

# WORKING PAPER

## **Fostering Decent Jobs in MENA Countries: Segmented Employment, Occupational Mobility and Formalising Informality**

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### **Abstract**

*Why is there persistent labour market segmentation, as evidenced by gender patterns in employment and occupational mobility? What is the impact and potential of various formalisation policies in MENA countries?*

*We first provide an overview of the informal economy in its taxonomy, coverage and drivers, across six MENA countries. Next, we analyse workers' occupational mobility, considering their pre-existing status, age cohort, gender and other demographics, using transition tables and multinomial logistic regressions applied to longitudinal microdata from Labour Market Panel Surveys. We find persistent segmentation and low occupational mobility in all countries, suggesting that informal employment is not driven by choice on the labour supply side but by structural constraints on the demand side. We also find rather modest impacts of existing formalisation policies that encapsulate distinct stick and carrot strategies, as well as business versus workers targeting. We conclude that promoting social and solidarity enterprises, and extending microfinance to informal enterprises, are promising policies for the creation of decent jobs.*

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## **1 Introduction**

We address the following two issues: Why is there persistent labour market segmentation? What are the gender patterns in employment and occupational mobility in this respect? What is the impact of various formalisation policies on the informal economy (henceforth informality)? We evaluate the conditions in six lower middle-income, oil-importing MENA economies: Egypt, Morocco and Tunisia in North Africa, and Jordan, Lebanon and Palestine in the Middle East. These countries share many pervasive labour market characteristics: a dramatically low female participation rate; high youth unemployment; micro and small-size informal businesses that provide most jobs but operate in low productivity industries; and informal employment constituting half the labour force (Charmes 2019).

The rest of the study is organised as follows. Section 2 addresses informality, as regards the definitions and coverage in MENA countries. Section 3 starts out with selected stylised facts and then evaluates occupational status and mobility according to workers' initial position, age cohort and gender, using transition tables and multinomial logistic regressions applied to Labour Market Panel Surveys (LMPS). Section 4 assesses existing formalisation policies, including distinct stick and carrot strategies, and business and worker targeted approaches. Section 5 provides the conclusion, taking stock of the status quo and the policy responses in place, whilst proposing ways forward towards a more equitable and sustainable state. In this respect, fostering social and solidarity enterprises, and extending microfinance funding to informal enterprises are seen as promising for decent jobs creation.

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## **2 Definitions and Theories of Informality: A Fuzzy Set and Happy Heuristics**

The common thread in literature on labour markets in the MENA region is fragmentation, a duality between formal and informal private employment (Hlasny & AlAzzawi 2020), and a growing trend of vulnerable employment, particularly amongst youths. Once the school-to-work transition drives workers into informal jobs, they are at pains to transition to formal employment later in their careers. Despite higher learning attainment, it is noteworthy that female labour force participation in the MENA region (the lowest worldwide) has only been rising very slowly from 2000 (19%) up to 2019 (20%). It even receded during 2016–2019 (ILOSTAT retrieved in World Bank Data Bank 2022).

Many existing investigations have carelessly used the informal economy terminology (Ohnsorge & Yu 2021) without referring to the origins of the concept of informality (Hart 1971, ILO 1972), whereas other studies have analysed the shadow economy (Medina & Schneider 2019). Extant research over half a century suggests that the concept of informal economy aligns with happy heuristics, but encapsulates diverse theories and distinct methodologies which lack consensus. Thus, informality is better thought of as a “fuzzy set” at the intersection of multi-criteria assessments of the informal economy, the non-observed economy and the shadow economy. This fuzziness affects the precision and adequacy of policies and regulations relating to informality in developing countries (Adair 2022a).

Informality encapsulates three key components: the informal sector, and informal activities within the formal sector and in households. Data sources are patchy and coverage remains poor, not least in the MENA countries. The informal sector encompasses unincorporated enterprises made up of unregistered own-account workers and employers with fewer than five permanent paid employees. Informal employment encompasses all precarious jobs carried out both in the informal sector (the largest component), as well as within formal enterprises and households. It includes domestic workers and household members producing goods and services for their own use, where workers are not subject to labour regulations, income taxation or employer-provided social protection (Charmes 2019).

According to Chen et al (2020, 71), there is gender segmentation of informal employment according to status and income. The vulnerability to poverty risk is uneven between genders. In a five-pronged classification of informal workers – as employers, regular informal employees, own-account workers, casual/irregular employees and unpaid family workers – men are over-represented amongst the three upper categories, whereas women are concentrated in the two bottom categories, wherein higher poverty risk prevails.

Such a stratification of regional labour markets has attracted various explanations. A threefold spectrum of theories tackled the emergence of informality – namely, dualism, structuralism and institutionalism. According to a less optimistic interpretation of dualism (Lewis 1954), persistent informality is due to labour market segmentation, namely barriers to entry in the formal economy affecting the labour market supply side (i.e., workers).

