

A stylized map of North Africa composed of a grid of dots. Most dots are light gray, but several are colored red, highlighting specific regions or countries within the continent.

# Understanding Informal Economies in North Africa

From Law and Order to Social Justice

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- More than half of North Africa's labour force is employed in the informal economy, typically working without contracts, unions, or access to social insurance schemes. The intersection of economic marginality, underdevelopment, and abuse by law enforcement have made the region's informal workers a powerful symbol of social injustice around which protest movements have rallied.
- Rather than a pre-modern relic or a criminal violation, the region's informal sector is a fundamental feature of its economic development model. It provides employment for millions of people in the context of state withdrawal and sluggish private sector development.
- Meaningful analyses of the region's informal economy should investigate a broader range of issues than just law enforcement and taxation. Effective policies will include components such as investment in skill development, infrastructure, unions and associations, and inclusive formal sector development.



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## The Informal Economy in North Africa

### Introduction

In early 2018, an unusual sight could be witnessed in Eastern Morocco. Thousands of residents of the former mining town of Jerada marched 50 kilometres through the countryside, singing and chanting, and decrying the abandonment of their town's workers by the Moroccan government. The march came after three months of almost daily protests following the death of two local men in Jerada's coal mines. In the absence of alternative employment opportunities, locals still work in the mines that were abandoned by the government decades ago. They work informally, risking their lives. Just over a year earlier, another protest movement in Morocco began after the death of a member of the informal economy. In October 2016, Mouhcine Fikri, an informal fish vendor in Hoceima, was crushed to death in a garbage truck while attempting to rescue his produce that had been confiscated by the police. Following his funeral, the people of Hoceima began taking to the streets. Protests quickly spread across northern Morocco. The movement continued for months and led to hundreds of arrests in a government crackdown. One reason that the government came down so hard on the Hirak protesters may be the example of yet another protest movement in North Africa that began with the death of an informal vendor. In December 2010, Mohamed Bouazizi, an informal vendor in the Tunisian city of Sidi Bouzid, set himself on fire after a confrontation with a local police officer, famously becoming one of the earliest rallying points and symbols of the Tunisian revolution, and the 2011 uprisings across the region.

Members of the informal economy make strong and sympathetic symbols for protest movements in North Africa in recent years. The informal economy stands at the heart of the region's key political and economic challenges. It absorbs a large share of the region's youth unemployment, exemplifies the inability of the state to promote inclusive development, and puts marginalized individuals at the mercy of the police and security services. The informal economy directly connects to key themes of the 2011 uprisings: economic inequality, accountability, dignity, and social justice. While there has been no shortage of publications on the protest and revolutionary movements in the Middle East and North Africa, very little has been written about the region's informal economy. Moreover, very little has changed for the over 50 million

people making a living in the region's informal economy. Instead, the attention of regional policy-makers and the international community quickly became consumed with the twists and turns of the post-2011 political landscape.

This paper aims to provide a concise introduction to the informal economy in the region and its connection to regional development and social justice. It aims to provide some context on how the informal economy came to be the largest employer in North Africa, what this means for the region, and, most importantly, where it could go from here.

### The Largest Employer on the Planet

Broadly, income generation in the informal economy results from work that is »unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated.«<sup>1</sup> Informal work includes street vendors, care workers, and transporters. Additionally, it includes workers hired »off the books« in the formal sector, a practice particularly common in construction and manufacturing. Illicit practices, such as the trade of drugs, arms, or counterfeit medicine are typically excluded from most analyses of the informal economy. While many members of the informal economy are own-account workers, others have employees. Members of the informal economy can be found in a wide variety of formal and informal business enterprises. Despite the diversity in this economic sector, all actors operate in the absence of a formally regulated work environment – they do not have a contract and typically lack access to key formal sector institutions such as social insurance, unions, or unemployment benefits.

