



**Borderland Economy in Egypt and occupied
Palestinian Territories
Toward a New Approach**

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Andrea Floridi

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Members of the Examining Committee:

Natasha Wagner (Supervisor)

John Cameron (Reader)

The Hague, The Netherlands

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Inquiries

Postal address:

Institute of Social Studies

P.O. Box 29776

2502 LT The Hague

The Netherlands

Location:

Kortenaerkade 12

2518 AX The Hague

The Netherlands

Telephone: +31 70 426 0460

Fax: +31 70 426 0799

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List of Acronyms

ECES	Egyptian Center for Economic Studies
ESA	European System of Accounts
EUROSTAT	Statistical office of the European Union
GDP	Gross Domestic Product
GVA	Gross Value Added
ICLS	International Conference of Labour Statisticians
ILO	International Labor Organization
MAS	Palestine Economic Policy Research Institute
MDGs	Millennium Development Goals
MENA	Middle East and North Africa
MSMEs	Micro-small and medium enterprises
NOE	Non Observed Economy
OECD	Organisation for Economic Co-operation and Development
oPT	occupied Palestinian Territories
Rp	Research program
SMEs	Small and medium enterprises
UNSNA	United Nation System of National Account
USD	USA Dollars
WIEGO	Women in Informal Employment: Globalizing and Organizing

Abstract

The paper tries to outline a new approach able to better describe “informal” economy and agencies, avoiding dualist models or continuum categories adopting a new approach based on the notions of “borderland economy”, “borderland firms” and “borderland agencies”. The definition of the new epistemological framework has been a step necessary for conducting a new analysis of the data representing our empirical test in Egypt and occupied Palestinian Territories. The analysis has shown that most of the firms analyzed are not “formal” nor “informal” Finally, the analysis has shown the incapacity of the “formal-informal” dichotomy to describe socio-economic dynamics and phenomena, leading us to recognize the need for the elaboration of new policies able to involve the “borderland agencies” and to support socio-economic processes affecting the economy.

Nonetheless, there is still need to **corroborate** the approach by conducting other surveys on a bigger scale, analyzing also other Countries and other economies. The results show that there is space for the elaboration of new scientific programs able to avoid the “formal-informal” dichotomy, and to provide the key features for a definitive re-definition of epistemological framework. Moving from the need to give concrete implications to the new approach, we have tried to outline new policies able to find answers to the claims of “borderland agencies”, based on the recognition of “borderland agencies” as stakeholders and right-holders.

Relevance to Development Studies

Since its first definition, “informal” economy has caught the attention of economists, anthropologists, and sociologists; and a great number of papers have focused on this topic. Nevertheless, the debate did not stick in the academia, since it affected statistical methods and policy-making. Moreover, the increasing importance of “informal” economy in both developed and developing countries in the last twenty years has increased interest in the debate. The application of dichotomist models, as well as the continuum categories, have led to the elaboration and implementation of development policies, and International cooperation interventions lacking in terms of impact.

Keywords

Borderland, Informal, Firms, Private Sector, Development Policies, Dual-morphism, Research Program.

Chapter 1 Introduction

1.1 Background

It is well established that informal activities are increasing around the world, particularly in developing countries. There are several reasons, in turn, why policy makers should be concerned about the rise of the hidden economy: (1) informal activities reduce the tax base, thereby limiting the financing of public goods and social protection (Loayza, 1996); (2) a growing hidden economy may distort official indicators, resulting in inefficient allocation of public resources (Schneider and Enste, 2000); and (3) a prospering hidden economy may attract workers away from the formal sector and create an unfair competition environment for formal firms (Schneider and Enste, 2000).' (adapted from Hernandez 2009: 86)

[...] the tendency to associate 'informal' to 'unstructured' and 'chaotic' must end. Such an association is conceptually unsound, empirically weak, and has led to policy disasters, as the state reached to provide 'structures' where it was presumed that none existed before.'(Guha-Khasnobis et al. 2007: 16).

Schneider lists three main reasons why, according to the legalist approach, “informal economy” can represent an obstacle for the growth and the development of an economy. The main limit of this approach is that it defines the “informal economy” in a negative connotation, as mere opposite of the formal; nevertheless, the “informal economy” is conceived as homogenous set of activities, ignoring the heterogeneity that instead characterize “informal agencies”. Moreover, “informal” activities are defined as a cause more than a consequence of failure of the market. As a matter of the fact, the policies deriving from this perspective aim to formalize the “informal economy”, but the data of the last two decades show that the activities labelled as “informal” are rising all over the world, in term of both number of workers and contribution to Gross Domestic Product (GDP).

On the other hand, other authors conceive the economic system as a “continuum” space, where economic activities and agencies are characterized by a different degree of formality, from the completely “informal” to the completely “formal”. In such economic environment, “formal” and “Informal” dimensions, continuously interact, and exchange; for instance, it happens often that more “formal agencies”, such as corporations, employ casual workers. The main implication of this approach is that *‘we need to move beyond formality and informality to make progress in understanding the realities of economic activities in poor countries, and to design policies to benefit the poor’* (Guha-Khasnobis et al. 2007: 2). Main limit of the “continuum” approach is that it focuses on the heterogeneity within the so-called “informal economy”, accepting the ethical and evolutionist perspective, and accepting the distinction between “formal” and “informal firms”.

The present paper tries to overcome both the “dichotomist” and the “continuum” approaches, and tries to outline a new approach able to definitively overpass any dichotomy, or evolutionist temptation, and avoiding the judgmental approach, thanks to the introduction of the new concepts of “borderland economy”, “borderland firms”, and “borderland agencies”.

Moving to the firms labelled as “informal”, which are the statistical basic units used during a survey, La Porta (2008), identifies three main visions of the “informal enterprises” among the literature: the romantic vision, the parasite vision, and the dual vision. The romantic vision argues that “informal firms” may be the engine of the economic growth if not stopped by the government; the parasite vision describes “informal firms” as the “sly” agencies of the economy that try to escape the taxation, unfairly competing with the “formal firms”, and undermining the economic growth. Finally, according to the dual view, “informal firms” are inefficient, do not threaten “formal firms”, but do not contribute to economic growth. The present paper differs from the three approaches, proposing a different interpretation about the role and the potential contribution of those firms to the achievement of growth and development, in Egypt and occupied Palestinian Territories (oPT). Moreover, we conducted an empirical test finding a new category of firms that are the “borderland firms”, and they represent the main part of the firms operating in the economic “continuum”. The term “borderland firms” refers to those firms that according to our definition are not “formal” nor “informal firms”, because presenting traits of both formality and informality. The introduction of the notion of “borderland firms” allows overcoming the dichotomy “formal-informal firms”, conducting a “tri-logic” analysis.

Introduction: logical chain

The paper springs from the necessity to resume the debate about the relations between “formal” and “informal” economy and agencies, from where it stopped in the early 2000s, particularly after the publication of two studies by International Labor Organization-ILO in 2002 (Chen et al. 2002), and by United Nation System of National Account-UNSNA in 2003 (Unies 2009)¹. Effectively, it seems that the academic debate is stuck in a blind alley from both theoretical and methodological perspectives; but the question has not only an epistemological and semantic connotations, but it has also a relevance concerning the policies that, lacking of an adequate reflection, have shown to be ineffective. In fact, the policies of the last decade have been characterized by a dichotomist and an ethical approach opposing “informal” to “formal”, and where the “informal” has been conceived as mere opposite to “formal”, and identifying “informal” as “bad”, and “formal” as “good”.

The main consequence is that most of International cooperation agencies and policymakers have focused on supporting the private sector as engine for growth and development recognizing and involving only a part of the economic agencies that, such as in the case of the credit systems in both the considered countries, were already inserted in the “traditional” institutional and communicative circuits. The case of the support to credit systems and credit access is emblematic: in Egypt, by focusing on “formal” firms, moreover preferring mainly big enterprises, the policies have brought to nothing but the further strengthening of economic agencies already strong and non-having any

¹ The empirical test bases on the analysis of a survey on field in Egypt and oPT, conducted by STEM-VCR, and by a group of experts in December 2013 and January 2014.

problem of access to credit. In Palestine², the situation is even more paradoxical, since the national credit market is characterized by eighteen banks having problems of excess of liquidity. In oPT the problem is rather to enlarge the range of beneficiary enterprises, without regarding to the formality lines of firms that represent potential borrowers for the banks, reducing the excess of capital in their funds. Nevertheless, the recognition of “informal” and “borderland agencies” in their economic dimension it is the first step, since in order to overcome the economist and statistical dichotomist approach, it is necessary to recognize such agencies in their political and social dimensions, as stakeholders and as right-holders.