Labour market segmentation – into formal versus informal jobs – is not congruent with structuralism (Castells & Portes 1989), given that the informal economy is not separated

but, rather, subsumed by the formal economy under subcontracting arrangements. These have been used in the region, for instance, to shrink production costs in the textile industry or in call centres in Tunisia and Morocco.

The institutionalist approach (De Soto 1986) assumes that informality stems from inadequate regulation, and excessive bureaucracy and taxation, driving small firms and marginal workers to voluntarily step outside or be excluded from the formal economy. This is prevalent in Tunisia and other North African countries (De Soto 2012). Hence, this viewpoint advocates removing constraints on informal entrepreneurs and diminishing the costs borne by start-ups. The emphasis from the World Bank on lowering barriers to entry and to business activity, and levelling the competitive field, is consistent with institutionalism together with structuralism, as they focus on the demand side of the labour market and the supply side of the goods market (i.e., businesses).

La Porta & Shleifer (2014) provide a convincing comparative analysis, supporting Lewis's theory and dismissing the other two theories. The authors contend that the size of the informal economy, as measured by the share of self-employment in total employment, declines with per capita income. This rather optimistic view suggests a (Kuznets-like) spill-over effect of growth and development. However, it does not preclude the implementation of adequate formalising policies. Notably, their definition of the informal economy is restricted to employment in the informal sector and, perhaps, in households as well, but it overlooks the component of informal employment within the formal economy.

## **3 Informal Employment in MENA Countries: The Youths' Curse**

### **3.1 The Context of Labour Shocks**

At the aggregate level, three stylised facts about MENA labour markets are noteworthy. First, average (non-agricultural) informal employment is a structural phenomenon, encompassing around 50 per cent of the workforce throughout the 2000s and the 2010s. Second, it has been countercyclical, rising with economic slowdowns until the late 2000s, contracting with upswings of economic growth, and experiencing a trend reversal in the early 2010s. Analysing these patterns requires a thorough inspection with respect to the various components of informal employment, as the levels and trends differ across countries, depending upon the impact of economic shocks and policies designed to absorb those shocks. Third, informal employment is related negatively to GDP per capita, since factor productivity in the informal sector is low (Charmes 2019).

Informality and unemployment are not distributed uniformly across the MENA population and economic sectors. Youth unemployment and job informality, in particular, have been pervasive (Fehling et al 2016; Suleiman 2022). Fresh graduates, if they succeed at finding employment, land informal or irregular jobs, leaving workers with limited prospects for a transition to decent work later in their careers. The informal sector, and micro and small enterprises (MSEs) lag behind the formal sector in factor productivity, value-added and fiscal receipts, in part due to a mismatch between skill supply and demand, in states where workers have few opportunities for upskilling or retraining, and employers fail to invest in them.

From the industry perspective, job creation in the region has been biased towards manufacturing, building and construction, with an outsized share of an informal workforce, whilst skilled services relying on formal workforce have stagnated. The public sector has also scaled down recruitment for the last decade, as part of macroeconomic and public-sector reforms (Shahen et al 2020).

### **3.2 Sources and Coverage of Informality in MENA Countries**

Data on labour informality varies in quality across countries. Morocco is the only country with three representative surveys devoted to the informal sector (1999, 2007 and 2013). These surveys show that three out of every four Moroccan businesses consist of micro-enterprises with only one worker (HCP, 2016; Lopez-Acevedo et al 2021). In Egypt, the Central Agency for Public Mobilisation and Statistics (CAPMAS) and the Economic Research Forum (ERF) surveyed representative samples of household firms in 2012 and 2018, with 62.5 per cent in the 2018 sample of firms consisting of self-employed (one-person firms) and 31 per cent being micro-enterprises (two to four workers). In Tunisia, the threshold for microenterprises (below six employees) is inconsistent with the definition (below-five) used by the International Labour Organisation (ILO) and the World Bank Enterprise Surveys (WBES). The absence of national household surveys, dedicated to informal employment or

enterprise surveys devoted to the informal sector, is an ongoing challenge in Jordan, Lebanon and Palestine.

Table 1 reports figures on informal employment. Informal employment can be scoped from the national Labour Force Surveys (LFS) or LMPS using relevant questions regarding social protection coverage, whilst using disparate criteria across countries. In Table 1, the share of informal employment (including agriculture) has been highest in Morocco (77.22%) and lowest in Tunisia (44.8%), the two countries that do not avail themselves of LFS data through ILOSTAT.

