

## Informality as a coping mechanism with poverty in algeria

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### Abstract:

Today's development challenge lies in the social and economic phenomena such as informality, poverty, etc. The consequences of the transition towards a market economy and the economic and financial crises lie behind this situation; where it have led to economic, social and political restructuring of the whole economy; which created several uncertainties and opportunities, most of them were outside the formal channels due to the imperfection of the economic and political system; especially in the developing countries that are characterized by a great share of poor and unemployed (jobless) people; which in turn deepen those social and economic crisis in the society.

The aim of this paper is to emphasize the role of informality as a way of coping with poverty by focusing on the link between informal employment and poverty (or informality and income segmentation) with a specific emphasis on gender and inequality, and consequently, look at the implications for economic and social policies aiming to reduce poverty.

Finally, there is a worldwide agreement about the role of employment and decent work in the reduction of informality and poverty.

Where it is found that it is important to reconsider the economic and social policies in order to promote more decent work, and thus; reduce poverty and inequality; through the reformulation of the economic and social institutions.

**Key words:** informal economy, poverty, gender inequality, income segmentation and economic development.

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## **I. Introduction**

Many developing countries are characterized by high levels of poverty and inequality; which is due to precarious labor market and limited social protection system in the formal sector that lead most of individuals to go underground (informality) to survive and meet their own. (Maurizio 2012)

As a result, many researchers attempted to interpret the persistence, causes, composition and consequences of informality, and thus, examine the strong link between informality and poverty because of its potential in the absorption of the poor and weak category of the society, such as women and youth, where it is found that poverty is among the main incentives that force people to go underground when combined with low incomes (the involuntary nature of informality). On the other hand, poverty can be seen as a negative consequences of informality. (TOKMAN 2009), (Henrik Huitfeldt et al. 2009), (Kudatgobilik 2002), (Francesco Devicienti 2009)

Moreover, the common feature of informal working people and poor households is the low incomes and earnings; which support the link relating informality and poverty, where informal employment is the solely option at a last resort for the working poor people who lack the social protection, work in low productivity activities and are excluded from the formal labor market who. (Francesco Devicienti 2009), (Henrik Huitfeldt et al. 2009)

Besides, informal economy is characterized by high level of economic risks, especially among own account operators, casual day laborers, and industrial outworkers, where the IE consists of two huge categories: the first is self-employed, while the second comprises wage employed working for households, wage earners is small informal enterprises, or formal enterprises.

(Hossain 2007)

In this perspective, the aim of this paper is to emphasize the role of informal economy in the reduction of poverty that is the result of injustice and inequality, and thereby, to stress the main challenges facing countries when dealing with poverty and informality, and consequently, to mention the different policies and procedures that are undertaken in order to tackle poverty and its effects on the whole economy.

The remainder of this paper is organized as follows. A review on informality and its link to poverty is detailed in section 2 focusing on the role of women in reducing the household poverty. Section 3; on the basis of available data; the main features and drivers of informality in Algeria are described; with special emphasis on informal employment and its effects on poverty and inequality. The paper ends with some concludes.

## II. Literature review on informality and its link to poverty

- **Defining the informal economy and informal employment:**

As it is agreed by many researchers in this field, informal economy (IE) is a pervasive phenomenon in developing countries, and developed countries as well. As a result, several attempts to measure its size are undertaken in different countries in order to determine its main causes, consequences and to understand its composition and its mechanisms.

Furthermore, it is extremely difficult to define the IE because it differs according to the range, the different economic agents engaged in it, degree of compliance and it depends on the chosen method of measurement. All this clues make finding a common definition hard.

The IE is therefore very heterogeneous and includes both legal activities; such as unreported income and illegal activities including smuggling, fraud, and money laundering, in addition to the unproductive activities; such as: small-scale commercial activities.

In this paper we will focus on the informal economy from a labor market perspective, where the 17<sup>th</sup> ICLS in 2003<sup>1</sup> reconsidered and expanded the *employment in the informal sector to informal employment* or work-based concept; which means employment relationships within and outside the informal enterprises instead of focusing on informal unregistered enterprises that are not regulated and circumvent government regulations. (MARTHA CHEN 2006); (Heintz 2008),

Thus, the IE is generally defined as all value added activities that are not registered in the public authorities, in order to reduce the costs of production or seek to survive and meet their own needs. Feige (1989) There are other studies that focused on the legal status of the activities, where the IE consists of all activities that did not comply with the rules of law and other burdensome government regulations that hampered the economic agents to run their businesses formally. (Feige (1990), (DeSoto 1989)

