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The informal economy in Algeria: the embryo of a new society

survey of companies in the western region of Algeria for the period (2016-2020) * HIND MALIKA MERAD BOUDIA

PhD in economics department, research laboratory in informal economy, institutions and development, Abou Bakr Belkaid University of Tlemcen, 13000, Algeria

Email: meradboudia@live.fr

CHAIB BOUNOUA

Professor in economics department, research laboratory in informal economy, institutions and development, Abou Bakr Belkaid University of Tlemcen, 13000, Algeria

Email: cbounoua@yahoo.fr

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ABSTRACT: emerged over the last sixty years, then integrated to reshape development economics; the informal economy escapes registration and declaration, thus depriving the Algerian authorities of important resources, and locking it in a vicious circle of underdevelopment. Through a survey carried out among eight (08) private companies and public establishments in the western region of Algeria, our objective is to analyze the main actors and factors behind these practices, and to propose recommendations, through an analytical and institutional approach. in addition to the absence of sanctions, the results obtained revealed to us that the institutional environment in which our agents operate is very restrictive, thus inciting them to break the law

Keywords: informal economy, economy development, a vicious circle

JEL Classification: XN1, XN2

1. INTRODUCTION:

For several years now, the development economy has underestimated the importance of the informal economy by banishing it from the economic and social panorama. It advocated for industrialization strategies, integration into trade and the world economy, and the debt. It was only in the 1960s that the concept of "informal" made a fortune, because of its ambiguity. It has invaded the literature on a good number of countries, whether they are developing countries (Sub-Saharan Africa, Latin America), European countries (Italy, Greece, France), until it became widespread around 1989 on other Eastern European countries, and towards the beginning of the 2000s on a good number of countries, whether they are in transition (Algeria Morocco, Tunisia, etc.) or developed countries. Since its emergence in the early 1970s, debates about the concept of "informality" have continued to

^{*} Author Corresponding: MERAD BOUDIA HIND MALIKA

grow. This term has attracted the attention of leading researchers, specialists, institutions and international organizations. At that time, the informal sector was considered as a rebellious, harmful sector, a simple residue, which had to disappear as soon as the development models and strategies initiated by States had achieved their objectives. Unfortunately, the long-awaited results were not expected, leaving the informal sector free rein. Acting as a regulator of the labour market, and seductive by the assets it offers its precursors, the latter has been able to absorb a good number of individuals, who find themselves unemployed for several reasons (economic, financial, political and institutional crises) and have found themselves forced by poverty to turn to this sector.

At that time, no one could deny its importance because of the quantitative performance in terms of job creation and well-being that it records to the detriment of the modern formal sector, thus depriving the public authorities of significant revenues. Indeed, the scale of the informal sector has led us to question, on the one hand, the origins of the concept? who are its actors and their different types of offences?, the causes at the origin of its development? the inherent social costs? and, on the other hand, the appropriate measures that the public authorities could implement to integrate it, in a progressive way, into the legal framework of the economy? We put forward two hypotheses, according to which, poor institutional quality and the lack of sanctions favor the emergence of informal practices; and on the other hand, endowed with limited rationality and opportunism, entrepreneurs seek to maximize their profit, using unconventional practices to the detriment of those who abide by the law.

In order to try to answer these questions, we proposed to carry out a field investigation in the western region of the country with eight private companies, but also public establishments from 2016-2020, with an average period of three month. This is what will be the subject of the following pages.

2. A NEW APPROACH IN DEVELOPMENT ECONOMY : THE INFORMAL ECONOMY

2.1. FAMILY TREE OF THE CONCEPT:

It is It is strictly important to know that the first time the subject of the "informal sector" was discussed, it was at the International Labour Conference, organized by the International Labour Organization (ILO), and held in 1969. It was within the framework of this Conference that the Global Jobs Programme was launched, with two main objectives: to make productive employment for a large part of the population a primary objective of national and international development policies, and among other things, to assist Member States in the preparation and implementation of action plans to achieve it. A few years later, and more precisely in 1971, the concept of "informal" was introduced by Keith Hart, in a study of Ghana, later published in 1973, to study "informal opportunities of individuals", or in other words, "informal opportunities of income". In order to address the dualism of the "formal-traditional sector", he introduced this concept to clarify its importance and extend the traditional sector, while drawing inspiration from sociological and anthropological studies conducted in Africa and elsewhere (Bromley and Gerry, 1979), as well as surveys conducted in Latin America on workers who were marginalized, since they received wages lower the minimum wage and the poverty line. Further investigations were carried out in 1972 in Kenya on this sector. The notion of informality was approached a second time by the

ILO, which was interested more in companies (production units) than in individuals, with the common point, the interest that it has with the State as a regulator, or otherwise as a stimulator of informal practices, at the moment when it imposes itself as an obstacle to the development of private initiative. This approach has been the subject of numerous ILO surveys in Africa (Maldonado, 1987; Nihan, 1981), Latin America (Tokman, 1987), and Asia (Sethuraman, 1981).

