

## The reality of the informal economy in Algeria

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### Abstract

Lot of developing countries are characterized by high levels of poverty which is lead to precarious labor market and limited social protection system in the formal sector that lead most of individuals to go underground to survive and meet their own.

So, many researchers attempted to interpret the informality, and examine the strong relationship between informality and poverty because of its potential in the absorption of the poor and weak category of the society, where it is found that poverty is among the main incentives that force people to go underground when combined with low incomes .

The aim of this paper is to clarify the nature, identify and the reality of the informal economy in Algeria.

**Key words:** algeria- informal economy –unemployment-informal sector.

### Introduction

Following the application of the Structural Adjustment Program during (1990- 1994) Algeria has experienced significant changes in their employment situation . Including the arrival each year on the labor market of a considerable number of young people, the development of women activity and increased layoffs resulting from economic restructuring. These developments have led to a significant increase in unemployment, the development of the informal sector. Faced with this situation, the Algerian government undertook a number of labor market interventions, which entailed both changes in labor policies as well as in the institutions that implement them in order to improve the intermediation process in the labor market to better match labor supply and demand

In a nutshell, the informal economy in Algeria passed by many periods :

First, till the 1987, the Algerian economy was state-led economy (providence state) where the state was fixed almost everything.

Moreover, the Algerian economy was characterized by a quasi-monopoly of the economic activities by the state, lack in supply in the public market that is filled by goods and services from the informal activities on low prices.

During the 1960s to early 1970s, tax policy in the country was aimed at maximizing revenues to finance public sector programs in order to meet the accelerated economic growth and development programs of the government.

Second, beginning from mid 1986, the world oil market began to collapse due to the oil's over-abundance and the fall of oil prices, and thus, the Algerian economy has witnessed terrible economic crisis during the 1980s, which caused a widespread increase in the underground activities by individuals in order to survive and meet their own needs.

in response to the economic crisis , the government changed from a state-led to market economy , the state has changed its role and its nature and could not provide employment opportunities and social services as it did during the oil boom era. This situation, combined with the effects of some public policies led to high unemployment in the economy. The adoption of the Structural Adjusted Program in 1994, affected the performance of most sectors of the economy, which lead to appearance of individuals work in the informal economy in order to meet their own needs; because of the unemployment crisis in the official economy, or their revenues didn't satisfy their needs. Employment opportunities in this sector ranges from street vending, petty trading, food vending, artisan and craft workers, transport, personal services, security services, import/export activities and crime to small-scale businesses.

The economic and social restructurings which were engaged since the 80s, have broken the macroeconomic balances , pulled an increasing social degradation in terms of employment contraction and the decline of the real wages of the households.

This situation was observed in the labour market where deep imbalance provoked unemployment, exclusion and poverty. However, in spite of the acuteness of this economic crisis, its effects on the economy were resolved

thanks to the dynamism of the informal economy which played the role of shock absorber of the social shock. Indeed, the job shortage encouraged the households to develop diverse informal activities allowing creating jobs and incomes.

The informal employment has considerably increased and represents an ultimate appeal for the working population excluded from the market of official labour.

## 1. The concept of the informal economy

There are multiple definitions and labels related to the informal economy, and the use of terms can be divided into three types:

### 1-1. The concept of confidentiality

Many terms have been used to express the secrecy of this phenomenon, the most important of which are:

- The sub-economy
- Black Economy
- Hidden economy
- Secret Economy
- Informal economy.

### 1-2. In relation to the official economy

P. Gutmann was one of the former economists to draw attention to the phenomenon of the informal economy in :

\*1977 when P. Gutmann published his research on the lower economy, in which he warned about the seriousness of economic transactions that are not recorded in the calculations of national output, And where he stressed that it is not to the extent that these transactions can be neglected ( Gutmann. P , 1977)

\*Keith Heart was the first to use an informal word in 1971, before the Kenya report was prepared in 1972 by the International Bureau of the World Labor Organization, formally launching the informal economy, where three approaches were used Different to define it (K.Hait , 1972) :

"The informal economy is the economy that can not be measured" is the definition of the informal economy statistically.

"The informal economy is the hidden economy and is outside any legal framework" and is the informal economy legally.

