policies that comply with formal labour standards. Ensure that compensation is transparent, competitive, and commensurate with skills and experience. Address wage disparities within the organization. ● Foster transparency in all employment-related matters. Make sure that contracts, job descriptions, and compensation structures are clear and accessible to all employees. Hold managers accountable for compliance with formal employment practices. ● Establish mechanisms for employees to report informal practices or ethical violations confidentially and without fear of retaliation. Investigate and address reported issues promptly.¹³ Holding regular meetings to boost morale, listen to employees' opinions, address their issues, and assure workers that they are the foundation of the company is also important to consider. ● Develop periodic surveys assessing workers' satisfaction with equipment quality and labour laws. ● Where there is a labour union or worker organization present in the workplace or in the company's supply chain, collaborate with labour unions or worker organizations to negotiate formal labour agreements and ensure that workers' rights are protected, including the right to organize. ● Regularly audit and assess the company's compliance with labour laws and regulations. ● Educate employees and management about the importance of regulatory compliance to foster a culture of formalization.
Workforce development	● If relevant develop internship and dual education programs that can support job creation, targeting marginalized youth and informal workers to gradually include these workers within the company's official workforce count.

¹³ Please check a recommended grievance procedure and mechanism, within ILO Recommendation 130 titled "Recommendation concerning the Examination of Grievances within the Undertaking with a View to Their Settlement. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_IL0_CODE:R130



Sustainability pathway	Actions for implementation
	● Emphasize the importance of enhancing the technical competence of institutions, both their workforce and production capabilities in terms of technology and equipment. This can be achieved by providing technical and theoretical trainers regularly, teaching employees how to operate electronic devices, and establishing technology schools to increase the workforce's capacity. This can happen through customizable skills development programs and company level certifications that can qualify informal workers before integrating them into company workforce in factories, stations., product line, sales, and other relevant departments. ● Offer career advancement working opportunities within the company, encouraging the transition to formal roles. ● If relevant, consider creating transitional roles within the organization that allow informal workers to gain formal work experience while maintaining their current employment status. This can ease the transition into formal roles. ● Collaborate with local educational institutions or vocational schools to provide formal education opportunities to informal workers. These partnerships can offer formal qualifications and improve employability. ● Recognize and reward the achievements and progress of informal workers who actively participate in training and skill development programs. This can serve as a motivational tool and reinforce the value of formalization. ● Implement skills certification programs that formally recognize the skills and competencies of informal workers. This can help them gain recognition in the job market and provide evidence of their abilities to potential employers. ● Implement a system to track and monitor the progress of informal workers as they undergo training and development. Regular assessments can help identify areas for improvement and provide targeted support. ● Encourage informal workers to provide feedback on training programs and suggest areas for improvement. Incorporate their input to continually enhance the effectiveness of workforce development initiatives. ● Establish mentorship programs where experienced formal employees can guide and mentor informal workers. This provides valuable learning opportunities and encourages the informal workforce to adapt to formal practices.
Supply chain integration	● Collaborate with suppliers and partners to establish formalized labour and ethical standards as prerequisites for doing business.



Sustainability pathway	Actions for implementation
	● Provide support and resources to suppliers to help them meet these standards, indirectly promoting formalization within the supply chain. ● Conduct a thorough assessment of suppliers' existing labour practices and ethical standards. Identify areas that require improvement and provide feedback to suppliers for corrective action. Conducting due diligence is essential, especially for companies whose responsibilities may differ across countries, in examining potential risks of breaching human and labour rights within their supply chains. This is particularly relevant for garment manufacturers utilizing home-based workers for various functions. It becomes vital for these companies to assess exposure to hazards such as child labour or instances of labour law evasion. Therefore, due diligence stands as a critical and relevant practice, acting as a key element in determining how much the informal economy practices can be reduced. Once these risks are identified, the initiation of social dialogues between purchasers and home-based workers can be seen as a proactive step to counter these risks. ● Communicate company commitment to formalization to your existing suppliers and partners. Explain the benefits and expectations of formalization. ● Encourage suppliers to assess their own practices and identify areas that require improvement. ● Develop standardized codes of conduct that clearly outline the expected labour and ethical standards within your supply chain. Ensure that these codes are accessible to all suppliers and partners. (including the condition that workers need to be formal with a standard level of benefits and social protection). ● Offer training programs and capacity-building initiatives to suppliers and partners. These programs should focus on enhancing their understanding of formal labour practices and ethical standards. Provide resources and support to help them meet these standards effectively. ● Implement a monitoring and auditing system to regularly assess supplier compliance with formal labour and ethical standards. Conduct periodic inspections and audits to ensure adherence and identify areas that require further improvement. ● Promote transparency within the supply chain by requiring suppliers to report on their compliance with labour and ethical standards. Encourage suppliers to disclose any challenges or areas where they may need assistance.