Besides this, the informal economy was defined as “*all economic activities by workers and economic units that are- in law or in practice- not covered or insufficiently covered by formal arrangements*”. It includes both, enterprise and work relationships, and thereby, the informal sector was expanded to

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<sup>1</sup> Hussmanns, Ralf (2004). “Statistical definition of informal employment: guidelines endorsed by the 17th International Conference of Labour Statisticians.” Paper prepared for the 7th Meeting of the Expert Group on Informal Sector Statistics (Delhi Group).

include all workers that are not sufficiently covered even if they are employed in formal units of production. (TOKMAN 2009)

Informal workforce consists of many segments that can be gathered in two categories: (i) *informal self-employment*<sup>2</sup>; such as employers in informal enterprises; own account workers in informal enterprises; unpaid family workers (in informal and formal enterprises); and members of informal producers' cooperatives; and (ii) *informal wage employment* that includes employees without formal contracts (unregistered or undeclared workers), worker benefits or social protection employed by formal or informal enterprises/employers or by households; such as: employees of informal enterprises; casual or day laborers in construction and agriculture; temporary or part-time workers and contract workers without employment- based protections; paid domestic workers and unpaid contributing family workers; and industrial outworkers (also called homeworkers). (Heintz 2008)

*It also includes:* some workers who are neither fully dependent wage workers or fully independent self-employed: disguised wage workers such as industrial outworkers who work on a sub-contract for a piece rate but are responsible for all non-wage costs of production; and dependent contractors such as commission agents.(MARTHA CHEN 2006)

Furthermore, it is found that women are more likely to work as own account workers, paid domestic workers and unpaid contributing workers in family enterprises, whereas men are more likely to work as employers and wage workers. [Chen et al 2005]

According to some evidences, the self employment is the main feature of the labor market in sub-Saharan Africa. In Latin America and South Asia, the informal labor force is dominated by informal self-employment and wage employment accounting for the half of the total labor force. In South Asia, the dominant category is the informal wage employment , while in Latin America half of the informal wage employment are in informal enterprises . (Henrik Huitfeldt 2009)

- **The driving forces of informal employment among poor people**

There are several and different interpretations and reasons behind the existence of the informal economy, some of them are related to the individual's choice and behavior, while others are related to the economic nature and structure of the economy.

As it is agreed by several authors in this research area; there are many economic, political and institutional factors that contribute to the rising size of the informal economy, among which the

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<sup>2</sup> International Labour Conference (ILC) in 2002 and the International Conference of Labour Statisticians (ICLS) in 2003.

government onerous regulation, labor market restrictions, unemployment and reduced working hours in the official economy, etc.

Thus, heavy and inadequate regulations and inefficient processing curb the development of micro-enterprises that become more vulnerable to economic fluctuations and emerging risks; and thus; force them to go underground, besides the eroded protection and instability of formal jobs. (TOKMAN 2009)

- **Link between informality and poverty**

Aforementioned ; from a supply point of view; the formal enterprises go underground in order to avoid the costs of being formal, such as government regulations and tax burdens; and thereby; these enterprises demand for cheaper workers with low wages and poorer career who seek to survive and meet their households needs. At the contrary; the demand point of view shows the involuntary nature of the informal employment by those working poor who become informal because they have no choice, that is because the lack of job opportunities in the formal sector. (Francesco Devicienti 2009)

Another point of view consider the informal economy as a standard of living that is chosen by individuals to survive and meet their own needs in time of crisis and downturns (by the means of necessity or tradition).