"The informal economy is a set of actions aimed at bridging the gaps of imperfections that exist in the formal economy", namely, the concept of the informal economy in socio-economic terms

\*smith philip defined it as" the production of goods and services based on a black market, whether it is legitimate or illicit, which is avoided in the annual estimates of gross domestic product" (Abdul Hakim , 2006).

\*The International Monetary Fund defines it as the shadow economy of the hidden economy, the informal economy or the parallel economy. It includes not only illegal activities but also forms of income that are not reported and derived from the production of legitimate goods and services, Of cash transactions or barter transactions. Thus, the informal economy includes all economic activities that are taxable if notified by tax authorities (Frederick Schneider , 2002)..

Through the previous definitions, we can define a brief concept of the informal economy that "it is the sector that includes all activities that produce goods and services that generate income derived from jobs created by these activities that are not recorded in national output accounts because of:

- \* Evade the legal obligations associated with disclosure of such activities.
- \* These activities are contrary to the prevailing law in the country in which they are located.

## 2. Roots of informal economy in Algeria

The transformations defined by the Algerian economy have made the informal economy take a share, and therefore the stages of the development of the formal economy from independence to today.

### 2.1. The stage from 1962 to 1979

During this period, Algeria followed the socialist system in the conduct of economic affairs, which was based on central planning through the development plans adopted by the government to build the economy. The features of the informal economy began to emerge through the results that accompanied the implementation of these schemes.

## 2.2. Second phase (1980-1989)

This stage is known as the decentralized economy, and two development plans have been implemented: As a result of this program the rise in the prices of basic materials, the disappearance of some materials from the markets, and consequently the high rate of inflation.

Increase the burden of indebtedness due to low oil revenues, which led to the decline of foreign currency.

As a result, the informal economy has emerged through the emergence of the black market, which provides basic materials and other products, and the black market.

The informal economy also emerged in the form of some activities as units of family-size characters that were allowed to exist under the National Charter.

Activists in the informal sector were children and workers at home and in construction, people over the age of retirement and persons with disabilities.

Thus, the 1980s marked the growth of the informal economy due to structural imbalances in the Algerian economy.

## 2.3. Phase 3 (1990-1997)

The situation at this stage is the result of the oil crisis of 1986, resulting in social and economic imbalances that proved the fragility of the Algerian economy, the failure of policies in the management of the economy and the restoration of balances. The government implemented economic reform programs imposed by international institutions, Through the implementation of stabilization programs, the structural adjustment program, to move towards a market economy, and to abandon the failed economy.

The development of the informal economy after the implementation of economic reform programs, which emerged through:

- Reducing the Algerian dinar and liberalizing prices in order to open up the supply and demand forces in exchange markets, commodities and services.
- Liberalization of foreign trade, and the privatization and privatization of the public sector to achieve efficiency in the management of institutions.
- Reducing public spending by adopting austerity policy, increasing state revenues by raising the prices of goods and services, and expanding the tax base.
- This stage was also known as the security instability that struck Algeria in the nineties and lasted a decade, where the state focused on the political aspect as a prerequisite for the establishment of the economy and its work.

The above factors contributed to the development of the size of the informal economy through the results of the policies adopted by the State where:

- Price liberalization, which led to a significant rise in the prices of goods and services with no increase in wages, which led to a deterioration in the standard of living, which led individuals to move to the informal economy to work for income.
- Liberalization of foreign trade, which led to the development of smuggling operations especially illegal goods.

Privatization of public institutions, which led to the demobilization of a large number of workers, and with increasing rates of demographic growth.

These factors led to:

- High rates of unemployment, which led individuals to search for livelihood by going to work with criminal organizations.
- Increase tax revenues by expanding tax revenues. This has led to tax evasion by working in informal activities that evade the burden of labor in the formal sector and increase real income.
- The black decile, and the state's interest in the security aspect, led to the absence of government oversight, which allowed criminal organizations to expand their informal activities.

#### 2.4. The fourth stage is beyond 1998

The Algerian economy has known at this stage the return of economic balances and the improvement of the situation after the great imbalance that was known, especially after the oil crisis and the accompanying disadvantages, and characterized by:

- after the rise in oil prices.
- Increasing economic growth rates and low unemployment rates.