For these reasons, the paper resumes the debate on the relations between “formal” and “informal” from where it stopped more than ten years ago, through an epistemological, terminological and political redefinition. In fact, the “continuum” approach missed such a target, and has not made the step preparatory to overpass the impasse where the debate sticks. We try to achieve such a target through an attempt at redefining the epistemological framework of the problem, in order to give to theories and concepts the fecundity necessary for the elaboration of innovative policies, supporting those agencies of the private sector very often forgotten that can be agencies crucial for development and growth. Particularly, we proceed through a redefinition of the concepts of “formal economy”, “informal economy”, and “formal firms” and “informal firms”, and simultaneously introducing the notions of “borderland economy” and “borderland firms”.

1.2 Objective

Hypothesis, main question and sub-research questions

This paper tries to explain whether so-called “informal economy”, “informal firms” and “informal agencies”, as well as “borderland economy”, “borderland firms”, and “borderland agencies” represent an opportunity for the elaboration and the implementation of development policies, rather than an obstacle to their impact. In order to achieve such target, the paper describes the characteristics of thirty-two Palestinian and Egyptian enterprises, to prove that most of the enterprises are not “formal” nor “informal”, and operate in a “borderland” that represents a space that is not pure “formal” nor pure “informal”. Such zone could be the starting point for the elaboration of new and more effective development policies involving all the economic and social agencies operating in the entrepreneurial context of the economies analyzed.

Overcoming the “formal/informal” dichotomy means that the analysis move from the “borderlands” and focus on the different agencies that operate in such unexplored reality very often forgotten by policymakers and economists rather focusing on the “borderlines” between “formal” and “informal economy”; moreover, the finding of “borderland firms” presenting traits of both formality and informality helps us avoiding such dichotomy.

² We use in the paper the term Palestine as synonymous with oPT.

The main question of the paper, which is strictly connected to the hypothesis mentioned above, is: “Can we overcome the previous dualist, ethical, evolutionist paradigm, embracing a new approach able to better describe an unexplored social and economic reality, avoiding dualist models or continuum categories? Is there a way to outline new policies and strategies respectful of the vocation of the agencies, which are able to sustain small enterprises in Egypt and oPT, avoiding the distinction between “formal” and “informal” and out of the perspective of the formalization of these activities ?”. Moreover, the study aims to analyze the role of “informal” and “borderland firms”, and particularly small enterprises in the context of social and economic dynamics, referring to the Egypt and to the oPT.

In order to achieve this objective, the analysis consists of five main steps:

- Analysis of the literature on “informal” sector/economy;
- Analysis of policies implemented by Government and local authorities, with particular attention to policies on “informal” sector and on support to small enterprises;
- Analysis and summary of International cooperation interventions in Egypt and oPT, with a focus on the programs on “informal agencies” and small enterprises;
- Elaboration of a new epistemological framework;
- Identification of the characteristics of the considered small enterprises. Elaboration of descriptive statistics, and identification of a variable able to capture the "formality lines" of the enterprises.

Structure of the paper

The present paper tries to find answers to the above-mentioned questions, using a new approach in the attempt of go beyond the “formal-informal” dichotomy that has affected the academic production on “informal economy”. The first section of the paper represents an introductory chapter. The second section paper focuses on the academic debate on “informal economy”, moving from the first definition given by ILO in 1972, and Hart in 1973, to the most recent literature production on the topic. The third chapter focuses on the new approach adopted in the study, explaining the main assumptions underpinning it. The fourth part of the paper focuses on the data analysis. The analysis represents an empirical test for our approach and assumptions; moreover, it represents an occasion to apply new notions and definitions during the analysis, so to check their analytical power; this section explains also the choice of variables and models applied in the analysis. Finally, the last part of the paper summarizes the main concepts and findings of the study, and focuses on suggestions, and recommendations for new policies to implement, and of course improvements for further analysis.

1.3 Relevance

Relevance and justification of the research topic

Since its first definitions, in a study of the ILO of 1972 in Kenya, and then in a research on the urban proletariat in Ghana conducted by Keith Hart in the 1973 (Guha-Khasnabis et al. 2007: 1), the concept of “informal economy” has immediately attracted the attention of economists, sociologists, anthropologists, and human scientists. However, only in the last two decades this concept has taken *‘centre stage in the development policy discourse.’*(Guha-Khasnabis et al. 2007: 16). Most of the policies elaborated during this period were strongly affected by the theoretical framework and by the debate; particularly, the legalist approach, which is strictly linked to neoliberal and neo-monetarist positions, has played a crucial role as expression of the neoliberal dominant paradigm. Therefore, the main strategy characterizing the last twenty years has been to formalize the “informal economy”, which is a consequence of excessive registration costs; more important, such policies focuses on the borderlines between “formal” and “informal”, lowering or raising the “separation’s bar” between them. However, the lack of efficacy of such policies has recently led to the elaboration of new policies and strategies, which try to link the “formal” and the “informal” dimensions, rather than focus on the systematic formalization of the informal activities; these new policies seems to have a stronger impact, and are more respectful of the “vocation” of the “informal” agencies.

“Informal Economy”: problems of definition, interpretation, measurement, and policymaking

A wide production characterized the “Informal Economy” as a concept since its first definition, and a high number of definitions and interpretations have followed during the years. The main issue is that the multiplicity of approaches have affected the statistical debate³, translating into a variety of definitions and measuring methods generating different statistic data, leading to dissimilar interpretations, and affecting the elaboration of policies. From a statistical perspective, this may represent an issue, because there is an overlapping of different measuring methods and a divergence in data, which makes difficult the comparison between countries and among the time. Moreover, the diversity of approaches sparks a great variety of interpretations, since the point of view of the observer is crucial for all the social sciences, including economics that this paper considers as a social science. In fact, the approach forges the interpretation of the phenomena according to the assumptions and to what the observer is analyzing, since pretending to study the whole reality is an unrealistic exercise. Nevertheless, the problem does not stuck in the field of the statistics, but significantly affects the policymaking. As a result, the previous dualist and ethical approaches have affected most of the strategies elaborated and implemented by policymakers and International cooperation agencies, to face the increasing importance of the so-called “informal economy” in both developing and developed countries. In fact, most of the

³ For a more detailed summary of the statistical debate see also Appendix A.

policies assume a dualist perspective opposing “formal” and “informal” dimension, supporting the former and contrasting the latter, and giving a “positive” connotation to the “formal agencies”, and describing in a “negative” undertone the “informal” ones. Furthermore, such policies have the limit of focusing on the demarcation lines, or “borderlines”, between “formal” and “informal” activities, neglecting the frailty of such borderlines that are mainly “fictitious”.

“Informal Economy”: contributions, world trends

The emergence of the “informal economy” in the development debate and the renewed interest from policymakers is also due to the raise of “informal economy” in terms of both contribution to GDP (or to Gross Value Added-GVA) and creation of employment. The increase of “informal” activities in the last two decades has regarded developing countries as well as developed countries, and interested with different degree the various regions of the world. Appendix B of the paper contains data concerning the diffusion of “informal economy” all over the world. Generally, “informal economy” represents a crucial part in the economy of both developing and developed countries.

“Informal economy” in Egypt and oPT

Moving to the weight of so-called “informal economy” in the countries analyzed, is necessary to give a more detailed picture of “informal economy” in those countries. The non-agricultural sector’s contribution to the creation of GVA in Egypt and oPT is respectively 16.9 percent and 33.4 percent. Therefore, it is clear that the so-called “informal economy” plays a crucial role in the economy of those countries, especially if we would account also the informal agricultural sector’s contribution. Employment labelled as “informal” in Egypt counts 8,247,000 workers, which are more than the fifty-one percent of the total employment. Similarly, labelled “informal employment” represent the 58.5 percent in oPT, that is 375,000 people. The observer immediately notice the importance of the “informal economy” in terms of both contribution to GVA, and creation of employment.