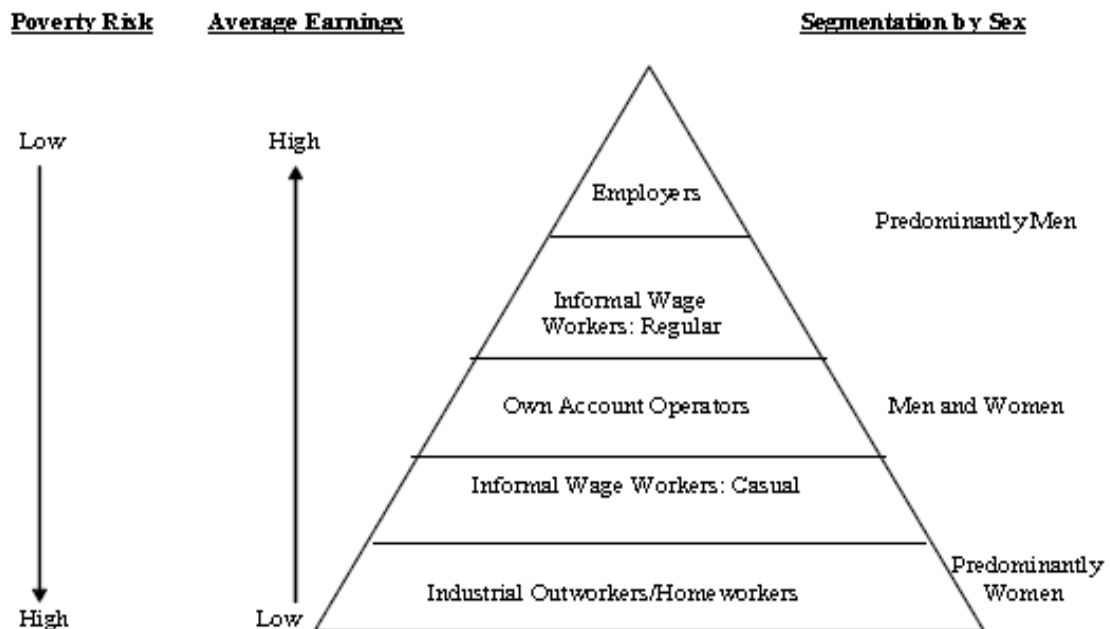
All this emphasize that the informal economy is the only alternative for the working poor who cannot access to formal sector, which emphasize the role of the informal economy that absorb these vulnerable category of the society. Thus, and in order to reduce poverty, the economic and social policies should focus on the needs and constraints faced by this working poor, that is to say .

It obvious that informal economy; that is the result of the lack of productive resources and economic opportunities; is the main cause of rising poverty when combined with low incomes and earnings; and high level of risk and uncertainty facing the working poor in the informal sector. Consequently, the informal economy is the only refuge for those poor workers both men and women who lack their economic, business and property rights, besides the right to social protection, and the right to organization and representation. (Chen 2009)

Furthermore, Informality is considered as an indicator of poor access to resources, low incomes and earnings, vulnerability and uncertainty, among other things. So, in order to better understand the link between poverty and informal employment, we should focus on the status of employment of both women and men in the informal sector, because when analyzing the informal work we focus on the

individual, but when talking about poverty status we should focus on the household rather than the individual. Basing on this perspective, the following figure analyzes the link between employment, incomes or earnings and poverty risks for both women and men.

**Figure1:** Segmentation of the Informal Economy: By Sex, Average Earnings, and Poverty Risk



*Source: Chen et al, 2005.*

As we can see from the figure above, men are represented at the top of the pyramid to be employers and informal wage workers, while women are represented at the bottom to be home-workers and unpaid family workers.(Henrik Huitfeldt 2009)

As to the average earnings, informal employers have the high levels of earnings, followed by informal employees, own account workers, then casual wage workers and industrial workers.

The figure also illustrates that women have the lowest level of earnings because of the low-paid, unstable, and poor- quality employment; which is due to the primary responsibly of the women for unpaid housework and care work that constrains their choices in the labor market. (Heintz 2008)

Concerning the poverty risk, we can see that poverty risk raises when moving from formal to informal and also the women face high level of risks and uncertainties, and thus high level of poverty.

Relatedly, the household faces high risk of poverty basing on their resources and incomes, particularly which type of work is the source of incomes; which means that if the household depends only on informal employment, it will face higher poverty risk because of low incomes. (MARTHA CHEN 2006)

To sum up, the analysis of the employment and poverty is not completed without the analysis of the structure of the households and the nature of their incomes and resources (men and women).

### III. Implications of informality and poverty for the Algerian economy

- Informal economy and poverty in Algeria

Algeria as many developing countries has suffered from the rising size of the informal economy over a long period of time. Thus, several Algerian researchers attempted to estimate and interpret the reasons behind the existence of these kind of activities. (Henni, 1991, Bounoua, 1999, 2002b, Bellache, 2010, Bounoua and Bouanani, 2013, etc)

All these authors agreed that it kept raising especially in these last decades, and this is due to the weak institutional framework and inefficient economy and social policies of the government especially after *the transition towards the market economy*, where good institutions are of paramount importance in protecting property rights, insure economic performance and cooperation, and thus reducing inequality and poverty among the society's citizens.

In a nutshell, the informal economy in Algeria passed by many periods; in which every period has its specific characteristics that deepen informality and poverty risk in the Algerian society.