**Table 1. Informal employment including agriculture in MENA countries (2019)**

Country	Gender	Total (% informal)	Employees (% total)	Self-employed (% total)
<b>Egypt</b> (26,661)	Total	16,870 (63.27)	10,183 (60.33)	6,676 (39.57)
	Male	14,806	9,414	5,390
	Female	2,064	769	1,286
<b>Jordan</b> (2,648)	Total	1,205 (45.50)	1,054 (87.48)	151 (12.51)
	Male	1,107	964	143
	Female	98	90	8
<b>Lebanon</b> (1,590)	Total	880 (55.33)	553 (62.89)	327 (37.10)
	Male	611	339	272
	Female	269	215	54
<b>Palestine</b> (906)	Total	540 (59.58)	355 (65.78)	185 (34.23)
	Male	471	315	156
	Female	69	40	29
<b>Morocco*</b>		(77.22)		
<b>Tunisia*</b>		(44.80)		

**Note:** \* Labour Force Surveys not provided to ILOSTAT. Figures in thousands for employed workers.  
**Source:** Authors' analysis of Labour Force Surveys (2019).

Table 2 displays similar statistics by gender. Self-employment is seen to largely overlap with informal and most vulnerable forms of work, such as male own-account workers and female-contributing family workers or casual/irregular workers.

**Table 2. Distribution of workforce status and vulnerability 2019, by gender**

Country	Self-Employed*			Wage Employees			Vulnerable**		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
<b>Egypt</b>	<i>31.37</i>	30.18	30.43	68.63	69.82	69.57	27.73	15.41	17.97
<b>Jordan</b>	2.30	16.24	13.92	97.70	83.76	86.08	1.58	12.37	10.58
<b>Lebanon</b>	15.01	44.39	37.48	84.99	55.61	62.53	13.84	35.73	30.58
<b>Morocco</b>	<i>57.11</i>	45.89	48.56	42.89	54.11	51.44	56.29	42.91	46.10
<b>Tunisia</b>	14.27	28.61	25.16	85.73	71.39	74.84	11.47	21.29	18.93
<b>Palestine</b>	22.72	29.66	28.57	77.28	70.34	71.44	20.00	22.42	22.04
<b>Average***</b>	<i>23.80</i>	32.49	30.69	76.20	67.50	69.32	21.82	25.02	24.37

**Notes:** \* includes employers, own-account workers and contributing family workers. \*\* Some self-employed (excluding employers) as a percentage of total employment. \*\*\* Figures in italics are above average.

**Source:** Authors' compilation of modelled estimates in the ILOSTAT.

Sahwa (2016), a youth survey funded by the European Union, was conducted in 2015 using a sample of 7,816 individuals aged 15-29 from four MENA countries (Algeria, Morocco, Tunisia and Egypt). Although there is an even distribution of males and females, the participation rate of 3,027 active people is more than twice as high amongst males (54.5%) than for females (23.1%), whereas one quarter of the labour force is unemployed, affecting

women disproportionately. Two out of three vs one out of three individuals are respectively informal workers vs formal workers. (Gherbi and Adair 2020). This high prevalence of informal employment amongst youths, who do not enjoy social protection (Merouani et al 2018), is consistent with a U-shaped lifecycle pattern: informality declines from youth to maturity (Gatti et al 2014) and rises again amongst the older age group (see Figure 1 in the Appendix).

Evidence from the Sahwa survey also shows substantial income gaps between informal/formal jobs and across genders. This supports the segmentation theory. The formal/informal employee income ratio is similar for females (1.78) and for males (1.77), as with the formal/informal self-employed ratio (2.26 for females and 2.20 for males). In contrast, the gender pay gap is lower amongst formal workers (21.82%) than amongst informal workers (24.05%), illustrating the lack of safeguarding mechanisms in the informal sector (see Table 1 in the Appendix).

The World Bank database on the informal economy (Elgin et al 2021) is also devoted to enterprises, whilst the WBES pays very little attention to micro-enterprises, even though they constitute the bulk of businesses. The limited data for informal (i.e., unregistered) firms is not conducive to a proper analysis. Hence, WBES in the six MENA countries, as of 2019–2020, lacks representativeness, a dearth of questions that are most relevant to informal firms and cannot be used to scope the informal sector (Berguiga & Adair 2019).

This study relies on the LMPS, currently available for Egypt (2012 & 2018), Jordan (2010 & 2016) and Tunisia (2014). LMPS are harmonised and administered by national statistical offices in partnership with the Economic Research Forum (ERF), which have made these available (OAMDI 2019). These surveys are suitable for examining the dynamics governing the status of individual workers' employment, in as much as they track the same workers and their employment status, over a span of six to 12 years between survey waves. LMPSs also include recall modules screening workers' prior occupations, supplementing the information on the status of workers' contemporaneous labour markets from across multiple survey waves and providing multiple snapshots, even in unbalanced panel settings. The available surveys are deemed to be of adequate quality and representative of the labour market at large and there is little indication that the data suffers from measurement errors or bias-inducing attrition of survey subjects. For example, in the 2018 Egyptian LMPS, the attrition rate was 15 per cent, but this was concentrated primarily amongst disabled, retired and other economically inactive workers. At the same time, whilst the Egyptian LMPS oversampled poor rural and high-migration communities, the stratified sample design and population expansion weights mitigated the consequences for survey representativeness (Assaad et al 2021). Finally, although employment distribution amongst marginal demographic groups (such as rural subsistence workers, or young females) showed some discrepancies against Labour Force Survey and Census figures, employment transitions and the determinants of these transitions are not thought to be biased.