Table 1 – Labelled informal employment, in and outside labelled “informal sector”

	So-called Informal employment		Employment in the so-called “informal sector”		Informal employment outside the so-called “informal sector”	
	value	%	value	%	Value	%
Egypt	8,247,000	51.2%	n.a.	n.a.	n.a.	n.a.
oPT	375,000	58.5%	140,000	23.2%	235,000	35.8%

Source: adapted from ILO 2012

Table 1 contains data about the distribution of labelled “informal employment” both in and outside the labelled “informal sector”. Unfortunately, there is a lack of data for Egypt, which does not allow a comparison between the countries; nevertheless, we can have a more precise idea of labelled “informal employment” in Palestine. The employment in the labelled “informal sector” counts for 23.2% of the total employment; while labelled “informal employment” outside the so-called “informal sector” represents the 35.8 percent of the total employment.

Table 2 – Share of women in employment

	Total employment	Agricultural employment	Non-agricultural employment	Labelled “informal” non agricultural employment
Egypt	n.a.	n.a.	n.a.	n.a.
oPT	19.9%	30.6%	15.3%	6.9%

Source: adapted from ILO 2012

Moving to the employment of women, there are no data available for Egypt, but availability for data about oPT (Table 2). The statistics show that women in Palestine represent almost twenty percent of the total employment. Such rate changes significantly whether we consider the agricultural employment, or the non-agricultural employment; in fact, women are mostly employed in the agricultural activities (30.6 percent of the total agricultural employment), rather than non-agricultural activities (15.3 percent of the total non-agricultural employment). Concerning the share of women employed in labelled “informal” non-agricultural activities, represent only the 6.9 percent of the total “informal” non-agricultural employment. Concluding, even if women represent the minority of the total employment, they represent a relevant share of the agricultural employment; however, such importance drops down if we consider only the non-agricultural employment, and become irrelevant referring to the labelled “informal” non-agricultural employment. Nevertheless, the observer notices immediately that, contrary to what happen in most countries, women represent just a small part of the labelled “informal employment”; therefore, it is not possible to link labelled “informal economy” to a prevalence of women, unlike to what the literature often does.

Chapter 2 Debate

2.1 The debate: positions

Since its first definition the concepts of “informal sector”, and then “informal economy”, have always attract the interest of economists, anthropologists, sociologists, and human scientists. As a matter of the fact, a wide production of articles and papers has immediately focused on this topic, giving a number of different definitions of “informal economy” and its agencies. Such positions did not stuck in the academic debate, but affected economic models, statistics methods, policymaking, and development strategies. Therefore, it has been necessary to follow a new approach, using new statistic methods to obtain new data, and adopting another language to analyze the data out of the “formal-informal” dichotomy, and to suggest new and more inclusive strategies and policies, that links “formal” and “informal” respecting the vocation of all the agencies. We can try to find an order in the chaotic galaxy of the debate on “informal economy”, by identifying five principal mainstreams, which in turn can be divided in two big “families”: dichotomist approach, and “continuum” approach. The former refers to dualist approach, structuralist approach, and legalists approach; the latter refers to the borderlines, or “continuum” approach. However, such classification is not exhaustive, and could be possible that different approaches coexist in the same paper, or in the same author.

2.2 Dichotomist approaches

Dualistic approach

Dualist models opposing “formal” and “informal sectors” have dominated the first stage of the debate. The first papers in development studies that explicitly mentioned the concept of “informal sector” are the paper by Keith Hart (1973) and by the ILO (1972). The former is a study conducted by the anthropologist Hart, on urban employment in Ghana, while the latter is a report on “informal sector” in Kenya. Both the papers established the importance of the formal-informal dichotomy, but tend to define the “informal economy” as a part of the urban economy, composed by individual and household firms. The “informal activities” are high labor-intensity, and provide wages under the minimum level provided by law. The dualists conceives “informal sector” as traditional sector, in contrast to the formal modern sector. In fact: *‘In the 1950s, Arthur Lewis (1954) conceptualized an influential two-sectors model of development in which one sector has modern capitalist firms that maximized profit, while the other sector was comprised of peasant households where the rules for sharing output is different.’* (Guha-Khasnobis et al. 2007: 1). The linkages between the two sectors are sporadic, and the “informal sector” is likely to disappear through the modernization of the economic system. A more recent version of this approach defines the “informal sector” as the set of activities generating occupation in the cities, and characterized by low wages (often lower than the minimum wage provided by law), low productivity, high labor intensity and

low capital intensity, small number of machineries, low investments, and low entry costs.

Structuralist approach

This approach conceives the “Informal sector” as a sector subaltern to the capitalist “formal” firms, representing a pool of low-cost workforce that can increase the profit rates of the formal enterprises. The linkages between “informal” and “formal” are very frequent, and the “informal sector” produces, exchanges and is functional to the “formal sector” that exploits the former. Therefore, the “informal sector” is here and is likely to persist among the time, and to expand simultaneously to the “formal” system, since it is strictly functional to the interests of the capitalist system itself. The “informal sector” is a heterogeneous set of activities that cannot be associated to one pre-determined typology of enterprise, or only to one situation. In this perspective, the “informal economy” is the set of activities characterized by absence of: clear separation between capital and labor; a contractual relation between the two parts involved; workforce legally paid (Portes and Sassen-Koob 1987: 31). Recently some authors have purposed a more radical version of this approach, defining the “informal sector” as an alive open-air museum of the human exploitation (Davis 2006: 166).

The contribution of the structuralist approach is crucial, since it stresses that “formal” and “informal sectors” interact, and that the former produces, exchanges, and interacts with and for the latter. Moreover, such approach criticizes the dualist definition of “informal sector” as the set of traditional activities, recognizing instead an entrepreneurial dynamicity of “informal agencies”, and assuming that the “informal sector” is likely to expand simultaneously to the capitalistic system not disappearing among the time. Despite the innovations, the approach tends not to distinguish between “informal economy” and “informal sector”, and usually refers to the “informal sector” as a heterogeneous set of activities interacting with the formal sector, but separate from it. Therefore, there is no space for a common space between the sectors that are isolated; nevertheless, very often the approach does not consider the employment relations.

Legalist approach

This approach conceives the informality as a consequence of the excessive registration costs. Thus, countries with a slight bureaucratic apparatus and less strict rules, show lower rates of formality (De Soto 2003: 481, Friedman et al. 2000: 96, Schneider and Enste 2000: 77-78). The legalist approach focuses mainly on the relation between “informal firms” and “formal” regulatory environment (“formal” institutions), instead of investigating the links between “informal enterprises” and “formal firms”. The links between “formal” and “informal” are sporadic, and the “informal firms” unfairly compete with the more efficient and more productive “formal firms”. Moreover, that approach tends to consider “informal agencies” in a negative connotation, as firms that try to reduce the entry costs by avoiding fiscal taxation. The legalist mainstream is often close to the neo-liberal and monetarist approach; consequentially, many authors suggest for a structural adjustment as a solution of the “problem of the informal sector”. The focus, especially for the supporters of the New Institutional Economy, is mainly on the institutions,

and their capacity to create an environment favorable for the emersion, or formalization of “informal activities”.

Chen (2005: 9-10) outlined an interesting model that can represent a critic to the main assumption of the legalist approach about the necessity of a de-regulation and lighten the bureaucratic apparatus. Particularly, the paper of Chen argues that each component of the informal economy need an appropriate regulatory system.

2.3 The “continuum” approaches

“Continuum” approach

This approach criticizes the other positions, pointing that they are characterized by the issue of the “formal-morphism”. The latter term refers to the tendency to define the “informal economy” as opposite of the “formal economy”, and to identify the characteristics of the “informal economy” as negation of the “formal economy”. Such a vice reminds the critic of Edward Said to the orientalism, which is the western pseudo-science that study (only in a western perspective) the Orient. According to Said orientalism tended to define Orient in a negative connotation as a mere opposite, or negation of “West”, through a mirrors game that allows the West to rethink and redefine itself (Said 1995: 11-14). Likewise, the dichotomist or “dual-morphist” approaches have the same propensity for defining the “informal sector” in terms of what it is not. According to this mainstream, the entire economic system is a “continuum” of activities characterized by a different “degree” of formality. The approach overpass the ”formal-informal” dichotomy to embrace a wider and less inclusive definition of informal economy based on the notion of “informal employment”; the “continuum” approach suggests that “informal employment” is the totality of employment in the “informal sector” plus the “informal employment” out of the “informal sector”. The resulting picture is a “continuum” space, where the economic activities, characterized by a different degree of formalization interact and integrate. Despite the innovations, such approach maintains the evolutionist and ethical vocation of the previous approaches. In fact, the idea of a “continuum” of activities with a different degree of formality suggests that there is a sequence of activities, based on the formality degrees, from the total “informal” to the total “formal”.