Sustainability pathway	Actions for implementation
	● Introduce incentives for suppliers and partners who consistently meet or exceed formalization standards. These incentives can include preferred supplier status, extended contracts, or recognition for their commitment to ethical practices. ● Implement a "Supplier Formalization Program" that takes a proactive approach to formalizing informal enterprises. This program involves identifying promising informal businesses and providing them with targeted support to meet formal labour and ethical standards. ● Partner with local communities to provide skill development programs for informal workers. These programs can be tailored to the specific needs of the supply chain. ● Establish training centers in collaboration with suppliers to provide informal workers with essential skills and knowledge required for supply chain roles. These centers can focus on technical skills, workplace ethics, and safety. ● Launch advocacy and awareness campaigns to highlight the benefits of integrating informal workers into the supply chain. This can help shift perceptions and encourage participation.



Box four: Developing a “Supplier Formalization Program” for informal enterprises.

A "Supplier Formalization Program" combined with a "Supplier Incubation" initiative represents a proactive and holistic approach to addressing informality within a company's supply chain. This multifaceted program involves identifying and nurturing informal enterprises to facilitate their formalization and integration into the supply chain. Here's a detailed breakdown of these initiatives:

1. **Identification and selection:** the company should begin by identifying informal enterprises that align with its values and requirements. These enterprises may be operating in the company's own or industry niche and exhibit the potential for growth and alignment with supply chain needs.
2. **Needs assessment:** Conduct a comprehensive needs assessment for each selected informal enterprise. This assessment should delve into various aspects, including compliance with labour laws, ethical standards, product quality, and operational efficiency. It should identify gaps and areas requiring improvement.
3. **Tailored support plans:** Develop individualized support plans for each informal enterprise based on the findings of the needs assessment. These plans should outline specific actions and resources required to facilitate formalization. Consider providing training, mentorship, access to financial resources, and guidance on meeting formal standards.
4. **Capacity building:** Invest in building the capacity of these informal enterprises. Offer training and development programs that equip them with the skills, knowledge, and capabilities needed to meet formal labour and ethical standards. This includes ensuring they understand legal obligations and ethical principles.
5. **Monitoring and evaluation:** Implement a robust monitoring and evaluation system to track the progress of each informal enterprise as they undergo formalization. Provide regular feedback and guidance to ensure they are on the right path toward achieving formal status.
6. **Preference in supply chain integration:** Once an informal enterprise successfully transitions to a formal status and meets the required standards, grant it preference in joining company supply chain. This preference can include favorable contractual terms, priority in procurement, and acknowledgment for their commitment to formalization.
7. **Ongoing support:** Continue to provide ongoing support and mentorship to these newly formalized suppliers as they integrate into the company supply chain. Encourage them to maintain high standards and adhere to ethical practices, fostering a culture of continuous improvement.
8. **Replication and scaling:** Consider replicating this program with other informal enterprises within your supply chain. Scaling the program enables a broader impact and demonstrates company commitment to formalization and responsible business conduct.