**First**, till the 1987, the Algerian economy was state-led economy (**providence state**) that is characterized by a quasi-monopoly of the economic activities by the state, besides the excessive interference from the state in the economy and the overvalued currency in the official foreign exchange market led to favorable conditions for the rapid growth of rent seeking activities and the institutionalization of the underground economy. This situation culminated with the oil market collapse, where the Algerian economy has witnessed terrible economic crisis that caused a widespread increase in the underground activities by poor individuals to survive and meet their own needs. In 1994, a Structural Adjusted Program (SAP) was implemented aiming to the transition towards the market economy, but this programs worsened the performance of most sectors. Since that, Algeria experienced many macroeconomic instabilities, among which the deterioration in labor market that affected incomes and the quality and quantity of the created jobs.

On the other hand, there are no solid institutions to enforce the private sector (the privatization program) coupled with the rationalization of the workforce by various levels of government, to absorb those unemployed people. Besides this, the massive participation of graduates from the tertiary institutions, without corresponding expansion in jobs, has left many of these graduates unemployed.

As a result, most individuals work in the informal economy in order to meet their own needs; because of the unemployment crisis in the official economy; they didn't find a job, or because their revenues didn't satisfy their needs, so they choose this alternative lifestyle.

All this emphasize the fact that informal economy is the only alternative and the refuge, that is to say it is the coping mechanism of this vulnerable category of the society that mainly engage in activities that are generally small –scale, relying on indigenous resources and skills acquired through informal means and operate outside the administrated market. This category 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 analysis of the Algerian labor market**

Generally, there are several causes and determinants of informality in Algeria that need to be determined in order to establish efficient and relevant policies to reduce the rising size of this activities, and thus reducing poverty levels; *which are as follows*:

Informality is attributed in the first place *to the failure of the creation of enough jobs to cope with the rapid population of the labor force growth*, where the labor market cannot absorb the excess in the labor demand of the active population that didn't keep raising in this last decade, especially non qualified employment. Thus, the lack of formal employment combined with inability to meet the household need force some to go underground as a way on living and coping mechanism.

**Furthermore**, as can be seen from the table, informality is an indicator of the incapacity of the government to create sufficient jobs and social services as it did before. Subcontracting driven by globalization and economic liberalization that deepen the heterogeneity of the informal workforce lies behind this situation. The labor force thereby consists of self-employed, informal wage workers in small units with no separation between capital and labor and low productivity, unpaid workers in small enterprises and workers in domestic services.

As to the employment indicators in Algeria, we can see from the following tables the characteristics of the Algerian labor market, as follows:

In April 2014, the actual active population, according to the ILO, reached 11,716,000 people, where the female labor force is about 2,288,000 forming 19.5% of the entire active population. The labor market is characterized by a decrease in volume of the active male participation compared to the year 2013, and an increase in the volume of the female participation.



**Table 1** : Profile of the aggregate labor force.

	Urbain			Rural			Total		
	Male	Female	Total	Male	Female	Tota	Male	Female	Total
Actual occupad population	5533	1508	7041	3070	454	3524	8603	1962	10566
Employers & independants	1639	308	1947	1005	164	1170	2644	472	3116
Permant wage workers	2121	697	2819	865	101	967	2987	798	3785
Non permant wage workers	1720	496	2217	1122	169	1292	2843	666	3508
Family workers	53	6	59	77	20	97	130	26	156
Unemployed polpulation	594	252	846	231	73	305	825	325	1151
Actual active population	6127	1760	7887	3301	528	3829	9429	2288	11716
Unemployment rate (in%)	9,7	14,3	10,7	7,0	13,9	8,0	8,8	14,2	9,8
Economic activity rate (in %)	64,6	18,6	41,6	69,9	11,6	41,4	66,3	16,3	41,5

Source : National statistics office (NSO) 2014.

Besides this, he occupied population is currently about 10,566,000 people, which is about 27.1%, where women make up a volume of 1.962 million employed, reaching the rate of 18.6% of the total occupied population, an increase of one point compared to 2013.

The employment rate, defined as being the ratio of the occupied population to the population aged 15 and over; is about 37.5% at a national level (60.5% for men and 14 0% for women). The structure of employment by sector of activity revealed that the tertiary sector (trade and services), continued to expand; in which it absorbs 61.4% of the total workforce, followed by construction (16.5 %), industry (12.6%) and agriculture (9.5%).