In North Africa, more than half of the regional labour force works in the informal economy. The International Labour Office estimates that 60 percent of the total labour force of Egypt and Morocco works in the informal economy, with Tunisia at 53 percent.<sup>2</sup> Statistics for Algeria are less reliable, but typically results are similar to Tunisia. This does not make the region an outlier. Informal employment is estimated to make up around two thirds

1. Portes/Castells/Benton (1989): *The Informal Economy: Studies in Advanced and Less Developed Countries*, Baltimore, Maryland, John Hopkins University Press, p. 12.

2. ILO (2018): *Women and men in the informal economy: A statistical picture*. Third edition.

of non-agricultural employment in Sub-Saharan Africa, and over four fifths in South-East Asia.<sup>3</sup> North Africa, however, remains the only region in Africa in which the share of women in the labour force that work in the informal economy is smaller than that of men.<sup>4</sup> This is in the context of a region in which the total labour force participation rate of women is already low, averaging around 24 percent. Compared to South Asia or Latin America, manufacturing is under-represented in North Africa's informal sector, where commerce dominates.

The informal economy is a particularly important employer for the region's youth. In Tunisia, 60 percent of working men and 83 percent of working women under the age of 40 are employed in the informal sector<sup>5</sup>. Unsurprisingly, in North Africa the informal economy is expanding.

In the face of a growing informal economy, the state responses in the region have been inaction, occasionally interrupted by declarations of politicians to begin the »fight against the informal economy«, and the defamiation of its workers as bandits, tax-dodgers or »illegal competition.« This topic has not been a high priority in negotiations with international financial institutions such as the World Bank or the IMF, which presume that the informal economy issue can be addressed in the context of other institutional reforms.<sup>6</sup> Instead, these calls have typically been supported by the representatives of the region's formal business communities, which have cooperated with international consultancies and think tanks<sup>7</sup> to produce extensive and empirically imaginative reports on the tax loss inflicted by the informal economy, concerns about its effects on formal sector competitiveness, its connections to organised crime and terrorism, or its tendency to create »disorder.«<sup>8</sup>

3. In order to construct more meaningful global comparisons in the context of widely diverging regulatory regimes in agriculture, informal employment is usually measured as a percentage of non-agricultural employment. This is not to say that informality in agriculture isn't highly prevalent. WIEGO Working Paper (2014): *Statistics on the Informal Economy: Definitions, Regional Estimates & Challenges*.

4. ILO (2018).

5. African Development Bank (2016): *Social Protection and the Informal Economy in Tunisia*.

6. While the World Bank produced an extensive report on the issue titled *Striving for Better Jobs: The Challenge of Informality in the Middle East and North Africa* in 2014, it seems to have been less influential on this issue compared to domestic political actors.

7. Hernando De Soto's Institute for Liberty and Democracy (ILD) deserves a special mention in this context.

8. De Soto (2014): *L'économie informelle, comment y remédier*, p. 23.

The absence of region-wide substantiated policy engagement on the issue has amplified the influence of these voices. Common policy recommendations proposed by local business communities or international consultancies typically correspond neatly to the wider policy objectives of the regional business community and include measures such as: the extension of the states' tax net to the informal economy; the simplification of tax procedures and decrease of tax rates; the expansion of micro-credit programmes; and a crack-down on large sections of the informal economy by the police. The tone, accessibility, and features of this policy discourse frames the informal economy in the context of security and tax evasion and keeps it far removed from the issues of social justice, economic marginalisation, and state accountability. The latter three issues, however, make up the lens through which many of the region's protesters address the topic when they speak about the informal economy. In order to return the policy discussion to these themes, it is important to briefly review the history of North Africa's large informal economy and the role it plays in the region's development model.

## The Informal Economy in the Region's Development Model

The history of North Africa's informal economy is closely connected to the history of the region's state-building process and economic development models. A significant section of the region's informal economy predates the legal structure that now makes it »informal«. Some modes of agricultural production and retail developed before the modern nation state in North Africa and have not been fully integrated into its legal framework, remaining informal by default. For example, vendors in rotating weekly markets in Tunisia, a centuries-old institution, are still unable to apply for permits and access formal institutions that come with them.