f. Community development-based sustainability pathways to address informality

Sustainability pathway	Actions for implementation
CSR community development projects and initiative	● If the company is interested in integrating the theme of “mitigating informality” it can adopt it as a key focus area under its corporate social responsibility agenda. By doing so the company can dedicate resources both financial and technical to support market and community level Formalization efforts. ● Conduct a thorough needs assessment in the local communities where the company operates. Identify the specific challenges and barriers to formalization faced by informal workers. ● Identify all possible external stakeholders who are involved in support similar efforts including government, line-ministries, civil society, international organizations, associations, labour unions and other related platforms to further understand the spectrum of interventions needed to make an impact on the community and economy level. ● Establish partnerships with local community organizations, NGOs, and grassroots initiatives that specialize in formalization and workforce development. Collaborate with these organizations to leverage their expertise. ● Finance and or develop and implement training and employability programs that target informal workers in the community. These programs should focus on building skills and competencies required for formal employment. After training and through forged partnerships with different stakeholders’ active employability opportunities that can benefit the trained informal sector. ● Consider the establishment of vocational training center relevant to the company expertise and operational sector to equip informal workers with industry-specific skills and certifications, making them more eligible for formal job opportunities. ● Offer financial literacy programs and facilitate access to financial services for informal workers. This can empower them to manage their finances effectively and save for formal employment transitions. ● Provide microfinance options and entrepreneurship support for informal workers interested in starting their own businesses. This can create formalized self-employment opportunities. ● Support programs focused on the development and education of children and youth in informal worker families, breaking the cycle of informality through education.



Sustainability pathway	Actions for implementation
	● Help informal entrepreneurs access formal markets and promote their products or services to a wider customer base. ● Implement various supportive activities that assist informal entrepreneurs in managing and expanding their businesses while also promoting their initiatives for formalization and growth. These activities can include mentoring, access to resources, training, and networking opportunities. ● Assist informal enterprises on their journey towards becoming formalized and sustainable businesses.

Box five: Examples of enterprise formalization initiatives

1. **Customized grant programs:** Tailored financial grants are made available to informal enterprises to address their specific needs, whether it's formalization, sustainability, expansion, or technology adoption.
2. **Registration support:** Grants and resources are allocated to streamline the formalization process, helping informal enterprises navigate registration, compliance, and legal requirements.
3. **Business expansion:** Grants enable informal enterprises to scale their operations, create more job opportunities, and diversify their product or service offerings.
4. **Local product promotion:** Promote the products and services of informal enterprises through local marketing campaigns, events, and collaborations with local businesses.
5. **Trade associations and cooperatives:** Encourage informal enterprises to join trade associations or cooperatives that can provide collective bargaining power, training, and resources.
6. **E-commerce platforms:** Develop e-commerce platforms or provide training for informal entrepreneurs to sell their products online, opening up new sales channels and markets.
7. **Financial advisory services:** Provide financial advisory services that help informal enterprises manage their finances, plan for growth, and access financial products like loans or credit lines.

Sustainability pathway	Actions for implementation
Stakeholder engagement and partnerships	● Establish public-private partnerships to co-create formalization programs and policies that align with business strategies. Advocate for legal reforms and incentives that encourage formalization and responsible business practices at the legislative level.



Sustainability pathway	Actions for implementation
	● Organize regular dialogues that bring together government representatives, businesses, informal workers, civil society organizations, and academia to discuss informality-related challenges and solutions. These discussions can focus on solutions like validating the skills and qualifications acquired by informal workers in their respective fields. Such formal recognition of their training and workplace abilities can be facilitated by the government, thereby bridging the gap between the formal and informal sectors. ● Advocate for policy changes that promote formalization, including tax incentives, simplified registration processes, and legal reforms that protect informal workers' rights. ● Launch public awareness campaigns that educate informal workers about the benefits of formalization and the available resources for support. ● Recognize and celebrate the achievements of informal workers and enterprises that successfully transition to the formal sector, showcasing them as role models. ● Explore opportunities for international partnerships and collaborations that can bring in resources and expertise to support formalization efforts. ● Organize policy roundtables that bring together key stakeholders, including government officials, industry associations, and worker representatives, to discuss and shape policies that address informality challenges. ● Collaborate with universities and research institutions to conduct studies and evaluations on the impact of formalization initiatives and informality reduction efforts. ● Foster alliances between companies from various industries to jointly address informality challenges, leveraging their collective expertise and resources. ● Support the formation of federations or networks of worker cooperatives, enabling collective advocacy and representation for informal workers in formal markets. ● Collaborate with media outlets and influencers to run campaigns that raise awareness about informality issues and the importance of formalization. ● Involve youth organizations and initiatives in awareness campaigns and projects targeting young informal workers, encouraging them to explore formal opportunities. ● Engage corporate employees as volunteers to provide mentorship, training, and business development support to informal entrepreneurs.