**Table 2** : Distribution of the employed population by sector of activity, sex and area of residence

	Male		Female		Total	
	Workforce	%	Workforce	%	Workforce	%
<b>Urbain</b>						
Agriculture	226	4,1	10	0,7	237	3,4
Industrie	709	12,8	265	17,6	974	13,8
BTP	984	17,8	27	1,8	1011	14,4
Commerce -services	3614	65,3	1205	79,9	4820	68,4
<b>Total Urbain</b>	<b>5533</b>	<b>100</b>	<b>1508</b>	<b>100</b>	<b>7041</b>	<b>100</b>
<b>Rural</b>						
Agriculture	706	23,0	65	14,3	770	21,9
Industrie	252	8,2	103	22,7	355	10,1
BTP	727	23,7	5	1,1	732	20,8
Commerce -services	1385	45,1	281	61,9	1667	47,3
<b>Total Rural</b>	<b>3070</b>	<b>100</b>	<b>454</b>	<b>100</b>	<b>3524</b>	<b>100</b>
<b>Total</b>						
Agriculture	932	10,8	75	3,8	1007	9,5
Industrie	961	11,2	368	18,8	1329	12,6
BTP	1711	19,9	32	1,6	1743	16,5
Commerce -services	5000	58,1	1487	75,8	6486	61,4
<b>Total</b>	<b>8603</b>	<b>100</b>	<b>1962</b>	<b>100</b>	<b>10566</b>	<b>100</b>

Source : National statistics office (NSO) 2014

## Informality as a coping mechanism with poverty in Algeria

Unemployed population is estimated at 1,151,000 people; which is about 9.8% nationally. However, the Algerian labor market is characterized by heterogeneity of the employment status by age, sexe and level of education, where it is found that unemployment rate among men is about 8.8%, with an increase of 0.5 points compared to September 2013. In contrast, the female unemployment rate fall from 16.3% to 14.2% during the same period.

**Table 3** : Labour force indicators by sex, educational level and qualification

	Economic activity rate			Employment rate		
	Male	Female	Total	Male	Female	Total
<b>Educational level</b>						
Without education	40,2	4,2	17,0	39,1	4,0	16,4
Primary	72,0	8,3	42,9	66,8	7,6	39,7
Medium	74,6	12,8	50,3	66,2	10,7	44,4
Secondary	64,1	18,7	41,6	59,4	16,0	37,9
Advanced	67,7	48,4	57,0	61,2	40,7	49,8
<b>Qualification</b>						
Without qualification	61,4	7,2	34,0	56,3	6,4	31,1
Diploma from vocational training	85,8	44,7	69,6	77,0	37,3	61,3
Diploma from higher Education	84,8	70,3	76,8	76,3	59,1	66,9
<b>Total</b>	<b>66,3</b>	<b>16,3</b>	<b>41,5</b>	<b>60,5</b>	<b>14,0</b>	<b>37,5</b>

*Source : National statistics office (NSO) 2014*

**Table 4** : Relative share of unemployed people accepting employment positions under different working conditions by sex (in%)

	Male	Female	Total
Employment below professional skills	81,3	62,8	76,1
Employment that does not match the profil	80,5	62,2	75,3
Low paying employment	76,5	65,5	73,4
Employment far from home	81,7	32,5	67,8
Employment in other cties	69,4	12,1	53,2
Painful or unhealthy employment	36,3	14,1	30,0
Employment in any sector of activity	85,1	70,9	81,1

*Source : National statistics office (NSO) 2014*

As can be seen from the table above, the women have the lowest earnings ( 65.5%) according to men (76.5%). Thus, poverty and incomes (or earnings) of the work are a function of level of earnings, employment arrangements, the volatility of these earnings, place of work, all these clues are gathered in one concept “employment status”, where each employment status is related to different levels of uncertainty and risk.

**Table 5** : Distribution of unemployed people who have already worked by the characteristics of last job

	Masculin		Feminin		Total	
	Workforce	%	Workforce	%	Workforce	%
<b>Situation of the last employment</b>						
Employers - independants	64	17,0	6	5,5	70	14,5
Regular workers	33	8,7	9	9,2	42	8,8
Temporary workers	276	73,2	86	84,7	361	75,6
Contributing family	5	1,2	1	0,6	5	1,1
Non declared	64	17,0	6	5,5	70	14,5
<b>Legal sector last employment</b>						
Public	89	23,6	54	53,5	143	30,0
Private	288	76,4	47	46,5	335	70,0
<b>Raison behind quitting the job</b>						
End of contract	94	25,0	50	49,5	144	30,2
Firing	41	10,8	7	6,5	47	9,9
Entreprises's bankruptcy	84	22,2	6	6,1	90	18,8
<b>Resignation</b>	43	11,3	7	6,8	50	10,4
Raisans related to health	28	7,5	5	4,6	33	6,9
Family reponsibility	6	1,5	11	11,1	17	3,5
<b>Time duration since last job</b>						
Less than a year	197	52,4	47	46,1	244	51,0
12-23 months	61	16,1	13	12,4	73	15,3
24 months or more	119	31,5	42	41,5	161	33,6
<b>Total</b>	<b>377</b>	<b>100</b>	<b>101</b>	<b>100</b>	<b>478</b>	<b>100</b>