The development of vast subsidy regimes, high tariffs, and import restrictions in the 1970s and 1980s, especially in oil-rich Algeria and Libya, alongside the scarcity of formal intraregional trade, was accompanied by the rise of huge smuggling economies across the region. Borderland populations in Northern Morocco began bringing in European goods from the Spanish enclaves of Ceuta and Melilla and Algerian gasoline from the eastern border, selling them in informal markets across the region. Networks in Southern Tunisia imported Libyan subsidised

goods such as gasoline and food-staples, and the Awlad 'Ali tribal federations organised a substantive informal trade market across the border of Libya and Egypt<sup>9</sup>. In the years and decades that followed, these activities have largely been tolerated by the region's states. They brought some income to regions that were marginalised in post-independence development models that concentrated formal investment in the coastal centres and hence dampened social pressures and calls for a more equitable distribution of resources. In addition, informal cross-border trade provided income opportunities for politically connected elites, brought much-needed food staples to regions such as Northern Mali<sup>10</sup>, and supplied Libya while it was under international sanctions.

Perhaps the best illustration of the role of the region's informal economy as an integral result of the regional development models is the region's turn towards IMF-led structural adjustment programmes in the 1980s. Reforms aimed at modernising the region's agriculture, reducing the size of the public sector, and decreasing the state's role in the economy all had important consequences for the regional labour market. Following the vision for agricultural reform led by the private sector, Egypt, Tunisia, and Morocco embarked on a set of reforms that included the sale of state-owned farms, the mechanisation of agricultural production, and liberalisation of markets for agricultural products and land. As a result, the balance between smallholder farming and large landowners shifted towards the latter, contributing to a deterioration of the standards of rural life<sup>11</sup> and greatly diminishing the ability of the agricultural sector to absorb the demands for work of an expanding population. Many people, young men in particular, moved from the countryside into the urban periphery to look for work despite having little training, little capital, and few connections. Many of these jobseekers found their way into the informal economy as street vendors, construction workers, or domestic labourers.

Structural adjustment led to a significant reduction in public sector hiring across the region amid concerns

about bloated bureaucracies and public expenses. This also limited one of the traditional avenues of formal sector employment in the region, an avenue that had been particularly important for women. At the same time, the role of the formal private sector in employment creation remained sluggish at best. The privatisation of public sector enterprises in the region largely went hand-in-hand with the rise of a politically connected business class that was able to benefit from state support, effectively erecting significant barriers to new entrants in the market, which could have provided formal sector employment. Once again, the slack was picked up by a rapidly expanding informal sector. The dismantling of public enterprises also moved employment into the informal sector more directly. Handmade carpets in southern Tunisia, for example, have been a tourist favourite for years. In the post-independence period, these carpets were largely produced through public sector enterprises. By the late 1990s, these enterprises were largely dismantled. Production continued but moved almost entirely into the informal sector. Now, thousands of women produce carpets at home, earning a fraction of their former wages.

As the countries of North Africa embarked upon a course of structural adjustment, the old ›authoritarian bargain‹ that had characterised state-society relationships during the post-independence era, exchanging subsidies and public-sector employment for political support, or at least quiescence, was increasingly eroding. With the public sector in retreat, a small and politically segmented private sector was unable to provide employment for the region's rapidly expanding population. The expanding informal sector and its capacity to absorb employment became a necessary element of the economic development model of the region. The first hints of the critical role that the sector plays in maintaining stability and therefore the survival of the region's regimes and economic doctrines can be found many years before the deaths of Mohamed Bouazizi or Mouhcine Fikri in the economic reform programmes of the 1980s.

## Informal Economies and Social Justice

Far beyond providing a temporary fix for the region's employment problem, the expansion of the informal economy in North Africa has served to fundamentally restructure the relationship between the region's states and the majority of its labour force. It has created a

9. See Huesken, Thomas (2017): The Practice and Culture of Smuggling in the Borderland of Egypt and Libya. *International Affairs* 93/4, pp. 897–915.