LMPSs survey workers' current occupation type, status as (ir)regular and (in)formal in/out of establishment, and the presence of contract and social insurance coverage. Some survey waves also cover the size and registration status of an employer. Table 3 illustrates the surveys' coverage of formally and informally employed workers, by gender.

**Table 3. Informal employment in MENA countries, LMPS**

	Country	Wave	Employed (#)			Informally employed (%)	
			Men	Women	Total	Men	Women
LMPS	<b>Egypt</b>	2006	9,206	2,751	11,957	57.39	58.32
		2012	11,788	2,742	14,530	60.98	43.91
		2018	13,659	3,011	16,670	66.09	52.11
	<b>Jordan</b>	2010	4,939	1,018	5,957	42.26	21.34
		2016	5,317	1,025	6,342	52.76	19.44
	<b>Tunisia</b>	2014	2,827	863	3,690	45.31	43.21

**Notes:** Informality shares account for survey sampling weights. Non-employed workers are excluded from the counts, which explains the disproportionately low counts of women compared to men.

**Source:** Authors' analysis of LMPS.

### 3.3 Persistent Informality and Declining Occupational Mobility: Some Salient Facts

Assessments of the composition of labour force across subsequent survey waves reveal that occupational mobility has been deteriorating over time. For instance, it proved stronger in Egypt from 1996–2006 due to the contribution of the public sector (Woldemichael et al 2019), whereas most individuals remained in their initial labour market segments from 2006–2012 (Tansel & Ozdemir 2019). Over the past decade, youth employment vulnerability rose in Egypt. In Jordan, whilst young men's vulnerability dropped from 40 per cent to 34 per cent between 2010 and 2016, that of young women and older men increased, to show an overall increase in informality. In Tunisia as of 2014, the share of young men in vulnerable employment was high, at 63 per cent.

Dynamic analysis using LMPSs confirms that, across the three countries, youths starting in vulnerable jobs are unlikely to move to better quality jobs over time and they perform distinctly worse than older people. Occupational transition tables for non-student youths, separated by gender, offer a view of the evolving opportunities for lifetime mobility (AlAzzawi & Hlasny 2022). Table 4 illustrates.

**Table 4. Youth transitions in Egypt (2012-2018), Jordan (2010-2016) & Tunisia (2008-2014) by gender**

Status	Self-employed	Formal employee	Informal employee	Unemployed	Inactive
<u>Egypt (2012-2018): Males</u>					
Self-employed (N=581)	0.26	0.07	0.46	0.05	0.04
Formal employee (N=935)	0.03	<b>0.65</b>	0.26	0.03	0.01
Informal employee (N=2039)	0.09	0.13	<b>0.63</b>	0.06	0.05
Unemployed (N=364)	0.04	0.28	0.45	0.12	0.08
Inactive (N=544)	0.11	0.18	0.53	0.04	0.10
<u>Egypt (2012-2018): Females</u>					
Self-employed (N=208)	0.22	0.02	0.05	0.05	<b>0.66</b>
Formal employee (N=400)	0.00	<b>0.72</b>	0.05	0.04	0.19
Informal employee (N=111)	0.04	0.07	0.12	0.16	<b>0.61</b>
Unemployed (N=604)	0.02	0.05	0.04	0.26	0.63
Inactive (N=3821)	0.05	0.02	0.03	0.08	0.82
<u>Jordan (2010-2016): Males</u>					
Self-employed (N=104)	0.24	0.15	0.15	0.18	0.22
Formal employee (N=1006)	0.02	<b>0.66</b>	0.05	0.04	0.21
Informal employee (N=454)	0.10	0.23	<b>0.40</b>	0.06	0.18
Unemployed (N=325)	0.07	0.35	0.12	0.21	0.22
Inactive (N=179)	0.07	0.27	0.13	0.23	0.30
<u>Jordan (2010-2016): Females</u>					
Self-employed (N=11)	0.01	0.14	0.06	0.00	<b>0.79</b>
Formal employee (N=306)	0.00	<b>0.45</b>	0.04	0.08	0.43
Informal employee (N=41)	0.00	0.03	<b>0.42</b>	0.25	0.30
Unemployed (N=212)	0.00	0.22	0.00	0.27	<b>0.48</b>
Inactive (N=1416)	0.00	0.05	0.02	0.09	<b>0.84</b>
<u>Tunisia (2008-2014): Males</u>					
Self-employed (N=93)	<b>0.87</b>	0.04	0.03	0.06	0.00
Formal employee (N=209)	0.02	<b>0.82</b>	0.11	0.04	0.01
Informal employee (N=244)	0.04	0.07	<b>0.71</b>	0.12	0.06
Unemployed (N=276)	0.04	0.18	0.09	0.52	0.16
Inactive (N=182)	0.08	0.17	0.20	0.31	0.24
<u>Tunisia (2008-2014): Females</u>					
Self-employed (N=25)	<b>0.58</b>	0.00	0.00	0.00	<b>0.42</b>
Formal employee (N=70)	0.02	<b>0.52</b>	0.00	0.00	<b>0.46</b>
Informal employee (N=140)	0.00	0.00	<b>0.43</b>	0.13	<b>0.44</b>
Unemployed (N=203)	0.00	0.24	0.20	0.44	0.12
Inactive (N=594)	0.02	0.11	0.06	0.20	0.60