Sustainability pathway	Actions for implementation
	● Collaborate with informal entrepreneurs to collectively market their products and services, reducing individual marketing costs and expanding market visibility. ● Collaborate with government agencies and non-profit organizations to support the formalization and rights protection of informal and migrant workers, including access to healthcare and legal assistance. ● Partner with fair trade organizations to connect informal producers with international markets that prioritize fair labour practices and sustainability.

g. Implement and monitor

Execute company formalization strategy systematically by:

- Incorporating all identified activities into company formalization plans and activities, ensuring that they align with company sustainability objectives.
- Implementing a robust monitoring and evaluation system to track progress and adjust as necessary.
- Communicating the benefits of formalization efforts to all stakeholders, including employees, customers, suppliers, and communities.

h. Reporting and transparency

Practice transparency in reporting company formalization efforts:

- Share achievements, challenges, and lessons learned with stakeholders through regular reports.
- Emphasize the positive outcomes for communities and the environment resulting from sustainability-driven formalization initiatives.

i. Continuous improvement

Recognize that formalization is an ongoing process:

- Continuously assess and improve company formalization initiatives, adapting to changing circumstances and emerging opportunities.
- Engage with stakeholders to gather feedback and identify new opportunities for integration and improvement.

Concluding remarks and actionable recommendations

In conclusion, the journey towards mitigating informality and advancing formalization through corporate sustainability, stakeholder engagement, and partnerships is a complex yet transformative endeavor. It demands a shared commitment from businesses, governments, civil society, and communities to create a more equitable and inclusive economic landscape. By adopting a two-dimensional corporate sustainability model that encompasses internal institutional reforms and external



community development, companies can play a pivotal role in driving positive change. This model not only aligns with profit motives but also embraces ethical values, long-term orientation, social inclusion, and environmental responsibility.

Actionable recommendations

To realize the vision of a more formalized and inclusive economy, the following actionable recommendations should be considered:

Prioritise:
● Youth and women empowerment: Prioritize programs and initiatives that empower youth with skills, education, and opportunities for formal employment, breaking the cycle of informality. ● Community-centric approaches: Prioritize community-driven solutions and initiatives that empower informal workers and entrepreneurs to take ownership of their formalization journeys. ● Long-term commitment: Recognize that formalization is an ongoing process, requiring sustained commitment, adaptability, and collaboration over time. ● Social safety nets: Advocate for the establishment or enhancement of social safety nets that provide support to informal workers during times of economic instability or crises.
Adopt:
● Responsible business practices: Promote responsible business practices that encompass fair wages, gender equity, and the well-being of workers, fostering a culture of formality. ● Skills recognition and certification: Advocate for the recognition and certification of skills acquired through informal work experiences, ensuring that they hold value in formal job markets. ● Sustainable supply chains: Encourage businesses to adopt sustainable and ethical supply chain practices, with a focus on incorporating informal suppliers in their value chains. ● Collaborative partnerships: Foster collaborative partnerships with government agencies, NGOs, industry associations, and academic institutions to co-create formalization programs and policies that resonate with local contexts. ● Knowledge sharing: Establish platforms for sharing knowledge, experiences, and best practices in formalization efforts to accelerate learning and innovation in this critical domain.



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