10. See Scheele, Judith (2012): *Smugglers and Saints of the Sahara: Regional Connectivity in the Twentieth Century*, Cambridge, Oxford.

11. See Hanieh, Adam (2013): *Lineages of Revolt: Issues of Contemporary Capitalism in the Middle East*, Chicago, Haymarket Books.

largely atomised workforce, neglected its training, development, and security, emphasised highly gendered dynamics of access and opportunity, and transferred significant economic regulatory power to the region's security apparatus. As a result, the informal sector has become the central field in which social justice in North Africa needs to be understood, negotiated, and re-built.

The expansion of the informal sector in North Africa has created a large informal private sector that is atomised, unconnected and unable to formulate systematic political demands. While their lack of a formal legal status is one of the crucial barriers for workers in the informal sector to form unions and associations, it is not the only one. Formal labour unions in the region have typically refused to cooperate with groups in the informal sector, citing their lack of contracts and legal status, or the prevalence of own-account workers in the sector. Low levels of social capital, divergent interests, and fear of reprisals from security services have further hindered the creation of associations. This has limited the ability of informal workers to negotiate with decision-makers, articulate specific demands, and engage in collective action to enforce them. But it has also limited the access of decision-makers to information about the informal sector, its situation, problems, and needs.

The absence of formal status has largely excluded the informal economy from a variety of institutions connected to education, financial services, social security, and wider human capital development. While workers in the informal economy have an income, they miss many of the aspects of decent work. In the absence of wage regulation, many of the wages in the region's informal economy are so low that they are locally referred to as pocket money. This type of subsistence wage is enough to get by, but not enough to save, not enough to ever be able to afford a car, an apartment, marriage, or to expand their business. The lack of contracts and integration into social insurance systems exacerbates the inability to plan for the future. This has reduced regional social insurance to club goods enjoyed by a minority of the region's workers, rather than a universal feature. In addition, informal sector jobs in the region typically do not provide the type of on-the-job training or additional skills development that would provide workers with new opportunities, an issue that is often missed in discussions on education in the region. Access to capital is typically limited to micro-loans. Lack of workplace

safety increases the risks of accidents, as happened in the Jerada mines. While the informal economy continues to provide employment, it is often through jobs which do not provide key functions that traditional formal sector used to provide such as dignity, an opportunity for social development, and upward mobility.

This experience in the informal sector of the region is highly gendered. Globally, women in the informal economy are often found in some of the most vulnerable professions.<sup>12</sup> North Africa does not provide an exception. While the most profitable positions in the informal economy in the region, especially in cross-border trade, are monopolised by men, women often work from home in small-scale manufacturing activities such as weaving and sewing or in the domestic service economy. In Morocco, informal enterprises headed by women typically average 1.8 employees and make a 3.5 times smaller profit on average than those run by men.<sup>13</sup> Home-workers as well as many of the women working in the «caring economy» typically lack the social connections, access to information, and opportunities for collective action that are typically associated with jobs outside of the home. Perhaps most importantly, women are more directly affected by the absence of institutions that regulate the intersection of the home and the informal economy, such as maternity leave or social insurance programmes. Some analysts have speculated that the flexibility associated with employment in the informal economy may benefit women. In reality, employment relationships in the informal economy tend to emphasise employer flexibility, rather than that of the employee. While the violence experienced by women working in the informal economy has not been as widely politicised as the deaths of Bouazizi, Fikri, and others, it is no less significant. Economic vulnerability and the absence of regulations on working conditions have created conditions where violence can go undetected and undeterred. Sexual harassment is endemic, particularly in sectors where women are dependent on a single employer, such as in domestic services and agriculture.