The approach analyzes the “informal employment” in terms of relative lack of social protection. Even the ILO (2002), has recently recognized this approach as propaedeutic for the identification of issues related to the decent work. In fact, the “continuum” allows shifting the focus from the enterprises to the people and the workers employed, and exploited in both “formal” and “Informal activities”. The new definition of “continuum” implies the necessity to identify what are the characteristics of “informal economy”, enterprises, and employment, in order to define. Therefore, most of the production focuses on the segmentation and on the individuation of different employment categories within the “informal economy”, empathizing the heterogeneity of the “informal economy”. The tendency of the “continuum” approach to focus on the borderlines, defining and listing all the possible type of agencies characterized by a different line of formality reminds the concept of “trans-

finite” introduced by the mathematician Georg Cantor. Considered as the father of the set theory, Cantor argued that real numbers are more than natural numbers, proving with his theory the existence of an infinity of infinite. The main implication is that, considering the set 0-1, we know that such interval is transfinite because it is simultaneously finite and infinite; in fact the set 0-1 is finite if considered as whole in its totality, but it is possible to infinitely divide such set into an infinite number of finite sets (0.1 ; 0.01; 0.001; and so on) (Lombardo Radice 1983: 50-80). Besides the limitations and innovations brought by the theory mentioned above, what we want to point out is that, authors belonging to the “continuum” approach very often focus on the heterogeneity of circumstances and agencies within the “informal economy”; instead of considering economic processes and phenomena starting from the observation of the concrete economic reality where both labelled “formal” and “informal agencies” move. In other words, coming back to the metaphor of the “transfinite”, many authors, as a consequence of the discovery that the “informal economy” is a heterogeneous set of activities, concentrate on the infinite sets within the interval 0-1 (representing the different kind of activities), rather than focusing on a finite set within the range 0-1 representing the “borderland” or the concrete economic context where the agencies operate. One can argue that the metaphor of the transfinite may not fit perfectly because the number of kind of activities is finite; however, this critic can be partially re-dimensioned since if considering the time-variable such activities tend to continuously change.

“Borderland₀”

This approach moves in the theoretical framework of the “continuum” mainstream, but it is more radical. It claims for the need to recognize the “borderlands” that represent the space of interaction between “formal” and “informal”, instead of focusing on the borderlines that separate “formal” and “informal”. In this landscape, the economic forms change continuously, in order to guarantee the balance in the economic and social relations. Assuming that both “formal” and “informal” institutions can guarantee such a balance, instead of focusing on raise or lower the degree of formality of the institutions, we should distinguish between institutions that work, and those that do not work. This move is necessary to definitively left the ethical approach, and simultaneously preparatory for the shift of the object of the analysis, abandoning the notions of “formal” and “informal”.

The contribution of the “Borderland₀” of Bellanca *et al.*(2008: 99-157) is crucial, since our research moves from the suggestions to investigate the “borderland” instead of focusing on the “borderlines”. Furthermore, the “Borderland₀” “ allows understanding that “informal economy” is not only the set of activities that do not use government “formal” institutions⁴.

⁴ Such a picture suggests the idea of “Informal economy” as led by anarchy and absence of institutions. Therefore, the “informal” activities is the set of activities ruled by “informal” institutions. As a group of criminal has a set of rules accepted, in the same way the “informal” activities use other institutions out of the “formal” ones.

Box 1: Getting beyond evaluative labelling

At this point, it is necessary to point out two clarifications about institutions. First, the previous mainstreams have the tendency to follow an ethical approach; thus, they describe “informal” sector, economy, employment, agencies, and institutions using moral criteria such “as good” or “bad” to label them. This tendency is the same behavior that humans have with pets, when they judge their behavior as good or bad. We adopted an approach that left the ethical categories out of the analysis, and that focuses on the distinction between institutions that work, and those that do not work. A further specification regarding institutions and their role is that the institutional framework change continuously, between countries, and among the time (North 1990: 3-6); in particular, the agencies (or the players, to use the metaphor of the team’s players used by North) choose every time the more efficient and efficacy institution, whether it is “formal” or “informal”.

This approach conceives the “continuum” as a “borderland”, a physical economic space where “formal” and “informal” firms presenting each one different characteristics, interact and trade. More important Bellanca (2008: 112) suggests investigating in such a space looking at the “creolizations” (or contaminations), that are the “informal firms” presenting characteristics different from the stereotypical conception.

The main implication of the “borderland₀” is that since the existence of a “continuum” space of interactions between “formal” and “informal”, and since economic activities have the same extent, the “formal-informal” dichotomy becomes just one of the coordinates defining the form of the economic activity. In fact, according to this approach, every economic system tends to guarantee the balance within the social and economic relations. In order to achieving such a target, the social and economic agencies move through different social and economic institutions, using “formal” or “informal” institutions depending on the situation, and on the perception of what can be more efficient and more convenient. Therefore, the clear distinction between formal and “informal economy” become unrealistic, since also “formal” agencies very often use “informal” institutions. In such context, the distinction between formal and informal becomes obsolete, and the “formality/informality” of the economic activities becomes only one of the coordinates that shape the form of the economic activity (that can be male-female; adult-minor; rural-urban; formal-informal; capital intensive- labor intensive)⁵ (Bellanca 2008: 113-114).

The suggestion to further studying the “borderland” represents a crucial assumption underpinning our approach, since we have conducted the analysis

⁵ Bellanca (2008) argued that is not possible systematically enclosing under the category of “informal” certain characteristics, such as female labor, low-capital intensity, urban activity, child labor, and illegal activity. Therefore, the formality-informality becomes just one of the coordinates defining the economic activity. The latter can be, for example, rural or urban, male or female, “formal” or “informal”, legal or illegal, high capital intensity or low capital intensity, adult labor or child labor. As we can see from the twelve coordinates just introduced, we can obtain many different combinations; nevertheless, the model is not exhaustive, but represent only an example of how the “formal-informal” dichotomy becomes one of the coordinates of the economic activity (Bellanca, 2008).

investigating in the “borderland”, and looking to the “creolizations”. Nevertheless, we conceive the “borderland” not only as an economic space, but also as a political space; more important, we conceive the “creolizations” as firms presenting both traits of formality and informality; nonetheless, we agree on the fact that such firms do not fit to the stereotypes. Moreover, we do not refuse the category of “formal” and “informal economy”, but rather re-define such categories, simultaneously introducing a third category: the “borderland”.

Another crucial contribution of the approach is the introduction of the notion of “borderland”, which represents a milestone for our approach. Nevertheless, the “borderland” here is only a conceptual space; while we conceive the “borderland” mainly as a physical socio-economic and political space. Finally, the recalling of the concept of livelihood by Polanyi, and the role of the collective imagination in Geertz, has played a vital part in pushing us to read, and further analyze in depth such authors and such concepts.

Besides the contribution of such approach to the academic debate, and the great influence on our approach, the position of Bellanca (2008) seems to be controversial. In fact, on one hand, it rejects the notions of “formal” and “informal”, while on the other hand, it conceives the “borderland” as the intersection space, where “formal” and “informal” dimensions coexist. Therefore, despite the claim to overpassing the “formal-informal” dichotomy, the “Borderland₀” “just partially overcomes the “formal-informal” dichotomy, since the dichotomy itself becomes one of the coordinates of the economic activity. Nevertheless, they stress the importance to go beyond certain stereotypes and certain characteristics assumed as intrinsic to “informal firms”. Finally, despite the shifting of focus from borderlines to “borderlands”, the attention is mainly on the heterogeneity of “informal agencies” operating within the “borderland” (given by the different combinations of economic activities’ coordinates) rather than on the existence, and prevalence of agencies that are not “formal” nor “informal” in the “borderland”.