3. AN ATTEMPTS TO DEFINE INFORMAL CONCEPTS:

3.1. ILO (1972) AND SETHURAMAN (1976) MULTI-CRITERIA DEFINITIONS:

Since the early 1970s, particular interest has been given to the informal sector" in developing countries to study activities that are not listed by States within their economies. At that time, the ILO demonstrated the existence of activities, not in the modern or traditional sector, but in the so-called "informal sector". Often referred to as the "informal sector", the informal sector is a vast field of research, still virgin, but which challenges the development approach of traditional economists. The discussions on the criteria for informality are endless. Not only for the sake of academic rigour, or to provide experts with job estimates, but because the challenge is both practical and urgent in view of the multiplication of crises, the urban impoverishment of many economies, globalization, increased poverty, underemployment, etc. at that time, several questions came to the minds of the experts, including: where do marginalized individuals live from? do they survive? how do they manage in life? and finally the central question: what is the other side of underdevelopment, allowing these individuals to resort to practices, which may be unregulated, to meet their daily needs of basic need? . Among the existing multi-criteria definitions in the literature, we will retain, in chronological order, the one presented by the ILO[1972], in its report on Kenya, and that of Sethuraman[1976]. As mentioned above, the first studies on this sector were carried out in Kenya, under the direction of H. Singer of the International Labour Office (ILO), although many authors attribute the invention of this concept to K. Hart, who conducted his investigations in Ghana. Through its report on Kenya (ILO, 1972), the ILO used a multi-criteria definition to try to conceptualize the informal sector, hence its incorporation of seven criteria, namely: the ease of entry; whether in terms of qualification, or capital to be committed; unfair competition markets and where transactions are carried out in violation of regulations; the use of local resources; the family ownership of companies; the small size of the activities; the use of adapted and simple technologies, as well as a reduced number of workers; training acquired outside the school system. (Kenya report, ILO, 1972: p 6).

These elements were taken a few years later, and more precisely, from observations made in Bangladesh by S. Canagarajah & S. V. Sethuraman, supplemented by eight (08) other conditions of membership, or in other words, of characterization of the informal sector, which we quote as follows:

the employment of a maximum of ten people per company; the non-application of legal and administrative rules; the employment of family workers; the absence of a fixed work schedule or days; the absence of institutional credits; educational training for workers

of less than six years' duration; in some cases, the absence of mechanical and electrical energy; the itinerant or semi-permanent nature of the activity.

Several criticisms have been levelled at this vision of the informal sector, particularly in terms of labour market regulation, and the lack of knowledge of the interactions that characterize an economic system. (Malikwisha, 2000: p16). In a successful book entitled "la planète des naufragés", S. Latouche uses the terms "l'alternative". Although it has been considered as a form of social life, the informal is first and foremost "the outline of what could give rise to it". In this regard, he notes that the multi-criteria definition used by the ILO is insufficient, as it constitutes a kind of compromise between the economy and statistics. The informal is a "stuff everything" category that covers all categories: from handymen, backyard workshops, shoe shiners, street vendors, drug traffickers, to small industrial enterprises that are not registered, or not declared until they reach crooked officials. (Latouche, 1991: p112).

3.2. THE STATISTICAL DEFINITION OF THE INTERNATIONAL CONFERENCE OF LABOUR STATISTICIANS (ICLS 1991, 1993):

One of the concerns of international experts in the early 1990s was to address the issue of work and employment. To this end, the ILO is trying to formalize a global definition that can help them understand the phenomenon of informality. Significant efforts have been deployed to establish the main characteristics and diagnosis of the operating mechanisms of the informal sector. In its 1991 report, the ILO specifies the characteristics of the informal sector as follows: « It is called the informal sector, the very small units of production and distribution of goods and services, located in urban areas; these units belong mainly to self-employed workers, who sometimes employ a family labour force, or even a few employees or apprentices. They have, at best, only rudimentary capital and a low-skilled labour force, so their productivity is low; they generally provide only minimal and very irregular incomes and unstable employment for those who live off them. ». (CNES, 2004: p 42).