**Notes:** Non-student youths aged 18–29, accounting for survey sampling weights.

**Source:** ELMPS 2012-2018, JLMPS 2010-2016, TLMPS 2014 (OAMDI 2019).

Beyond the different configurations of the respective labour markets, the comparison of Egypt, Jordan and Tunisia reveals three distinct patterns. First, young male workers are less mobile than females, whereas young female workers are more mobile initially, but eventually leave the labour force. Second, chronic segmentation of the labour market and lack of mobility are concerns for males and, to a lesser extent, females also - regardless of whether they start out as formal or informal wage earners. Formal employees do not relinquish their privileged status over time, whilst informal employees have little success in overcoming barriers to entry into high-quality or formal employment (Fields, 1990). Third, across both genders, the self-employed in Egypt are distinctly more mobile (and in Tunisia less mobile, respectively).

In Egypt, transitions out of vulnerable employment for young men were very low during 2012–2018. In Tunis, both young and older men faced a similar persistence of vulnerability over the six-year span from 2008 to 2014. Over two-thirds of men who were in vulnerable employment in 2008 were in a similarly vulnerable status in 2014. By contrast, outcomes for Jordanian males exhibited less persistence, with some transitions from informal/irregular work to formal work. The clear difference, however, between Jordan on the one hand and Egypt and Tunisia on the other, is that far more Jordanian men who were previously employed transitioned out of the labour force (OLF) over these six years, a phenomenon that was associated with female workers in the other two countries.

Women's trajectory was typically more dire, but it was also more consistent across countries and age groups. Women who started out in vulnerable employment were likely to transition out of the labour market altogether, whilst the small minority who retained their vulnerable employment status rarely transitioned to formal jobs. Moreover, once out of the labour force, women rarely returned to it. Similarly, only a small minority of unemployed women transitioned to employment and, if they did, it was likely to be to formal jobs in either the public or private sector. The only women who typically held on to their employment status over time were those starting in formal jobs.

In Egypt, young men remain within their professional status (almost two-thirds of employees on average), whilst more than half of the self-employed are mobile. Young men are less mobile than women, who are less likely to remain within their professional status (formal employees excepted) and are more likely to leave the labour force. According to Table 4, few males (28%) and females (26%), who are not employed, retain their status. By contrast, formally employed males (65%) and females (72%) typically retain their status. Males in informal employment also retain their status far more (63%) than females do (12%). Economically inactive males often become employees (90%; mostly informal) and few remain inactive (10%), whilst inactive females typically (82%) remain inactive.

In Tunisia<sup>3</sup>, young men remain within their professional status (over two-thirds on average). They are less mobile than women, who are more likely to leave the labour force. As many as 87 per cent of young males, but only 58 per cent of females who are not employed, retain their status. 82 per cent of males, but only 52 per cent of females in formal employment, retain their status. 71 per cent of males, but only 43 per cent of females in informal employment retain, their status. 45 per cent of inactive males, but only 20 per cent of inactive females, become active employees.

In Jordan, 40 per cent of young men in informal occupations in 2010, remained there as of 2016 and 74 per cent of those non-formally employed remained non-formal 6 years later. Amongst young women, 42 per cent who were in informal occupations in 2010 remained there by 2016 and 97 per cent of those non-formally employed remained non-formally employed six years later.

### **3.4 Drivers of Informality: Evidence from Data**

To investigate the risk factors associated with the status of workers' informal employment, we estimate multinomial logistic regressions of the status of workers from two different age cohorts and each gender, on their individual and household characteristics and their pre-existing status. The regressions estimate the probability that a worker will attain a particular employment type (i.e., formal, informal/irregular, self-employed/unpaid, unemployed) relative to the probability of the baseline option – remaining out of the labour force. The estimates allow us to calculate the (conditional) propensities of workers to attain each possible employment outcome.