Chapter 3 Toward a new approach: “Borderlands₁“

3.1 Our approach to agencies

Our approach moves in the theoretical framework of the “borderland₀”; however, it develops the assumptions through a more radical path, applying the category of “borderlands” to the analysis of data and conceiving the “borderland” as physical socio-economic space. Concretely, our approach tries to overcome the previous paradigms, avoiding the “formal-informal” dichotomy, as well as the application of other ethical categories, or evolutionist temptations. Conversely, our approach represents an attempt to redefine the epistemological framework, adopting new language, definitions, concepts used during the empirical test. That means that we adopted an epistemological framework completely different from the model of Bellanca (2008). It is necessary, however, to recognize the fact that he introduced the term “borderland”, and he underline the importance of the concepts of livelihood and collective imagination; concepts that are part of the assumptions of our approach.

In order to explain the new approach, it is necessary to recall the concepts of livelihood (Polanyi), embeddedness (Granovetter and Watson), and the role of communication network and collective imaginary (Geertz). Nevertheless the perspective that we are assuming is similar to those of the above-mentioned authors, and it is “in line” with the positions of these authors. The main idea is that we need to go beyond the economical and statistical perspective, in order to avoid a flat and static representation of the economic system.

Polanyi (in Bellanca 2008: 111) argued that every economic system has a nucleus of basic needs that need to be satisfied; such a part of the economy can be defined as “livelihood”. The target of every economic system is to ensure and satisfy the livelihood. The livelihood changes from society to society, and among the time; however, what does not change it is the extent of the economic process, that is to guarantee the reproducibility of that part. Besides this, the importance of the notion of livelihood set in the perspective that it assumes: it allows understanding the economic process underpinning the choice of institutions; nevertheless, it is a clear example of how economic activities are embedded in a social context. In fact, the concept of livelihood implies that the scope of the economic systems is to guarantee a balance that is both social and economic. In line with the approach of Polanyi, the concept of emeddedness in Granovetter (1985). Granovetter (1985: 481-507) argued that any economic phenomenon is above all a social phenomenon, meanings that economic activities are embedded in the social context. Moreover, he argues that the embeddedness regards all the economic processes, and more important the economy is embedded in the social context and its agencies, not only in the State (differently to what Polanyi described). Another crucial contribution of Granovetter is that, through the concept of embeddedness, he critics the Benthamian concept of utility, that represents one of the main assumption of the “New Institutional Economy”. He refuses also the assumption of the rationality of the “*homo economicus*” arguing that the drivers of the economic decision are also social. In fact, economic decisions are also

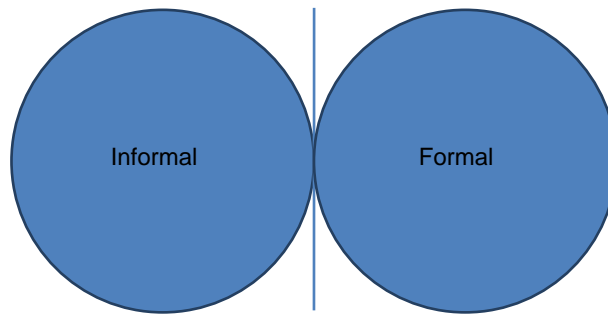
social decisions, and particularly the economic decisions are embedded in the social context where the agency moves. For instance, a client can prefer buying expensive products from acquaintances than cheaper products from unacquainted sellers, following personal preferences led by social features, rather than follow economic rational decision. Therefore, the distinction between “formal” and “informal” institutions leads to undervalue the importance and the extent of the fact that economic processes are embedded in the social context; nevertheless, it means that every agency has a different curve of maximization of the utility, which cannot be represented only by the quantity/price ratio, or by the quality of the products. Thus we need to recognize that also the taste of the consumers are embedded in the social context, as well as the decisions of producers and suppliers are not based only on the demand. Therefore, we cannot label certain economic behaviors as irrational, because the supply/demand law do not lead the real economic market by itself, and the assumption of the rationality of the “*homo hoecconomicus*” it is a fictitious chimera. Similarly, Geertz (in Bellanca 2008: 117-121) argued that exchange are never only dual, since besides demand and supply, there are also features such as collective imagination and communication processes, which guarantee the diffusion of taste and the circulation of informations that can affect the final decision of both consumer and supplier. Finally, Watson (2005: 161-178) makes a crucial distinction between market as “agency”, and market as “arena for strategic human actions”. The literature has treated the market as an agency: a coordinating mechanism or a human agent to whom attribute merits and faults. The market as arena for the strategic human actions seems “in line” with the Granovetterian notion of embeddedness, since suggests the idea of a social reality underpinning the economic reality; more important it refuse the economic rationality of the agencies, which take decision basing on the optimization of the social relations. We recognize the distinction of Watson, not only because it represents a critic analysis of the role of the market in the literature, but especially because the starting point of our analysis is exactly the market as arena for the strategic human actions.

The above explained concepts represent important milestones for our approach. Nevertheless, it is necessary to specify that what interests us is the continuous tension of economic and social process characterizing a reality (the “borderland economy”) and agencies (“borderland agencies”) representing an “unexplored and forgotten zone”. Therefore, we do not want to use the analytical concepts of “livelihood”, “embeddedness”, and “market as arena for the strategic human actions” in order to give a theoretical justification, or alibi for the existence of institutions, agencies, and processes that can be both “formal” or “informal”. In fact, we believe that the notions of livelihood and embeddedness imply that the agencies can move between formal and informal; therefore policies aiming to the formalization of those agencies are not necessary likely to be efficacy. Furthermore, we avoid any representation of a “formal” economy market-driven against an “informal” economy driven by civil society institutions. We try to underline the social features underpinning economic phenomena and processes, and to stress the need for recognize those agencies operating in the “borderland economy”, too often neglected by policymakers in name of dualist models’ assumptions, and that are involved in economic processes that governments and local Authorities ignore. Furthermore, the recognition of the political dimensions of those agencies may

lead to the involvement of the latter in the identification, elaboration, and implementation of policies and strategies.

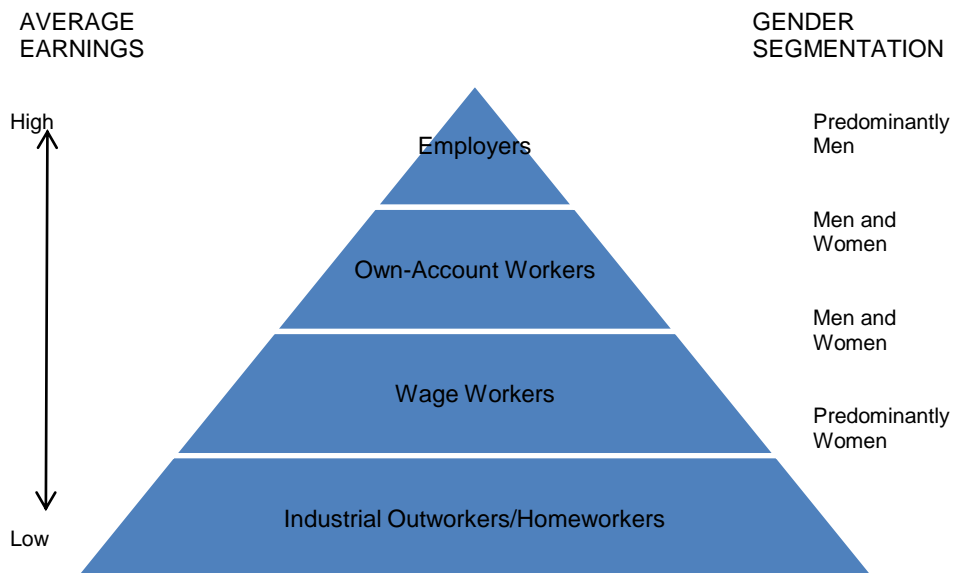
In conclusion, we go beyond the application of the “formal-informal” dichotomy as analytical criteria for the socioeconomic analysis, embracing the notions of “borderland economy” and “borderland agencies”. The focus of the study, consequentially, is on the “borderlands” representing the space of integration and interaction between agencies characterized by different lines. Such agencies are very often forgotten by Governments and International cooperation agencies; the paper claims for the need to elaborating new policies that try to link “formal” and “informal economy”, avoiding the systematic formalization, and starting from the “borderland” that represent the space of interaction (or better, the space of integration) between “formal” and “informal”, where most of the firms are not “formal” nor “informal”.