A revision of the wage system, and a low rate of inflation, which led to an improvement in the standard of living of individuals. - The new reform programs adopted by the government have been implemented as a tool to improve the economic situation through economic recovery and growth support programs aimed at improving the image of the Algerian economy internally and externally.

The application of these programs was accompanied by a combination of factors that led to the development of the informal economy:

- The government resorted to expanding the tax base to provide financial resources, resulting in the emergence of cross-border smuggling as a form of tax evasion due to its increasing burden.

The government adopted a set of policies within the framework of economic recovery and growth support programs aimed at encouraging domestic and foreign investment, improving the status of institutions and preparation for Algeria's accession to the World Trade Organization. These policies created a favorable environment for the growth and development of the informal economy. To join the World Trade Organization, Algeria has liberalized trade, increasing the flow of foreign goods that have become competing with the local product that lacks quality, prompting producers to pay their products to trade in informal markets for disposal, in chaotic and weekly markets.

- The spread of administrative corruption within the institutions and departments of the state, which helped spread the parallel economy.
- Interest in the tourism sector prompted the government to channel huge sums to the sector to attract tourists, prompting people to go to the informal exchange of foreign exchange, which encouraged the spread of work in the exchange market parallel.

- Poor efficiency, effectiveness and credibility of the interests and administrative and fiscal systems, both in terms of human potential, means or potential because of the phenomenon of economic corruption, which is a result and cause of the phenomenon of the informal economy at the same time.

Table 1 (Ali Boddal, 2014)

*Table 1: The Evolution of Informal Employment from Total Employment (2000-2007).*

Years	2000	2001	2002	2003	2004	2005	2006	2007
Employment in the informal sector/total employment %	20.2	21.2	21.1	21.1	25.7	26.8	27.6	27

Table( 1) shows the development of employment in the informal sector for those who want to work. This indicates the role played by this sector in absorbing unemployment, creating 150,000 jobs during the period 2000-2007.

### 3. Sectors contributing to the informal economy in Algeria

The period of the mid-eighties and nineties as difficult periods for the Algerian economy, which reflected negatively on the growth phenomenon in the country, and among the sectors contributing to the informal economy in Algeria:

#### 3.1. Trade sector

The trade sector is one of the most important sectors that provide important jobs for informal employment. Informal trade is practiced in parallel markets (where prices of materials and services are lower than official market prices due to oversupply) and black markets (where prices of materials and services are higher than official market prices due to limited supply and high demand).

#### 3.2. Construction and Public Works Sector

This sector played an important role in the provision of jobs for informal employment, especially after the 1980s and during the nineties and after the closure and privatization of some public institutions, and the problems of

security instability that negatively affected the economy, which opened the way to informal workshops in informal This sector is an important source of employment, especially with the recent housing crisis.

#### 4. The impact of the informal economy on the formal economy in Algeria

The informal economy affects the formal economy through the levels at which it exists .The levels of the informal economy in Algeria can be summarized in three markets:

##### 4.1. Market of goods and services

The studies conducted by the Economic and Social Council in Algeria indicate the expansion of the phenomenon of informal economy. This economy has affected the market of goods and services which is considered as the preferred market for many, either for the purpose of carrying out informal activity or in order to obtain their needs from this market. This is due to the scarcity of goods and services in the formal economy and the low prices in them. The statistics indicate the presence of about 200,000 illegal traders who do not have commercial records or administrative licenses, and about 700 unorganized and random markets operating outside the law (Azouz Ali, 2012) , and the productive institutions that do not meet their tax obligations, but evade them by not declaring these activities due to the higher costs of licensing or registration of activities legally compared to the cost of entering the work in the informal economy (A.Ali, B.Basset, 2007).

##### 4.2. Labor market

The informal work represents a range of activities in the informal economy , which has been defined by the World Bank through three elements:

- Not to register with the tax authorities, whether for the self-employed or employers.
- Not to belong to any of the social security funds.
- The size and nature of the enterprise's activity for traders. The informal trader is considered to be a non-official trader if he does not have a commercial record or commercial license that allows him to practice his business.