The main findings from these regressions are that family wealth, and father's education and employment, are important determinants of employment outcomes and these associations persist even after a long period of work experience. Opportunities for upward mobility deteriorated over the past decade in all three countries evaluated (Egypt, Jordan and Tunisia). Education level, in particular, is a critical factor that allows workers' transition to a better employment status and, thus, is a crucial means for improving social mobility (AlAzzawi & Hlasny 2022).

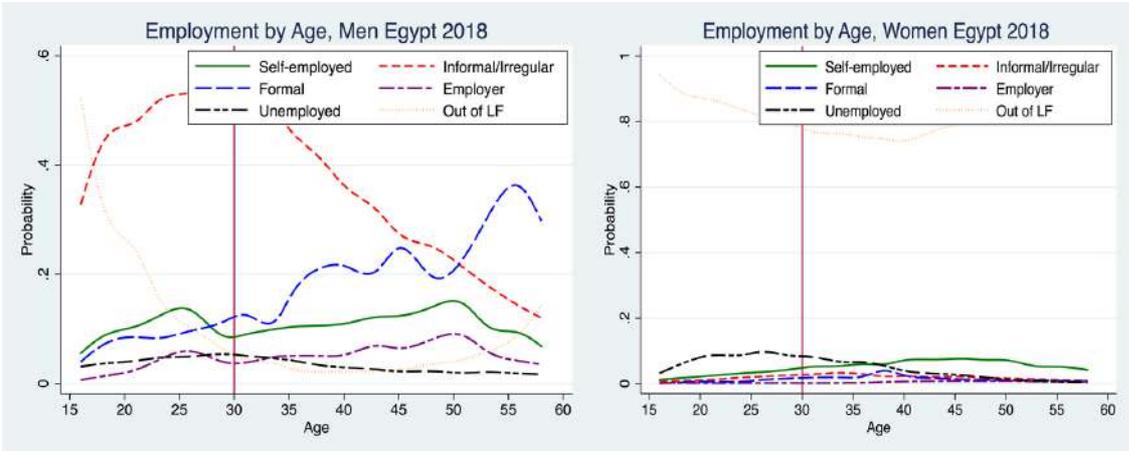
Figure 1 shows the cubic splines of probabilities of all labour market outcomes by workers' age and gender. These probabilities are estimated using the observed values of workers' characteristics. The left-hand panel shows the employment probabilities for male workers. In Egypt, the prospect of informal employment is highest for youths and falls gradually with age. The probability of attaining formal employment finally comes to surpass informal employment after the age of 50. In Jordan and Tunisia, by contrast, young men are

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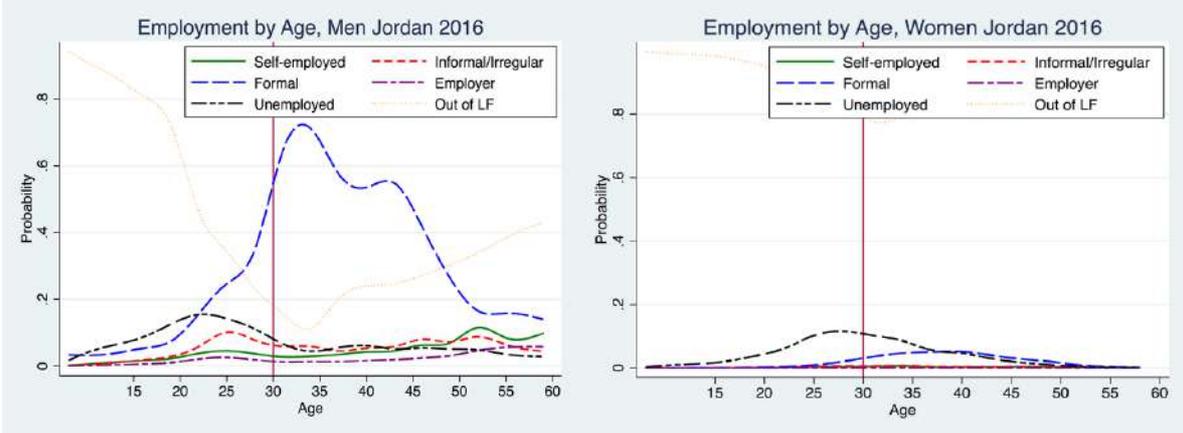
<sup>3</sup> There is a single wave of TLMPS and the 'recall' information for 2008 and 2011 comes from the same survey wave (2014), which is not subject to attrition. Statistics for 2008 and 2011 are not nationally representative, since they are tied to the sample of respondents in 2014.

more likely to be unemployed until their 20s, when the probability of formal employment becomes most likely. The right-hand panel depicts the analogous employment probabilities for women. In all three countries, women are seen to enter the labour market briefly (if at all) in their 20s and 30s, remain there as mostly unemployed in search of formal employment and then eventually exit the labour market altogether. An interesting finding in Egypt is that self-employment becomes the predominant employment status for women in their 40s and 50s, who do remain in the labour market. These patterns are in line with our findings from the transition tables. Women who cannot find formal employment end up leaving the labour market or becoming self-employed, which is likely to be more conducive to meeting household childcare and domestic care needs.