Figure 1 - Dichotomist vision



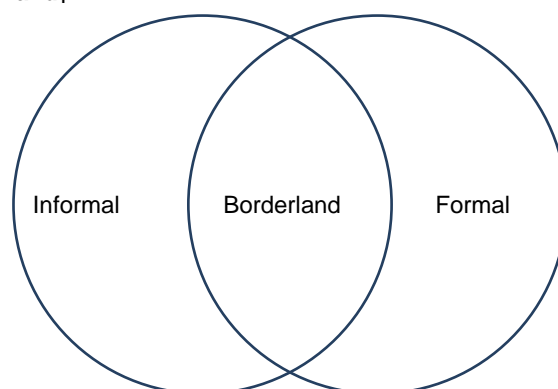
Source: our elaboration

Figure 2 - “Continuum” vision



Source: Chen M.A., 2005

Figure 3 – "Borderland₁"



Source: our elaboration

The illustrations above represent a stylization of the different approaches animating the debate: respectively the dualist conception, the “continuum” approach, and our approach (borderland₁).

3.2 Epistemological implications

We can roughly distinguish between authors rejecting the categories of “formal” and “informal”, and those hiring it. We hire such categories but only at two conditions: after introducing the concept of “borderland economy”, and after re-elaborate the concepts of “formal” and “informal”, assuming that such categories do not refer to a set of intrinsic characteristics. Nevertheless, we try to overcoming the “formal-informal” dichotomy introducing a third category that break any dichotomist logic.

Epistemologically, the problem of “formal” and “informal”, is not that they are fictitious or unreal concept, especially because define a concept as real or unreal is very controversial, since the distinction between *noumenon* and phenomenon, and since concepts are an abstraction from reality. In fact, the concept become phenomenon when it meets the reality. Nevertheless define a concept as unreal would be a first epistemological paradox that those who refuse such categories make by defining such concepts as unreal or fictitious. In this sense we distinguish between efficacy and inefficacy concepts rather than real or unreal concepts. Particularly, the problem of “formal-informal” dichotomy is that it has lost its empirical and heuristic power, leading to elaboration of flat, dichotomist, and not analytical statistic methods, economic models, data and phenomena interpretation, and inefficacy policies implementation.

Consequently, after re-defining “formal” and “informal”, we introduce the notion of “borderland economy”, defined as the space of interaction and integration between agencies with different lines of formality, marginalizing “pure formal” and “pure informal”; actually in the test conducted in Egypt and oPT there are twenty-three enterprises, that are not “formal” nor “informal”. In fact we found also six enterprises completely “formal” and six completely “informal”. On the other hand, the main problem of “formal” and “informal” as concepts is that they refer to a set of intrinsic characteristics not fitting to all the “informal” firms.

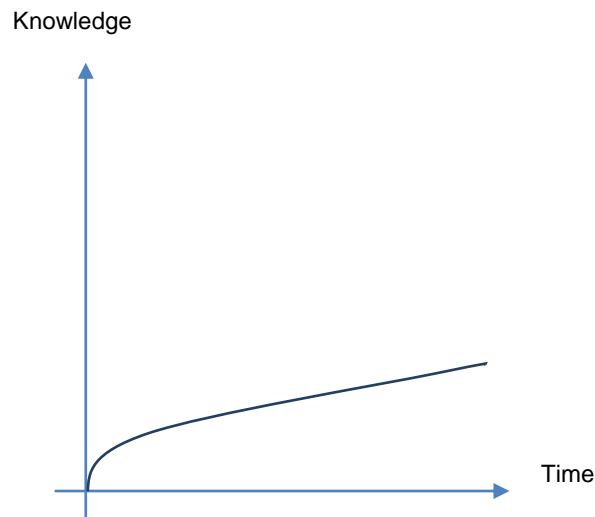
The categories of “formal” and “informal” and the “formal-informal” dichotomy have generated a number of inefficacy policies and models unable to explain dynamics concerning the so-called “borderland agencies”. In this sense, we are trying to test the analytical and heuristic power, the “analytical fertility” of the category of “borderland”, in order to contribute to the definition of a new epistemological framework. With the new approach, we elaborate new definitions and new interpretations, in order to address new policies and strategies to support those agencies condemned to be isolated or invisible, in the name of an “analytically sterile dichotomy”. In other words, we are trying to find new elements for the elaboration of a new epistemological approach, by recognizing some of the assumptions of the “borderland₀” (for instance the interaction between “formal” and “informal”, and the idea that the “informal sector” is a part of the “Informal economy”), but using a different epistemological framework, and a different heuristic. The “borderland” represents a test of a positive heuristic trying to address a new analysis that start from some of the assumptions of the “continuum”, that represent the new core (negative heuristic), that need to be corroborated.

The differences between our approach and the “continuum” approach, allows us to introduce an old epistemological debate between the Popperian school and the Khunian School. Popper (in Lakatos 1968: 149-152) argued that the science proceeds through falsification, for instance all the crows are black is a sentence that is true until one finds a white crow. Inconsistent to this vision, Kuhn (in Lakatos 1968: 152-163) argued that science advances following a revolutionary path, characterized by moments of discontinuity that lead to shifting of paradigms; moreover he argued that there is an asymmetry between falsification and verification, since to verify the validity of a theory one has to repeat infinitely the experiment, while it is enough that the phenomenon do not manifest one time in order to falsify it. Thus, we learn a lot from the falsification: not only it helps to verify that a theory is false, but also it allows formulating new and more specific problems. Finally, Lakatos (in Lakatos 1968: 167-178), trying to synthetize and overpass the debate, argues that object of the evaluation should not be a single theory, but should be a “research program” characterized by a nucleus of strong hypotheses accepted and temporarily unconfutable, and by a positive heuristic defining a “belt of auxiliary hypotheses”, providing anomalies and turning them into successful example. If the evidences are unexplainable, additionally hypotheses are introduced before to reject the nucleus of hypotheses; therefore the falsification of a research program pass through the confutation of the nucleus of strong hypothesis, and not through the falsification of the “auxiliary hypotheses”: thus, Popper proposed an “ingenuous falsificationism”. Concerning the dynamics of the scientific research programs, Lakatos (1968) distinguished between “progressive” and “degenerative”; they proceed through a rational path, opponent to the irrational shifting of paradigm proposed by Kuhn. A research program is progressive until the theoretical anticipates the empirical, and the program is able to predict new phenomena (facts) with a certain success.

From the diatribe between Popper and Kuhn has emerged that once the paradigm riches a number of anomalies (contradictions), the paradigm collapses and the inconsistencies become the basis for a new paradigm. In other words, we move from the assumption that we need to redefine the epistemological and theoretical framework of concepts and definitions.

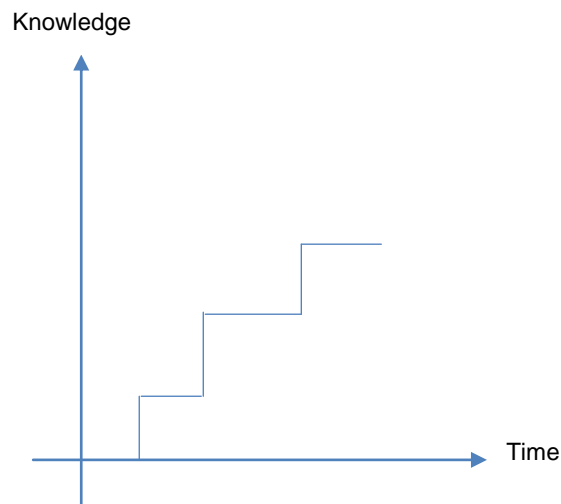
Consequentially, we try to use a different language, and focus on the introduction of new definitions and concepts (above all the concepts of “borderland economy” and “borderland agencies”) rather than focusing on the falsification of the previous paradigm. Such theoretical decision, is linked also to the necessity of defining a new paradigm, which would not be only an “anti-paradigm” as negation of the previous one, because as Lakatos (1968) pointed out, there is the possibility for the accumulation of knowledge, thus not all the assumptions of a paradigm need to be falsified in order to replace it. That means that we do not refuse the idea of an economic system with agencies characterized by a different “degree” of formality, but we argue that it is necessary to make another step in order to definitively overpassing the previous paradigm.

