

Towards a Resurgence of Government Concern Regarding the Informal Economy in South Shore Mediterranean Countries

Jacques Charmes

Research Director Emeritus
Institut de Recherche pour le Développement (IRD),
Centre Population & Développement (CEPED, UMR
Paris Descartes University-IRD)

The Arab Spring marked the reminiscence of a certain interest of the authorities in South Shore Mediterranean countries and especially the Maghreb regarding the informal economy, an interest coinciding with the return of this issue to the International Labour Conference agenda in 2014.

Labour Market Tension

In recent times, the countries in the region have continued to experience high unemployment rates (approaching 10% or more, and even reaching 13% in the case of Egypt and 15% in Tunisia) particularly affecting the labour force with a higher education or specialised training (with rates at nearly 20% or more in Egypt and Morocco and over 30% in Tunisia). The situation is especially acute among youth aged 15 to 24, whose unemployment rate in 2014 was between 17.9% in Turkey and 31.4% in Tunisia, whereas the proportion of this age group that is not in employment, education or training (the NEET rate) is nearly one out of four (see Table 5).

The majority of countries are pursuing even more vigorous active employment policies particularly aimed at youth. In Algeria, thanks to the revenue from hydrocarbon rent, a great number of youth have benefited from

workforce integration contracts and support for job creation, the country managing to stave off the rise in unemployment rates, whereas in Tunisia, the same type of programmes could not absorb the masses of youth impelled to declare themselves unemployed rather than informally employed, due to selection criteria inappropriate for gaining employment in the public sector (whether subsidised or not). Hence nearly one youth out of two declared they were seeking work in 2011 (42.3%), the proportion being around one out of three today (31.4%). (See Table 5)

Resilient Informal Economies in Which Micro-Enterprise Predominates but Where Informal Employment within the Formal Sector is Much More Widespread than in Other Regions

It is in such a context, and while in the majority of the developing regions in the world, employment in the informal economy has increased continually over a long period, that the South Mediterranean Countries have experienced fluctuations, illustrating the global counter-cyclical nature of a phenomenon whose definition and measure have been progressively refined over the course of the past four decades.

The informal economy is not the equivalent of the shadow economy, even if ties to the latter do exist and it can at times prevail over the former. Consisting of micro-enterprises on the one hand and unprotected workers in the formal sector on the other, the informal economy involves economic activities that are perfectly visible but poorly understood.¹

¹ Without going into detail here on the definitions, recall that the informal sector was defined at the 15th International Conference of Labour Statisticians (ICLS, 1993) based on the characteristics of the enterprises (legal status, size, non-registration of the company or its workers), whereas informal employment was defined at the 17th ICLS in 2003 based on the characteristics of the employment exercised (mainly the absence of social security). The informal economy to which the 2002 International Work Conference referred, as well as the following Conferences, was a combination of the two preceding concepts.

TABLE 5		Various Labour Market Indicators in Southern and Eastern Mediterranean Countries				
	2010	2011	2012	2013	2014	
Overall Unemployment Rate						
Algeria	10.0	10.0	11.0	9.8	10.6	
Egypt	9.0	12.0	12.7	13.3	13.2	
Morocco	9.1	8.9	9.0	9.2	9.8	
Tunisia	14.8	18.6	17.3	15.8	15.2	
Turkey	11.9	9.8	9.2	9.7	9.9	
Unemployment Rate of Those with Training (or Higher Education)						
Algeria	20.3	15.2	14.6	14.0		
Egypt	18.9	20.1				
Morocco	18.2	19.4	18.9	19.0	20.4	
Tunisia	23.3	33.4	31.8	32.6	31.4	
Turkey	11.0	10.4	10.1	10.3	10.6	
Unemployment Rate of Youth Aged 15-24						
Algeria	21.5	22.4	27.5	24.8	25.2	
Egypt	24.8	29.7				
Morocco	17.6	17.8	18.7	19.2	20.0	
Tunisia	29.4	42.3	37.6	32.6	31.4	
Turkey	21.7	18.4	17.5	18.7	17.9	
NEET Rate (Not in Employment, Education or Training)						
Algeria	25.3	26.0	22.7	21.5	22.8	
Egypt	32.0					
Tunisia	25.4			17.9 (15-29)		
Turkey	27.0		24.0			

Sources: Rates taken from national data or extrapolated therefrom. Charnes and Remaoun (2014a) and Charnes (2015).