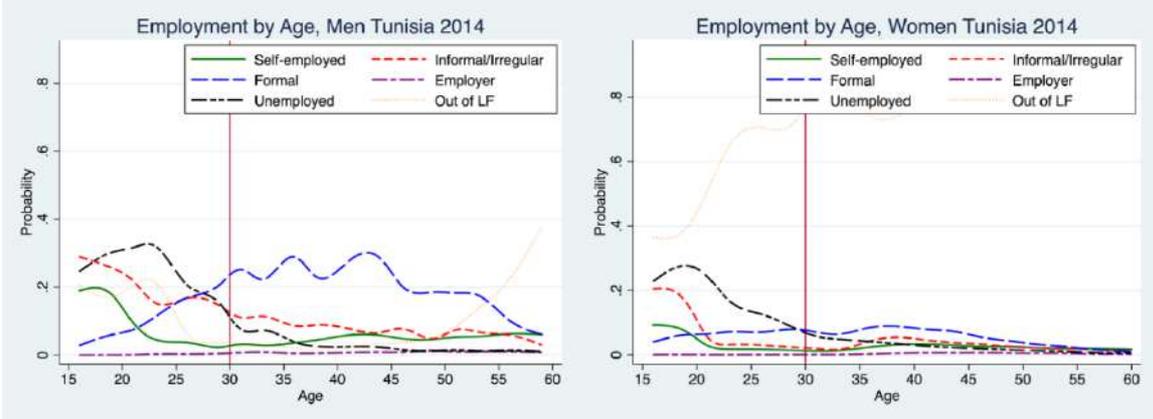
Figure 1. Predicted prospect of job status in Egypt 2018, Jordan 2016 and Tunisia 2014, by gender



i. Egypt



ii. Jordan



iii. 2014 Tunisia

Source: Authors’ calculations based on ELMPS 2018, JLMPS 2016, TLMPS 2014.

## **4 The Root Causes of Informalisation, and the Formalisation Drive**

The first main cause of persistent or rising informality is the inability of the formal economy (including the public sector) to absorb an increasing labour force (Chen & Harvey 2017). The IMF (Balima 2021) suggests that 85 per cent of all informal workers are in precarious employment not through choice, but due to the lack of opportunities in formal (private or public) employment. The other main cause is the inadequacy of regulatory frameworks and weak enforcement of labour contracts and the social security inspectorate, including corruption, which push the informal sector and microenterprises to operate outside the purview of regulations.

In the 2010s, the International Labour Organisation (ILO 2013) provided a comprehensive overview of the informal economy and recommended policy approaches to achieve transition and integration into the formal economy. The World Bank has advocated and assessed formalisation policies targeting the inefficiencies and inequities in the informal sector (Benjamin et al 2014). The deepening of informality reveals contradictory traits of narrow short-term advantages and general disadvantages: unfair bare-knuckle competition in prices amongst informal micro and small sized enterprises *vis-à-vis* formal firms; erosion of the fiscal tax base; entrapment of (most) informal workers in subsistence jobs without employment protections; the lack of standards and guarantees of equal treatment across different classes of workers; and the loss of incentives for investment in human capital, technology and infrastructure. The formalisation drive would ideally reconcile the promotion of sustainable entrepreneurship advocated by the World Bank, with the ILO-supported organic expansion of social protections for informal and other non-covered workers (Adair 2022b).

A broad range of formalisation policies have been proposed to address the heterogeneity of informality, but impact assessments provide mixed evidence. A relevant distinction is between policies explicitly tackling informality vs. policies that prove influential though without explicitly aiming at formalisation, such as Active Labour Market Policies (ALMPs). The former policies target categories of businesses (e.g., microenterprises), or workers (e.g., domestic work) and the component of informality (e.g., undeclared work in formal enterprises). ALMPs address the following: (i) skills training in Tunisia (Almeida et al 2012) and in Morocco (Kluve et al 2014); (ii) support for enterprise development including microfinance services; (iii) employment services that have no impact on employment outcomes in Jordan (Groh et al 2012); and (iv) subsidised employment (public employment and wage subsidies) in Jordan and Tunisia (Barcucci & Mryyan 2014) that does not create jobs in the long run (ILO 2017b).