Figure 4 – Popper’s view of knowledge change



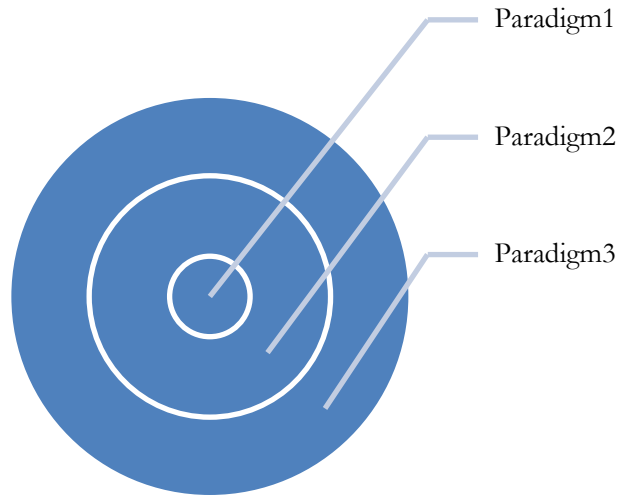
Source: our elaboration

Figure 5 – Kuhn’s view of knowledge change



Source: our elaboration

Figure 6 – Shifting of paradigm in Kuhn



Source: our elaboration

Figure 7 – Lakatos' view of knowledge change

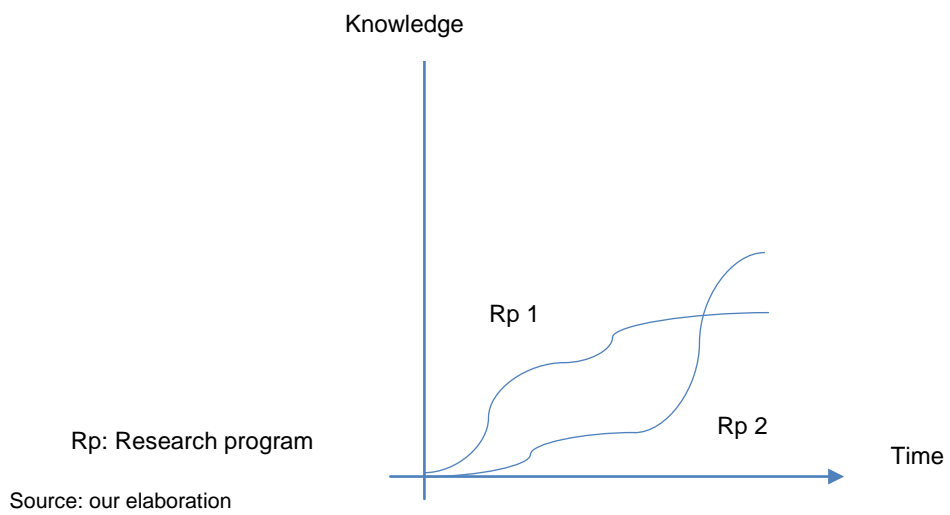
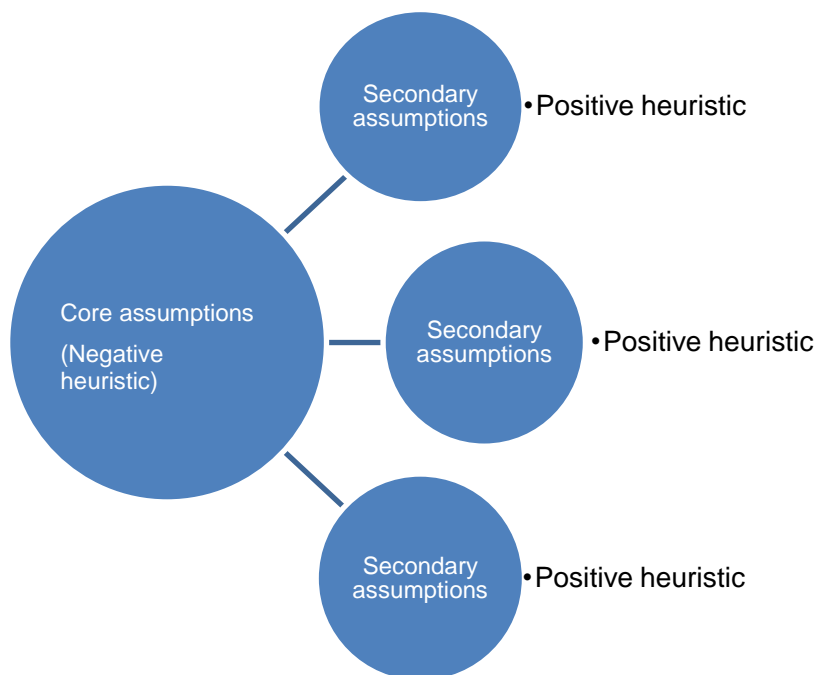


Figure 8 – Heuristic and research programs in Lakatos



Source: our elaboration

3.3 Definition of enterprises and other notions

Traditionally, part of the literature defines the “informal sector” as the set of “informal” activities conducted by informal-unregistered firms; on the other hands, other authors prefer to use the term “informal economy”, referring to the set of employment in the “informal sector”, and “informal employment” in the “formal sector”. Besides the differences between the two positions, the common mistake of both approaches is that they maintain the dualist vision respectively referring to “formal-informal” sector, and “formal-informal” economy (or “formal” “informal” employment). Moreover both the mainstreams approach in an ethical perspective the phenomena, using categories such as “good” or “bad”, “positive” and “negative” (for instance “informal economy” as fiscal evasion, or “informal employment” as lack of social protection), which attain rather to the sphere of the moral than to the sociologic and economic analysis. Finally, both the approaches tend to put on an evolutionist line, the activities characterized by a different degree of formality; that is referable also to the “continuum approach” that explicitly talk about a set of activities characterized by different formality “degrees”. In order to overcome the dichotomist, ethical and evolutionist vocations of the above-mentioned approaches, we consider more appropriate to talk about “borderland economy”.

Generally, the literature as well as policymakers adopt and accept the *legalist* notion of “informal firms” as those enterprises not recorded in the Commercial Chamber or in the municipalities, or not provided of a permission for the exercise of their economic businesses. However, the adoption of such a definition may represent a problem in countries such as oPT and Egypt, where the current politic context makes difficult the registration of “informal” activities, and the “formal” institutions are weak or sometimes very absent.

Nevertheless, the registration of a firm is not the only indicator to determine whether a firm is “formal” or “informal”, since for instance the enterprise may not have any bank account for the economic transactions, or may not have any official balance sheet where recording the transactions. Therefore, we do not adopt the *legalist* notion of “informal firms”, as unregistered firms. Consequentially, our definition of “informal enterprises” relies on three different indicators trying to capture the “informality lines”: the existence of an official budget, the existence of a bank account, and the registration of the enterprise. The different combinations of the three indicators identify three different categories of firms: “informal firms”, “borderland firms”, and “formal firms”.

For empirical purposes, we define “**formal firms**” as those firms registered, having a bank account in the name of the enterprise, and having official balance sheets to show to the public authorities. Conversely, “**informal firms**” are those enterprises not registered, not having official balance sheets, and not having a bank account. Finally, we define “**borderland firms**” as those firms having traits of both formality and informality; thus, those firms presenting the remaining different combinations of the “formality lines”.

Methodologically the adoption of three indicators to determine the “informality lines”, implies a shifting of terminology from the notion of “informal firms” to the notion of “borderland firms-agencies”, since the main criterion used for the identification of the firms is the exclusion from policies and development programs, and from credit line and bank loans. Moreover, as already mentioned, the starting point of the study is the space of interaction and integration (“borderland”) of those enterprises operating without support of local and national institutions, and not benefitting from the “official” credit channels. In these sense those agencies are “isolated” from policies and institutions, and not from the real economic market where they daily operate; and they are “invisible” to the eyes of policymakers and International cooperation agencies, but visible to the eyes of many “formal” and big firms, and import/export companies with whom they interact, and trade. For these reasons, we use the terms “borderland firms” and “borderlands agencies” referring to firms and agencies operating in the unexplored, unknown, and too often forgotten social and economic reality/context. More important, we decided to adopt such indicators assuming the **operative** perspective of banks, microcredit institutions and International cooperation projects. In fact, the three indicators are very often adopted as criteria of eligibility for loans and joining programs.