The unemployment is one of the main reasons for the trend towards informal work, so we will try to shed light on the development of unemployment in Algeria Through the following table (National office of Statistics, 2014) .:

Table 2: Evolution of unemployment rate in Algeria (1985-2014)

Years	1985	1987	1989	1990	1993	1995	1999	2000	2002	2006	2008	2009	2012	2014
Unemployment rate %	9.7	21.4	18.1	19.7	23.2	28.1	29.2	29.77	25	12.3	11.3	10.2	10	9

The data indicate that the informal economy absorbs a large number of labor force, as its revenues are estimated at 8.5% billion dollars and constitutes 17% of the revenues of Algerian productive families, which is equivalent to 13% of the gross domestic product outside the hydrocarbons sector. According to a study of the forum of heads of Algerian enterprises. The contribution of the informal sector to employment can be clarified through the following table (Economic and Social Council , 2014) :

Table 3: The evolution of official and informal employment in Algeria (1992-2003).

Unit (thousands)

Years	1992	1997	1999	2003
Official Operation	4286	4684	5162	6027
Informal Operation	688	1131	911	1249
Total Operation	4974	5815	6073	7276
Share of informal operating / gross operating %	13.8	19.4	15	17.2

In the period 2004-2007, the volume of employment in the informal sector increased, and it began to take an upward trend, reaching 27% in 2007 from 20.2% in 2000.

Table 4 (Ali Bauddal , 2014 )

*Table 4: The Evolution of Informal Employment from Total Employment 2000-2007*

Years	2000	2001	2002	2003	2004	2005	2006	2007
Employment in the informal sector / total employment %	20.2	21.2	21.1	21.1	25.7	26.8	27.6	27

Table 4 shows the development of employment in the informal sector ,which indicates the role played by this sector in absorbing unemployment, creating 150,000 jobs during the period 2000-2007.

#### 4.3. Informal exchange market

The Algerian economy defined several exchange-rate regimes linked to each stage of development defined by the economy, from the fixed-exchange-rate regime to the floating-exchange system. The periods of identification were administrative in terms of the use of financial and cash resources.

The exchange rate of the Algerian dinar has been determined in terms of unrealistic regimes, since it has no relation to reality, that is, separated from the economic reality, which made its value determined by two values:

- The first value: determined by the monetary authority and is the official value.
- The second value: determined by the informal exchange market which is the informal value.

Table (5)shows the evolution of the Algerian dinar exchange rate from 1974 to 2014. (Algerian Journal of Economics and Management, May , 1997 )

*Table 5: The exchange rate of the Algerian dinar against the French franc from 1974-2002 / Euro from 2004 to 2012.*

Years	formal price	informal price	The difference
1974	1	1	0
1977	1.3	1.5	0.2
1980	0.62	2	1.38
1987	0.8	4	3.2
1991	3.75	7	3.25
1993	4.2	10	5.8
1994	10.5	12.5	2
1998	12.3	14.8	2.5
2000	10.58	12.1	1.52
2002	11.43	13.72	2.29
2004	13.25	16.76	3.51
2006	93.6	100	6.4
2008	107	120	13
2010	93	127	34
2012	103	150	47

Table (5) shows that the exchange rate of the Algerian dinar in the two markets was similar and slightly stable in the early 1970s. Due to the strict control of exchange in 1974, the exchange rate increased due to the rise in demand for foreign exchange. Between the official and the informal exchange rates has increased gradually since the 1980s where demand for foreign currency has increased. The largest difference between the two prices was recorded between 1980 and 1987 due to the oil crisis.

#### Conclusion

The roots of the informal economy in Algeria date back to the 1970s due to developments in the Algerian economy. The public sector continued to lead the way in employment and the provision of income to individuals until 1985, but after that period Algeria witnessed a strong impetus for informal and finite institutions In the absence of the official sector for its real roles and high unemployment rates. This period marked the growth of the informal economy due to structural imbalances in the Algerian economy.

In light of the State's dealings with the informal sector, a number of measures have been taken to address the spread of the informal economy through a series of programs aimed at finding solutions to partial unemployment as they are one of the main reasons for the informal sector.

There are a number of phenomena that are considered as variables that contribute to the emergence of the informal economy and even its development. The most important of these phenomena is corruption, which is a

factor supporting the growth of the informal economy, which began to appear and spread in Algeria with all the stages and developments in the Algerian economy.

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