A few years later, and more precisely at the resolution of the International Conference of Labour Statisticians (ICLS) in January 1993, the ILO developed a set of international statistical standards, which addressed issues relating to the definition of the informal sector, its design, content and finally the studies conducted in favour of the informal sector. The objective was to identify the extent of this phenomenon, and its share in the nonagricultural economy, through the development of statistics on micro and small informal enterprises, taxpayers who absorb a large mass of jobs, and thus GDP. These experts pointed out at the conference that there were several activities called "informal", which were carried out in "broad daylight" and under the "burning sun", since the desire of its practitioners was to deliberately avoid the regulatory and tax requirements that there ware imposed on them. (Rouggani & Bouthir, 2014: p 6). In this respect, the informal sector was defined at that time, and in a very specific text, as « a set of units producing goods or services, mainly with a view to creating jobs and income for the persons concerned. These units, with a low level of organization, operate on a small scale (with a certain employment threshold, often 5 employees) and in a specific way, with little or no division of labour, and capital as factors of production ». This sector includes: « all sole proprietorships (usually non-agricultural), producing at least partly for the market, and/or which are not registered. » (Roubaud, 2014: p 111). Statistically, the ILO defines the informal sector through of the active population. However, the latter was seen at the 15th ICLS as « a set of production units that constitute an

element, within the United Nations System of National Accounts (SNA 93), of the institutional household sector, as individual enterprises ». (CNES, 2004: p 43).

Referring to the work of the ILO (1993), (**Adair**, **2009**: **p 1119**) mentions that the informal sector includes: family businesses with no permanent employees; and microenterprises that regularly employ fewer than five permanent employees.

In practical terms, these criteria have been supplemented by the following economic and social characteristics « Employment relationships, where they exist, are based primarily on casual employment, kinship, or personal and social relationships, rather than contractual agreements with formal guarantees. Fixed or other assets used do not belong to the production units as such, but to their owners. These units may not carry out transactions or conclude contracts with other units, nor may they enter into commitments of their own. Owners must obtain the necessary financial means at their own risk, and they are personally liable without any limitation for all debts and commitments entered into for production purposes. Production expenditures are often undifferentiated from those of the household. Similarly, capital goods, such as buildings and vehicles, can be used indistincly for business and household needs. » (Pesqueux, 2014: p 6). The ILO mentioned in the same resolution that « informal activities are not produced with the deliberate intention of evading the payment of taxes, or social security contributions, or of violating labour legislation, other legislation. or other administrative objections », but that the non-registration of persons in the labour or social security register, as well as the non-registration of companies in commercial and tax registers, constitute basic elements to conceptualize the notion of informality (Charmes & Adair, 2014: p 9).

As a result, the criteria for determining whether a particular activity falls within the informal sector differ from one author to another. Indeed, while international financial institutions tend to restrict the scope of informality, by excluding criminal and domestic activities from their accounting, and prefer to retain only undeclared, but otherwise legal, marchant activities, as they argue, asserting that « the concept of activities in the informal sector should be differentiated from that of activities in the hidden or underground economy », researchers are trying to develop a broader approach to the concept, to capture all forms taken by informal activities. (**Bureau & Fendt, 2010 : p 6**). Despite the fact that this definition has given great impetus to the phenomenon of informality, which has been constantly developing, but has been criticised by many experts for the inadequacy of the terms and criteria used. (**Charmes, 1991 : p 80**) mentioned that this definition was concerned with the collection of quantitative data, rather than providing a global vision of the informal sector. These criticisms do not leave major international organizations indifferent, quite the contrary, the ILO incorporates a new concept, that it was the "informal economy" at a conference held in 2002, which we will see later in our work.