The relationship between the informal economy and the states of North Africa can in many ways be conceptualised as what Judith Tandler called »The Devil's Deal«:

12. See: Meagher, Kate (2010): The empowerment trap: gender, poverty, and the informal economy in sub-Saharan Africa. In: Chant, Sylvia, (ed.) (2010): *The International Handbook of Gender and Poverty: Concepts, Research, Policy*. Gloucestershire, UK, Edward Elgar Publishing.

13. HCP Morocco (2007): *Enquête nationale sur le secteur informel*.

political support is exchanged for the toleration of informal economic activity in the continued absence of any attempts by the state to systematically transform or upgrade elements of the informal economy, to develop the situation, or the skills of the people in this sector.<sup>14</sup> In the absence of a commercial and economic strategy, a significant amount of the economic governance of the informal sector is transferred to the security services, and to the police in particular. This relationship not only offers a myriad of opportunities for corruption, commonly imposing significant costs on members of the informal economy, but also doubles down on the experience of indignity and marginalisation. More fundamentally, it continues to undermine trust between the actors involved. It fails to provide a basis for the renegotiation of the relationship between the region's states and its working population, offering no platform for a conversation about work, development, and social justice to take place. Clearly, a different approach is needed.

## Developing the Informal Economy in North Africa

From this very brief discussion on the role of the informal economy in the economic structure of North Africa, the absurdity of a »fight against the informal economy«<sup>15</sup> quickly becomes clear. An approach focused around law enforcement not only inflicts further damage and dispossession on an already largely marginalised section of the population, but also seriously endangers the region's stability and social peace. More fundamentally, law enforcement operations such as street clearings, where security forces remove informal roadside vendors, only result in a geographical relocation of the informal economy if they are not accompanied by reforms that provide viable alternatives to informal employment.

### Beyond Credit and Taxation

The few development oriented engagements with the informal economy in the region typically focused on the provision of micro-credits to informal »entrepreneurs«, having identified the lack of access to credit and financial

services as a key obstacle to formalisation for informal enterprises. There are, however, good reasons to suggest that this approach is insufficient as an economic strategy for the region's informal economy. First of all, much of the research on the role of micro-credit for small enterprises has been conducted outside of the cultural and religious context of North Africa, where many actors view commercial credits with suspicion. More importantly, it rests on the assumption that all or many informal enterprises can be scaled up through the availability of additional capital. However, many informal economic activities are survivalist in nature; heavily saturated sectors such as roadside vending, or too directly in opposition to the formal legal framework in order to be sensibly or profitably formalised or scaled up. Even in the case of the informal enterprises where expansion or development makes economic sense, taking on credit implies significant commercial risks and, through interest, transfers some capital out of the informal economy. Increasing the availability of credit is at best a very partial strategy.

Another feature of the current policy discourse on the informal economy in North Africa is the promise that »formalising« the informal economy will immediately and significantly expand the state tax income in the region. A study conducted by the consultancy Roland Berger for the Moroccan Employer's association claims that the Moroccan state currently loses 40 billion Dirham (3.6 billion Euro) annually due to the lack of tax income from the informal sector. While it has become a very common staple of policy analysis on the informal economy, there are at least two reasons to be very cautious of this approach. First, the assumption that a significant extraction of tax revenue from the informal economy is feasible, desirable, and legitimate implies that a suspension of the »Devil's Deal« and a significant re-distribution of resources within the region can be achieved without widespread unrest, or that the lack of trust created through decades of state neglect can swiftly be overcome through promises of investment and credit. Second, framing the informal economy primarily as a potential income stream for the region's states makes it more difficult to advocate for policy solutions which, at least in the short term, require costly interventions. However, given that today's informal economy is closely connected to decades of state withdrawal and neglect, it should not be surprising that meaningful and sustainable reform in this sector, especially with an eye to social justice, will require significant state investment.

14. Tendler, Judith (2002): *Small Firms, the Informal Sector, and the Devil's Deal IDS Bulletin*, Institute of Development Studies, 33/3.