Table 6 (and Chart 8 below) shows the evolution of employment in the informal economy as a percentage of non-agricultural employment – a much more sensitive indicator and thus more pertinent than an indicator taking into account agricultural activities and thus subject to evolutions that have a tendency to balance out. Note the sharp rise in informality across the region in 2000-2004 and 2005-2009, followed by a decrease in the 2010-14 period. This decrease (occurring in all the countries in the region except Tunisia, which is experiencing the after-effects of the 2011 revolution) also reveals the results of a certain interventionism

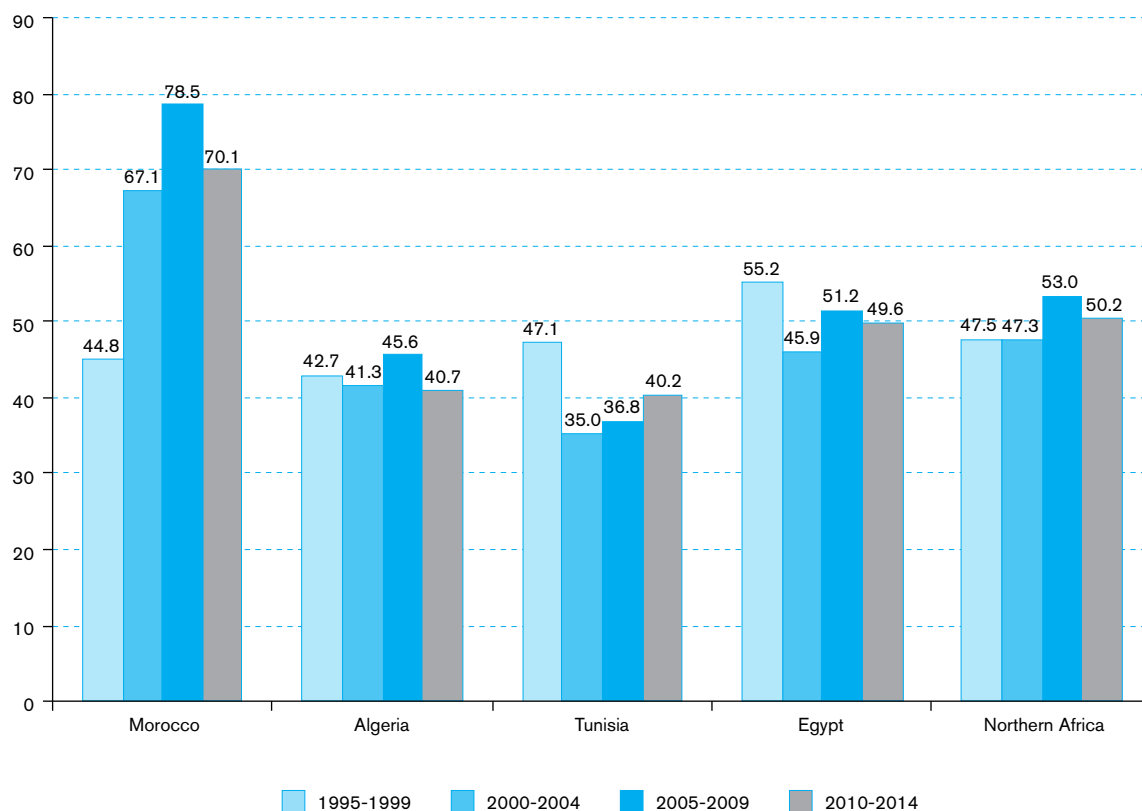
by states concerned at the sharp rise in unemployment among youth in general and young graduates in particular.

Over the recent 2010-14 period, employment in the informal economy thus represented an average of some 50% of overall non-agricultural employment in Northern Africa, with a maximum in Morocco (70%, in a downtrend) and a minimum of 40% in Algeria and Tunisia. The latter, which until the end of said period had the lowest informal economy employment rate, has now surpassed 40%.

Moreover, one of the characteristics of the informal economy in Northern Africa is that informal employ-

TABLE 6		Evolution of Employment in the Informal Economy as a Percentage of Non-Agricultural Employment in Northern African Countries						
	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2004	2005-2009	2010-2014
Northern Africa	39.6		34.1	-	47.5	47.3	53.0	50.2
Algeria	21.8	-	25.6	-	42.7	41.3	45.6	40.7
Morocco	-	56.9	-	-	44.8	67.1	78.5	70.1
Tunisia	38.4	35.0	39.3	-	47.1	35.0	36.8	40.2
Egypt	58.7	-	37.3	-	55.2	45.9	51.2	49.6
Turkey	11.9	9.8	9.2	9.7	9.9			

Source: Charnes (2012). Updated for the recent period based on Charnes and Remaoun (2014b) and Charnes and Ben Cheikh (2015).
Note: The figure in *italics* only refers to the informal sector (and not the entire informal economy) and is thus an underestimation.