4. FROM THE INFORMAL SECTOR TO THE INFORMAL ECONOMY:

Faced with the multiplicity and diversity of forms of the informal practices, the ILO Department of Statistics and the 17th ICLS have taken up the challenge of developing new frameworks to better identify the phenomenon of informality. In this regard, the ILO has attempted to conceptualize a framework for defining the informal economy, presented and

adopted at the International Labour Conference in 2002. The informal economy was defined as « any economic activity carried out by workers or economic units, not covered or insufficiently covered - by law or in practice - by official provisions ». In other words, a new path in the debate on informality has been taken, moving from the concept of "sector" (based on economic unity) to a broader concept, that of the informal economy, which targeted not only the production unit, but also the characteristics of the job or worker. From now on, the informal economy would be understood as:

informal economy = informal sector + informal employment

Therefore, in 2003, the 17th International Conference of Labour Statisticians (ICLS) established a list of these categories, based on the expanded concept. It includes the categories of work that we schematize as follows:

Figure $N^{\circ}01$: Segmentation of Informal Employment by Average Earnings and Sex .



Source: UNIFEM, 2005: p. 54

5. THE FACTORS AT THE ORIGIN OF INFORMALITY: (CASE OF ALGERIA):

A flourishing informal economy is emerging or flourishing: unemployment, underemployment, poverty, gender or income inequalities, precariousness of work are multiplying. It plays a predominant role, as it offers a wide range of benefits and opportunities to individuals wishing to work, since, to this end, it does not issue restrictions on entry to practice such activities; on the contrary, no one needs to be qualified (he may even be illiterate to practice such activities), rich, young, educated, healthy, or possessing technical means to be able to exercise in the informal economy. Individuals may engage in their informal activities of their own free will, as they may be striven for, or forced to do so for a variety of reasons, among which we briefly mention: unemployment, poverty, wage rigidity, economic and financial crises (2008 global crisis), or political (as is the case in Algeria and many countries), paternalism State; Poor business climate, Algeria ranks 157th out of 190 countries (Doing business, 2020, with an informal economy of 45% of gross national product (Mebtoul, 2017), increased red tape, corruption, lack of financing (Algeria ranks 181st out of 190 countries in terms of obtaining bank loans), lack of infrastructure, poor geographical location, population growth, frequent institutional change without a solid regulatory basis, lack of a sound property rights regime (Algeria ranks 179th out of 190 countries in terms of investor

protection, 158th in terms of tax payments, 152nd in terms of business start-ups), lack of sanctions and controls by the public authorities. In an investigation that was carried out in the Eastern Region of Algeria, the investigators reported that of the 5441 fines imposed on fraudsters, only 675 were paid into the public treasury.

Thus, of the 165 million DA representing the amount of penalties for fraud and tax evasion, only 4.8 million DA were recovered by the public treasury. This situation can be explained by the existence of significant corruption between public administrations and private entrepreneurs. (**Bounoua**, 1999: p 19).

In a report prepared by the African Development Bank (AfDB), Algeria was ranked among the five countries in Africa that have experienced significant capital flight. During the period between 1980-2008, the amount of this capital flight to tax havens reached 173 billion dollars with an average of 5.7 billion dollars per year (Le quotidien, 01/06/2013). In this respect, we cannot overlook the importance of restructuring that a country may experience, such as the structural adjustment programmes applied in many countries in the late 1990s, which led the public authorities, as a result of the massive privatisation that led to the dismissal of hundreds of employees, as was the case in Algeria.

However, the CNES 2006 National Human Development Report, which was prepared in collaboration with the United Nations Development Programme (UNDP), revealed that during 1996, 55,783 employees in industry in 402 companies were reduced, representing a workforce reduction rate of about 18.14%. This situation worsened between 1997-1998, as the reduction in the workforce affected more than 130,000 employees in the industrial and public works sectors (CNES, 2006: p 36). In addition, the cultural character of individuals, who possess distinct mental models, and use unconventional or unconventional practices to escape regulation, and maximize their profits as quickly as possible, and by any means. Take the example of Algeria, where new social groups with limited rationality have emerged, with the aim of seeking autonomy and maximizing their wealth in the short term, rather than investing in productive projects, by capturing the state and stripping it of its resources, but also by modifying and circumventing the new rules of the game, by any means and as much as possible, by using informal, illegal or even criminal practices (circumvention and noncompliance with the law), through opportunistic, rentier behaviour in an uncertain environment, where information is asymmetric and costly.

Through their unconstitutional or unconventional behaviour, and their unfair competition, these lawbreakers will harm private entrepreneurs, working legally and formally, however, they will participate in the informalization and illegalization of the Algerian economy thus depriving the State and entrepreneurs of important resources. (Bounoua, 2002: p 24). These agents activate and invest in informal "clothing, handicrafts, automobiles, household appliances", and other new private companies, which have abandoned formal and legal circuits to work in the trabendist illegality.(Bouhou, 2009: p 331).