15. Abderahmane Ben Zakour, »Comment lutter contre le secteur informel en Tunisie?«, *Kapitalis*, 3.4.2017.

## Developing Skills, Infrastructure and Livelihoods

Before the taxation of the region's informal sector is planned or implemented, state policy should focus on developing and upgrading skills, infrastructure, and livelihoods. Rather than as bandits and tax dodgers, the informal economy needs to be recognised as what it is – the region's main labour force, a large section of its youth, and its commercial future. The first step towards a social contract that is not built on neglect would be the systematic extension of social insurance programmes to the members of the informal economy. Developing skills through training programmes that require no formal sector connection can be critical in opening up new alternatives for informal workers, especially in rural areas where young men frequently leave school at an early age to work in the informal economy. Improving the infrastructure in which informal vendors or manufacturers operate can not only improve their efficiency, but also the safety and dignity of their work. Moreover, it serves to rebuild trust between state administrations and the informal sector.

In recent years, the Moroccan state has made significant efforts in this regard through its auto-entrepreneur programme, which provides a semblance of formality to sections of the informal economy, through the construction of markets, and by upgrading street vendor stalls through the National Initiative for Human Development. Nevertheless, many of the markets built to offer street vendors a locality and a better infrastructure remain empty, as vendors prefer to sell in their old locations in the city centre. This example highlights the importance of interaction between the state and informal labourers to develop projects that can support meaningful development within the informal economy.

## Supporting Informal Associations and Unions

In order to support the co-creation and inclusive formulation of development projects in the informal economy, more support should be given to projects that help sections of the informal economy to create associations and unions that are able to formulate needs of their respective sectors, nominate intermediaries, and engage in collective action. Given their often marginalised positions, building associations in the informal economy comes with significant challenges, and is often vulnerable to

co-optation<sup>16</sup>. Yet, there are good case studies on which to build. SEWA, India's Self-Employed Women's Association<sup>17</sup> is a globally recognised example of the positive impact of an association of informal workers granted trade union status. In Tunisia, the TILI/TAMSS project has conducted pilot projects building associations with informal shoe makers in Sfax and informal vendors in Ben Guerdane. There is no shortage of opportunities in the region to expand on these projects.

## Limiting Informality in the Formal Sector

Analyses of the informal economy in the region commonly lack a discussion of the important role that informal economy plays within the region's formal sector. Most commonly, this role is driven by formal enterprises that employ informal workers and do not provide their employees with formal contracts or social insurance schemes. This is particularly common among enterprises and sectors that are connected to ruling elites. The lack of control and enforcement of labour laws in this context can be interpreted as an informal subsidy to these sectors by the region's governments, to the detriment of their workforce. Cracking down on these practices and supporting small businesses in not just formally registering themselves, but also registering, paying and supporting their employees, promises to be the policy area related to economic informality that can produce some of the swiftest results.

## Formal Sector Employment and Inclusive Development

Any future policy development addressing informal employment in North Africa should learn from the economic programmes that have led to the informal economy's expansion in the region and aim to address the legacies of neglect that accompanied them. Not all segments of the region's informal economy can be formalised, upgraded, or developed. All the policy options discussed above are important. Yet, none of them can act as a complete substitute for creation of accessible, dignified, and decent formal employment, both in the

16. Lindell, Judith (2010): Informality and collective organizing: Identities, alliances and transnational activism. In: *Africa Third World Quarterly* 31/2, pp. 207–222.

17. See: <http://www.sewa.org/>.



public and the private sector. The region can no longer afford to pursue a development model that is built on jobless growth and can no longer exert additional sacrifices from those it has economically marginalised. The political symbolism of the confrontations between the state and members of the informal economy demonstrates that this relationship is already at a breaking point. It echoes the demands of the region's protest movements: dignity, economic opportunity, and social justice. For decades, the informal economy has been a social buffer for a development model that has benefited a small elite. As this buffer has become the majority of the region's labour force, there is no alternative to a more inclusive development model.



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