Source: Table 6 above

ment outside of the formal sector (that is, essentially precarious employment in the formal sector) represents over 41% of total employment in the informal economy (the remaining 59% consisting of employment in informal micro-enterprises), which is the highest proportion observed in the world. Another defining feature, revealed by the Tunisian School to Work Transition Survey (SWTS) effected in 2013 by the Tunisian National Observatory of Employment and Training (ONEQ) in partnership with the International Labour Organization (ILO-ONEQ, 2014), is that over $\frac{3}{4}$ of employed youth are working in the informal economy. And this is most likely the case in the other countries in the region as well. Taken together, youth unemployment rates (between 1 out of 5 and 1 out of 4 unemployed), NEET rates (1 out of 4 youths neither employed nor in education or training) and the informal economy employment rates (3 youths out of 4) explain the sudden resurgence of government concern with the informal economy.

Origins of the Informal Economy: Its Recent Ties with the Contraband Economy and Islamism

The origins of the informal economy and its dynamics in Northern Africa are diverse. Although they draw their origins from formerly powerful trade guilds in Egypt, Tunisia and Morocco, informal manufacturing activities would experience a certain decline around 1980, with strong competition, first domestic (with the pressure of apprentices completing their training), then foreign (with the competition from Chinese products). Two phenomena, however, emerged to boost the growing orientation of informal activities towards distribution.

From the failed advent of an Islamic State over the course of the 1990s, the Algerian economy inherited established distribution channels that continue to function today while remaining impermeable to any form of tax payments, refusing to contribute to state funds. There is a connection between import and retail

distribution, thanks to complicities and large-scale operations with Middle Eastern and Far Eastern countries, with which it is easier to practice under-invoicing, as well as counterfeit products. Hence the transition from Marseilles tote bags to containers from Shanghai (Peraldi, 2001). This bazaar economy is one of the historic roots of the informal economy based on the absence of invoicing and payment in cash.

Another source, in the case of Algeria, is excess bureaucracy, above all for youth who are just starting off: access to a business space and credit is at times difficult, lengthy, expensive, complicated and marked by favouritism. This obliges them to adopt survival strategies that explain the lack of competitiveness of SMEs.

Against this historic backdrop of going against the rules and bureaucracy inherited from previous periods, the 1994 Structural Adjustment Programme greatly curtailed the population's purchasing power. The informal economy then adapted: by underestimating the value of imported products through under-invoicing and thus eliminating the tax burden, it has managed to keep consumer products affordable to the middle class.

This is a system difficult to eliminate because it has taken on a large scale and infected all the cogwheels necessary for its further development. However, it is this import system that hinders the development of national enterprise, for it follows its own dynamic, namely, if a certain product pleases consumers, that article is immediately sent to China, where it is counterfeited and returns to the Algerian market at a much lower price. Under such conditions, no manufacturing activity or even any legal import activities can survive. To gain an idea of the strength of this informal sector and the lobby it represents, suffice it to recall that the obligation to settle any transactions over 50,000 Algerian dinars by cheque fizzled out in 2010, and it was not until June 2015 that it was reinstated by decree, but now for amounts of over 1,000,000 dinars. The surveillance of accounts with over 50 million dinars has had the perverse effect of deflecting people from their banks, with over 50% of funds remaining outside the banking system.

But although social partners seem to coincide in this analysis and although the Algerian National Economic and Social Pact seems to demonstrate the authorities' predisposition to endorse it and drawing the appropriate conclusions, there is no apparent

unanimity on the solutions to implement. Shortly after the colloquium on "The Informal Economy in Algeria: Traces of a Transition towards Formalisation" (March 2013), organised under the patronage of the Algerian Ministry of Commerce, the commitment to draw up a White Paper seems to be at a standstill, and though the main institutional actors were parties to the Declaration of Tunis on 2 July 2013 (see below), there has not been any significant progress in this regard since then. Moreover, these actors witnessed a change in discourse on the informal economy, insisting on its job creation aspect and the consequent need to leave it in peace. And though the Pact discusses the 'struggle' against the informal economy, the social partners are more circumspect regarding the need for 'repression.'

Access to a business space and credit is at times difficult, lengthy, expensive, complicated and marked by favouritism. This obliges them to adopt survival strategies

In Tunisia, the development of contraband is a central phenomenon dating back to the mid-1990s, when the free trade regime with Europe and the prosperity of the Trabelsi Clan resulting therefrom were offset by a *laissez-faire* tolerance towards ordinary people, leading to the emergence of Libyan souks in nearly all cities. This recognised and tolerated social release valve entailed the mass destruction of the organised economy. Thus, for instance, and with the help of the tax rise, the home appliances sector became informal through contraband. A whole series of distribution chains were then established on an informal level with the lowest link in the chain (the retailers) perfectly visible and obtaining greater profit than those gained in the formal sector, whereas the top of the chain remained invisible. Ayadi et al. (2013), in their study for the World Bank, measured the magnitude and the tax gap along both Tunisian borders – the one with Libya and the one with Algeria. They found that the labour market was in crisis in all the governorates where contraband prevailed, for salaries had to be aligned with the contraband revenue, further reducing hiring. The risk is then that the entire organised economy become infected.