In addition, individuals conceal reality and evade their commitments to achieve their objectives. Nevertheless, these economic agents cover their illegal actions through a legal coverage, more precisely, they remain within a legal framework that they consider formal, such as having a commercial register, respecting administrative procedures, but at the same

time, they will evade their commitments by using illegal procedures, to pursue their activities while hurting other economic operators. The well-known example of this approach is that of the economic agent, who requests a loan to finance his supplies from a bank. For this, it will register at the level of the trade department, but at the same time it will falsify a pro forma invoice, by inflating the prices of imported goods. This situation is not limited only to private entrepreneurs, but also to public companies, such as an economic company specialising in production, which, in order not to pay additional customs duties, declared that it had imported raw materials in order to benefit from the VAT exemption, whereas in reality it had imported finished products.

Finally, for (**Bounoua**, **1999**: **p13**) and K. Bouhou (2009), Offences committed by private entrepreneurs can be in different ways, which we summarize and summarize as follows:

*Product quantity: agents do not report all imported products to pay less tax, *Product deadline: for example, there are companies that do not meet the use-by date, import expired products, then extend the life of the product, by affixing labels on it and selling it afterwards.

*The origin of the goods: For example, one company claimed that it had imported its goods from Morocco, while it had imported them from Spain, just to benefit from the exemption from customs duties in accordance with the AMU (Arab Maghreb Union) customs convention.

*The sale of counterfe: it, declawed, or simply substandard products at prices below market prices, which will harm other similar companies, which sell local products, or imported products of better quality, but with low prices.

6. A LABORIOUS RESEARCH PROGRAM ON INFORMAL PRACTICES IN ALGERIA:

Faced with the impossibility of obtaining data, and the massive proliferation of informal practices, several questions have repeatedly asked us, particularly about the causes and origins of informality, but also the tolerance of a certain threshold of these practices by public authorities. Should the State eradicate and sanction these activities, or try to integrate them into the national economy? To this end, we launched, as part of a nearly completed research program, and which we started almost five (05) years ago, a survey on the informal practices of individuals, not only within private companies, but also within public institutions in the Western region of Algeria (our survey was carried out on eight public institutions with an average duration of investigations of three (03) months. We have seen that informality has become a standard par excellence, which is practiced on a daily basis by many individuals.

However, a simple individual with no qualifications or skills can earn in half a day what a simple civil servant earns in a day or a week. Others choose to have one foot in the formal and the other in the informal, as is the case of a teacher who finds it difficult to pay the rent for his accommodation because of the insufficient salary obtained, is forced to practice another activity such as: taxi driver, taking private lessons at his own home. A young graduate, who in the face of persistent unemployment resorted to street trading; high-level officials (executives, tax auditors or others), who, because of their limited salary, resorted to

the demand for bribes in exchange for concealing illegal, criminal and informal practices carried out by others. How can we explain the fact that an inspector, a controller, an auditor, who does not have a personal or service vehicle, with a poor salary, and mission expenses, not even allowing them to live, and to feed themselves during their control missions, can on the one hand, control in the best possible way, public or private institutions, and another to provide for the daily needs of their family?