Microcredit has had some significant positive impacts in the short-term, mainly upon already established businesses in Egypt (Amer & Selwaness 2021), as well as in Morocco (Crépon et al 2015), whilst there is no impact on the probability of establishing new businesses. Positive effects vanish in the long run, perhaps because the loan amount is too small to spur investment, thus calling for a more sustainable approach (ILO 2017b).

Formalisation policies address the informal sector more than the informal sector, although formalisation targeting the latter proves more effective than targeting the former (Jessen & Kluge 2019). Enacting laws alone does not ensure the transition of workers from informal to formal jobs; beyond design and implementation, monitoring and assessment are crucial steps in the policy cycle (ILO 2017a). This applies to the law on self-employed entrepreneurs and the law on domestic employment that Morocco respectively adopted in 2015 and 2016 (Cherkaoui & Benkaraach 2021).

Formalising businesses using incentives (carrot) is threefold. First, information campaigns on the procedures and benefits of registration, alone, remain ineffective. Second, one-stop shops bring together several procedures and relevant agencies simplifying business registration and incentives to reduce taxes, as well as social security contributions, prove effective. Third, the impact of shrinking registration costs for **start-ups** and providing bonuses to businesses willing to register, depends on the scale of support. **Eliminating one-half of the entry cost was projected to decrease the informal sector by five per cent, whereas shrinking the payroll tax by one-half would lower informal employment by 13 per cent (Balima 2021).**

Formalising businesses using penalties (stick) includes, as a fourth approach, law enforcement by the labour inspectorate, which has a minor but significant impact on the formal employment of workers that persists for several years (Gaarder & van Doorn 2021).

We contend that a concerted effort towards labour-market formalisation would increase firms' factor productivity and performance which would, in turn, encourage retention of high-quality workers and acquisition of complementary capital, leading to further performance gains and incentives to curtail labour turnover. The availability of the bulk of currently underutilised youths (in the informal sector, or unemployed) and women (economically inactive) presents an untapped opportunity for both for-profit and social entrepreneurs.

## 5 Conclusions

As emphasised in this study, informality is a dynamic concept that looks to the future, whilst remaining grounded in existing achievements. Informality remains more topical than ever, conceptually (linking informality to value added), metrically (calculating its scope and trend) and politically (better integration and formalisation). Informality requires both ongoing thorough investigation as well as taking stock of evolving stylised facts. Quarterly surveys that were disrupted in several countries by the Covid-19 pandemic must resume data collection, for assessment. This is a pre-requisite for policies which address the formalisation of informality.

Formalisation policies should be judged by the minimal standard of whether they increase employment and general welfare. Their major component of promoting job creation should take place within formal sustainable organisations. In this respect, for-profit cooperatives and not-for-profit social and sustainable institutions (SSEs), including microfinance institutions (MFIs), could play a key role (Adair et al 2022a and b; 2023).

In the MENA region, SSEs were spearheaded in Morocco decades ago and were recently adopted by Tunisian, Egyptian and other governments (Prince et al 2018). Female workers, being typically disadvantaged compared to their male counterparts, should be given priority.

Formalisation should target both informal businesses and workers, using incentives and penalties. Specific tax and public procurement policies, addressing informal workers who are establishing or joining formal sustainable organisations, should be promoted (Kiaga & Leung 2020).

MFIs will enable formalisation by supporting and incentivising informal businesses and workers to take steps towards inclusivity and sustainability. According to Adair et al (2022a and b), as a paragon to emulate and to benchmark against, the Alexandria Business Association (ABA), an Egyptian MFI, tripled the number of fully formalised clients between 2004 (6%) and 2016 (18%).

In summary, innovative formalisation approaches are recommended to stimulate decent job creation, to tackle the fragmentation of MENA labour markets and to promote occupational mobility and human capital development. This will lead to a better matching of employer needs and worker skills, together with productivity growth across various sectors of regional labour markets and underrepresented segments of society. Ultimately, this will foster a more sustainable and inclusive trajectory of development.

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## 7 Appendix

**Table A1. Average monthly incomes of youths, North Africa as of 2015**

	Females	Males	Gender pay gap (%)
<b>Formal employee</b>	742.35	868.36	<b>14.51%</b>
<b>Formal self-employed</b>	859.82	1,429.25	39.84%
<b>Formal workers</b> (employees + self-employed)	751.49	961.32	21.82%
<b>Informal employee</b>	417.42	489.28	<b>14.68%</b>
<b>Informal self-employed</b>	380.73	650.18	41.44%
<b>Informal workers</b> (employees + self-employed)	407.51	536.56	24.05%
Formal /Informal employee ratio	1.778	1.774	
Formal /Informal self-employed ratio	2.258	2.198	

**Notes:** 1,941 youths (aged 15-29) in North Africa holding jobs in 2015. Income in \$ PPP (Purchasing Power Parity Adjusted). North Africa: Algeria, Egypt, Morocco, Tunisia.

**Source:** Adair & Gherbi (2022).



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