Contraband is a phenomenon that sustains arms trafficking and religious extremism. A symptomatic factor, moreover, is that it was during the same period in the 1990s that the contraband and distribution networks sustaining Islamism were established in Algeria.

Hence, besides a small private entrepreneurial sector seeking access to markets and sources of funding and which deserves support, the informal sector consists primarily of activities infected by contraband, themselves infected by the criminal economy involved in arms trafficking and terrorism.

The Influence of Peruvian Economist Hernando de Soto's Ideas

Tunisian and Algerian employers and their associations have adopted Hernando de Soto's analyses. This author has come to their defence in Tunisia and in the whole of the Maghreb within the framework of his Institute for Liberty and Democracy (ILD), dedicated to studying and comprehending the legal causes of economic exclusion and advocating an inclusive State of Law: the informal economy arises from the difficulties encountered by the formal sector and the barriers to entering it, which should thus be removed. De Soto's theories have been known since 1986: in many countries, it takes months if not years to complete all the procedures required to set up a business – if indeed it is possible to achieve at all – while in other countries, it only takes a few minutes, several hours or several days. Reducing the number of procedures required and their length would thus be the first element of a policy of economic formalisation. But the main problem lies in the absence of recognition of the extralegal capital small, informal entrepreneurs have available. It is access to legality that is limited and that should be expanded, a much vaster and more complex problem than that of simple procedures for registering a business.

In his analysis of the situation in the MENA region and in Tunisia in particular during the post-Arab Spring period, De Soto (2013) poses the question: "Why are Arab entrepreneurs not meeting their potential for producing prosperity?" According to him, over 90% of the Tunisian population has extralegal real estate, with extralegal real estate and business assets in 2012 to the value of 115 billion US dollars (that is, four times the amount of cumulative Foreign Direct

Investment since 1976), and 85% of Tunisian entrepreneurs operate extralegally, whereas it takes 62 procedures and 499 days to legalise property rights and 54 procedures and 142 days to set up a small business. He thus proposes a programme for economic inclusion based on hearing people's needs, reaching a consensus on acceptance of extralegal practices and documents, improving accessibility to property and business rights and evaluating public policies by their results insofar as inclusion.

An analysis of the forgotten origins of the Arab Spring and its economic solution was broadly disseminated in a brochure (ILD, 2012). The event triggering the Tunisian Revolution, 26-year-old Mohamed Bouazizi's self-immolation in Sidi Bouzid, was a protest by a small-time street vendor of fruit and vegetables whose little capital he possessed was confiscated by the authorities. Numerous other cases of self-immolation took place in the following weeks throughout the entire subregion for similar reasons. Interviewing the families of those immolated and survivors, De Soto saw in these actions the emergence of a social class of entrepreneurs wishing to accumulate capital, aware of being repressed and subject to the authorities' *'hogra'* (contempt), and rebelling against being deprived of their real estate and business rights. In losing his tangible assets, Bouazizi was also losing his extralegal rights and, naturally, his legal rights, to which all sorts of obstacles had prevented him access.

The recent evolution of the informal economy is threatening the wage-and-social-security model

At present, a number of political parties, among them Afek Tounes, have adopted these ideas as part of their agenda.

Relative Consensus among Social Partners on the Diagnosis and Solutions for Transition from the Informal to the Formal Economy

Subsequently, these thoughts were discussed in Algeria, then were the subject of an official declaration in Tunis adopting recommendations on a Maghreb-wide scale. The Declaration of Tunis, made on 2 July

2013, expressed the wish of an inclusive Maghrebi Council for Entrepreneurship. Considering that “over half of the entrepreneurs in the Maghreb are now, to some degree, outside of the formal sphere and therefore do not enjoy the advantages and protection of the law, nor the advantages of globalisation” and that it is “imperative to take action for economic and social inclusion and for Maghrebi economic integration by rendering normative and legal regulatory systems coherent and feasible, thus rendering recourse to informality needless,” Maghrebi employers’ organisations decided to combine efforts to achieve “inclusive and sustainable solutions to the problem of the informal economy, which affects economic growth, social and regional integration, and peace and stability in the Maghreb.”

Symptomatically, labour unions are of the same opinion, for they find that the recent evolution of the informal economy is threatening the wage-and-social-security model (the welfare State) and we are thus witnessing a certain convergence between employers, employees and governments, perhaps partially brought on by discussions at the 103rd session of the International Labour Conference in 2014 (ILO, 2014) that resulted in recommendations for a transition from an informal to a formal economy, exceptionally adopted nearly unanimously at the 104th session in June 2015 (ILO, 2015).

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