*Source : National statistics office (NSO) 2014*

The table 6 above pinpoint the instability and precariousness of the jobs that are the main drivers of poverty risk among the working in formal sector, and thus they go underground to meet their own needs or their families needs.

This can explained by the inadequate and inefficient public policies aiming to reduce informality, to improve the overall business environment, to simplify business registration practices and to reduce red tape, and thus reduce poverty among working poor, but these economic policies have rather deepen poverty among the society citizens and lead to more vulnerability of the existed groups, especially women and youth.

To sum up the main findings of the previous tables, there are many classifications of the informal economy by employment status according to the range of average earning, poverty risk , besides the gender segmentation of the labor market that leads to a gender gap in incomes and earnings between men and women.

- **The institutional framework in Algeria**

In addition to this, *inadequate formal regulation; particularly business and labor regulations* that are constrains the expansion of micro-enterprises and erodes their competitive position in the market; and thus; force them to be informal. The business environment in Algeria contains some inadequate regulations for creating businesses whether the procedures, time or costs, in particular: Starting a Business (164), Dealing With Construction Permits (147), Getting Electricity (148), Registering Property (176), Getting Credit, (130)Protecting Investors (98), Paying Taxes (174), Trading Across Borders (133), Enforcing Contracts (129) and Resolving Insolvency (60). (*World Bank, Doing Business 2014*)

In this perspective, we can see that starting a business in Algeria is a lengthy, bureaucratic and difficult process to engage in, which promote economic agents to go underground. According to the *economic freedom's indices*, property rights and freedom from corruption in Algeria is about 30 and 28.7 respectively; which reflects the rule of law or courts are slow, and thus, the enforcement of legislation, trademarks, patents and protection of property rights are inconsistent because of the corruption and rent-seeking activities of bureaucrats.

As to fiscal freedom and government spending are about 80.5 and 51 respectively; which reflects that the government spending kept rising about 43.1 percent of GDP and also the tax burden is about 10.4 percent of total domestic income.

As to the regulatory efficiency, business freedom, labor freedom and monetary freedom amount to 66.3, 48.3 and 67.8 respectively; which reflects that the labor market regulations remain rigid and thus contribute to the high level of unemployment.

To sum up, the rising size of the informal economy is the result of many social and economic phenomena, among which the weak institutional settings and inefficient economic policies, besides the deterioration of the labor market.

## IV. Concludes and recommendations

The informal economy became a pervasive phenomenon in this last decades, especially in developing countries that are characterized by weak institutional quality low incomes, and thus high levels of inequalities and poverty.

In this paper, we aim at emphasizing the link between informality, poverty and informal employment in Algeria, where we found that the informal economy in Algeria is a way of coping with the social inequalities and lack of economic opportunities in the formal sector, where the informal sector absorbs the most vulnerable category of the society, that is women and youth

especially graduate ones. So it is important in addressing informality and poverty, to understand the different costs and benefits associated with each different segment of the informal economy.

Furthermore, in order to reduce poverty among the working poor the government should reconsider its economic and social policies by focusing on the employment relationships and working conditions and their effects on the household poverty rather than the individual, especially the role of women in reducing the household poverty, that is to say promote productive and decent work.

Furthermore, promoting productive stable employment and decent work is one of the targets that the state should focus on, by improving living and working conditions among the working poor and thus reduce their ability to go underground to meet their families needs.

In addition to the improvement of the institutional framework including business and labor regulations and also raising the benefits of being formal to promote enterprise to stay formal and encourage those informal rejoin the formal sector; through the simplification of the implementation of tax and registration systems for the small enterprises; which in return reduce the corruption among bureaucrats that is the major difficulty facing the poor. In addition to improving the quality of health and social services for those working poor.

To conclude, even if the informality is the coping way of the working poor, the state should provide an environment where the poor could survive without entering in informality instead of deepen their poverty and vulnerability.

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