It was noted that there were several anomalies such as: poor management and poor rationalization of the State budget; failure to fill vacant posts, which makes it difficult and insufficient to monitor and control management operations; the occupation of senior, specific or managerial positions by unauthorised persons (for example, a lawyer holding the position of accountant); the failure to take charge of the equipment in an inventory register at the level of some public establishments of an administrative nature, as stipulated in Executive Decree No. 91-455 of 23/11/91, relating to the inventory of assets in the national domain, which makes it difficult to verify the movements (entry, exit, transfer) of these assets; the non-use by managers (whether public or private) of the transfer of non-productive assets (old or defective), through a formal reform procedure, which constitutes a loss of income for this establishment; uses false imputations (the transfer of allocations from one chapter of the operating budget to another) such as the consumption of a sum of money, which was intended for the development of a fleet of vehicles as an example, and spends this money on the purchase of equipment for this administration (computer office equipment); the entrenchment of managers and executives, which makes it difficult to control them; misappropriations (such as the opening of a private account by a public administrative institution, whereas regulations prohibit it, and allow the opening of a treasury account); poor document archiving by officials, going so far as to make it difficult for controllers to carry out their tasks; uses it to recruit staff without going through the regulated procedures; the falsification of documents and complicity between the various organizations within these margins of manoeuvre, to conceal reality and divert part of the State budget to serve their interests; noncompliance with public procurement procedures, for example, uses favouritism between bidders to obtain a share of the profit in return; non-cooperation between the various control bodies (for example, there was evasive behaviour by a pensioner, which used informal practices; Indeed, the latter received two pensions under the Mujahideen and Shouhada program (which is not prohibited by law since one can be a Mujahideen and widow of a Mujahideen), but unfortunately this lady falsified a document to benefit in addition to a pension, which is strictly prohibited by law; another case is that of a Mujahideen who died, but or his children do not declare it, or falsifies documents to benefit again from his entire pension. Other elements can be added such as lack of control. This is the case of failure by tenderers to meet project completion deadlines, as provided for in the specifications. A similar situation has been noted with regard to exceeding the completion deadlines provided for in the contracts. Indeed, this observation concerns both sectors, namely: public and private.

Let us take the example of the private sector or: a contractor active in the construction sector, who in the specifications had planned the realization of this project within 2 years, but who unfortunately has not been, to date, completed, on the contrary this bidder has consumed all the money of the rights holders (citizens), and asks them to add money to it, under the pretext that the prices of construction materials have increased. The question is:

where are the controllers? Why is this entrepreneur not penalized as provided for by the regulations? Is it normal that a project with a service order (ODS) from 2010 has not yet been completed? While knowing that these citizens no longer know what to do since this entrepreneur cannot give them their money back (which will allow them to deposit their files in other projects), nor to finalize his project since he no longer has any money.

During our investigations, an interview was established with a manager of a public economic enterprise. This manager had considered that he was undergoing competition from private operators in order to gain market share, since they rarely declare their charges in the calculation of their bids, which is prohibited for a public company, which inevitably leads to the allocation of the market share to the least distant bid. At that time, the manager stated that the local authorities were not making enough effort to encourage, or at least help, public companies to be competitive which found themselves powerless against these competitors. Another observation was made, where public companies benefited from advantages provided for in Article 11 of Ordinance 01-03 of 20/08/2001 on the development of investment within the framework of the ANDI, but it did not exploit it, in terms of exemption from customs duties on purchases of its equipment, which constituted a loss of income for this company, and losses in terms of budgetary expenditure by the public authorities. This situation must not conceal the various inadequacies and laxity suffered by the company, on the one hand organizational inadequacies, lack of internal control tools, and lack or instability of senior managers; but on the other hand a laxity coming from local authorities, which prevents the sole public economic enterprise in the wilaya from assuming its role in the business market. It is in this sense that public authorities should review their policies, since informality does not only affect private entrepreneurs, but is also omnipresent in public administrations (whether administrative or economic in nature), hence the need for good governance.

7. CONCLUSION AND RECOMMENDATIONS:

In addition to its flexibility, the informal economy is considered a dynamic and spontaneous form of social regulation (Deffourney, 1994). the spread of the informal economy is a global phenomenon that cannot be approached in a mono-disciplinary way, quite the contrary, they bring together several dimensions: political, economic, moral, sociocultural, ecological, technical, legal, psychological, historical to avoid the risk of its denaturalization through an overly abstract approach. Thus, in order to minimize the extent of this phenomenon, or to try to integrate it, we have seen that it is judicious that several points should be highlighted, such as: improving the business climate by combating administrative predators and reducing administrative burdens; providing the formal sector with all the means it needs scientifically, technologically, psychologically and financially; ensuring the major role of the State, which will be ready to listen to stakeholders, by offering them a sound property rights regime with regulations that are at once safe, clear and understandable by all to avoid any kind of deviation, without neglecting the importance of control and sanction mechanisms, with particular emphasis on the equitable treatment of control bodies; Sensitize all individuals on the repercussions of illegal, criminal and informal acts, and establish a public-private partnership between the various actors to promote good governance.

finally, it seems to us urgent and imperative that Algeria equip itself with an advisory and permanent institution at the service of any government present and future, which will consist of multidisciplinary researchers and experts in order to help the State to have the necessary guidelines and strategies for the well-being of the population adopted by various stakeholders.

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