A further clarification concerning the terminology regards the need to overpassing any evolutionist temptation, avoiding the systematic classification of the different kinds of activities among a “formality hierarchy” representing the set of activities with a different “degree” of formality. The feature of the evolutionist approach regards the different approaches considered in the paper, and it is manifest in the dualist models, while is latent in the “continuum approach”. In fact, according to this approach, the economic system can be considered as a range of different activities Chen (2005: 2) suggesting the idea of the existence of economic activities with different “formality degrees”, and therefore the presence of an underpinning evolutionist classification from the completely “informal” to the completely “formal”. We avoid the term “formality degrees” (and consequentially any evolutionist classification),

embracing the notion of “formality lines”, because the former implicitly refers to a situation where all the economic activities stay in an evolutionistic line, where total “informal” and total “formal” respectively represent the first and the last stage. A second reason why we use the term “formality lines”, is that the objective of our survey is to “draw” a profile of micro-small and medium enterprises (MSMEs) in Egypt and oPT; thus the term lines seems to be ideal to describe our scope.

Chapter 4 Empirical analysis

As mentioned in the literature review, we can conceive the economic system as a “continuum” of activities characterized by different lines of formality. The intersection between “informal” and “formal” economy represents a “borderland” zone where “formal” and “informal agencies” interact and integrate. We call “borderland economy”, the set of activities involving agencies with different formality lines, interacting, integrating, and operating in a common economic space. Nevertheless, one of the main findings of our research is that there are also other agencies different from the “pure formal” and the “pure informal”; we call such enterprises “borderland firms”. Therefore, the interactions in the “borderland” regard not only “informal” and “formal firms”, but also the so-called “borderland firms”.

The main point of our analysis is that not only “formal” and “informal” interact in a common space that is the “borderland”, but also there are “borderland firms” presenting both traits of formality and informality, moving in such space, and representing the most part of the firms in an economic system. In other words, we found that the most part of the firms are not “formal” nor “informal”, despite analysis, models, and policies focus mainly on “pure formal” and “pure informal”.

We base our definition of “formal” and “informal” on three “formality lines” indicators: registration, bank account in name of the enterprise, and official balance sheet. Therefore, we define “informal enterprises” as the firms unregistered, without bank account, and not provided of an official balance sheet. On the contrary, “formal” firms, are those enterprises registered, provided of both a bank account and an official balance sheet. We define “borderland firms”, the set of enterprises showing the remaining different combinations between formality lines indicators; for instance registered firms without bank account or without official balance sheet.

According to the most diffused legalist notion, “informal enterprises” are those firms not registered, and vice versa, formal firms are those registered. Following this definition, twenty-three enterprises are formal, while nine represent “informal firms”. Nevertheless, the analysis adopts another definition of formal and “informal firms”, based on three main indicators of “formality lines”. Combining the different indicators, leads to a completely different picture: most of analyzed firms are the so-called “borderland firms”: six enterprises are “formal”, six “informal”, and twenty “borderland”.

The two countries considered present a different landscape, since in oPT we found three “informal firms”, seven “borderland enterprises”, and six “formal firms”; in Egypt thirteen enterprises are “borderland firms”, and three are “informal firms”. Thus, in Egypt we did not find any firm corresponding to our definition of “formal enterprise”. This is due to the amount of the considered enterprises, and to the technic adopted during the collection (snowball sampling). Nevertheless, this is also due to the particular situation in Egypt after the revolution: in fact, there are no enterprises in the empiric test provided of an official balance sheet to show to the authority, and this may link to the collapse of the regime, and the process of building of the new Republic. In oPT, the importance of Official Development Assistance, and the presence

of a large number of microcredit programs and credit line projects, have pushed many enterprises to provide of an official balance sheet.

Before to move to the analysis of the empiric test, the next section consists in a brief policy analysis in both Egypt and oPT.

4.1 Policy analysis

The main texts regarding Egypt are characterized by a dichotomist approach, and the proposed policies and strategies all tend to seek the formalization of informal activities as a crucial strategic goal. Nevertheless Egyptian policies in the last twenty years before the “revolution” focused mainly on supporting big and more productive firms excluding MSMEs from the development and growth strategies, has led to a *‘system of crony capitalism that favored large and established enterprises’* (Ghanem 2013: 1). Such policies penalizing MSMEs and young entrepreneurs, have favored the increasing of the perception that the system was unfair and lacking, consequentially increasing the demand for social justice. Many authors (El Mahdi 2002: 1-33, El-Fattah 2012: 1-27) agree on a dichotomist vision, describing “informal economy” and “informal firms” as lacking in human capital, low productive due to the lower profitability rates, and unfairly competing with the more productive “formal” large firms. Informal employment is also described only in a negative way as un-dignified work lacking of social protection. Moreover, they suggest for a formalization of the informal activities through the creation of incentives for the formalization and “streamlining” of the bureaucratic machine. We can find a partially different position in a study of Rawaa Harati (2013: 2-17), which attributes less importance to the need for fiscal reform and reform of the public administration. Harati (2013: 7-8) identifies two types of entry cost preventing “informal enterprises” from accessing the “formal” credit market: fiscal costs relating to registration and formalization processes, and social costs, such as social stigmatization, preventing “informal agencies” from accessing “formal” markets (including the credit market). Harati’s contribution lies in the assertion, albeit indirect, of the existence of a socio-political problem for “informal agencies”: namely the non-participation in political life and in decision-making processes; and in the complete negligence of international cooperation agencies, who do not contact “informal agencies” when identifying, and implementing development policies and strategies (STEM-VCR 2014: 30). Nevertheless, Harati (2013) continues to consider the formalization of “informal enterprises” as the main solution for the involvement of “informal agencies”.

Despite the limitations of the literature and the policies, there is an increasing awareness that “informal economy” plays a crucial role in the Egyptian economy. Such a tendency led to the ECES (Egyptian Center for Economic Studies) to call a conference in March 2012 stressing the importance of the “informal sector”. Nevertheless, the conference gives great attention to the recent trends from 2004, arguing that the raise in “informal sector” is negatively correlated to the Growth of GDP; in other words, the “Informal economy’s” contribution to GDP and the number of workers employed in “informal activities” tend to grow in periods of recession or crisis (STEM-VCR 2014: 29). The limitation of this analysis is once again its dichotomous approach. The ECES invites the Government to implement reforms to

encourage the formalization of enterprises that are “traditionally informal” (i.e. those enterprises that were “informal” even before the economic crisis and Arab Spring) and to limit the process of “informalization” of formal enterprises, which in periods of recession and crisis tend to become “informal”. The suggested solution is that of creating incentives for the registration of enterprises.

Concerning policies and literature on the “informal sector” in Palestine, they are much more recent due to the geo-political context in which enterprises are forced to operate. The main organization that studies the “informal sector” in oPT is the “Palestine Economic Policy Research Institute – MAS”, which has conducted some recent researches to define the limitations preventing “informal agencies” from gaining access to “formal” markets and credit systems. MAS (Malki et al. 2004, MAS 2013) describing “informal economy”, and outlining the characteristics of “informal firms”, assumes a “continuum” perspective; nevertheless it ascribes a crucial role to the “informal economy” in reducing poverty and generating revenue, and the importance of “informal” food production which, thanks to enterprises’ local roots and the competitive prices of products, manages to satisfy internal demand in this sector (STEM-VCR 2014: 30-31). MAS (Malki et al. 2004) stresses also the lack of technical skills and of a long-term entrepreneurial mentality in the region, stressing on the other hand the importance of the “informal sector” in the difficult political-institutional context. Nevertheless, the policies suggested, and the proposed solutions, are again based on the formalization of “informal employment”, mainly through the instruments of technical assistance and fiscal reform, as well as through a reform of the legislative framework. Another reference study is the “Palestine Country Report: The Global Entrepreneurship Monitor-GEM 2012” (MAS 2013: 1-37). This document devotes a lot of space to defining the characteristics of Palestinian micro-enterprises and small and medium enterprises. According to the document, business initiatives in oPT appear to be blocked by a number of factors, the most relevant of which is undoubtedly the political situation of the region. Other factors impeding entrepreneurship include: a high rate of business discontinuity, a relatively low level of entrepreneurship and rising needs expressed by entrepreneurs (who want to be more competitive in national and international markets). The most interesting aspect is the fact that when measuring business activity the level of employment produced and “informal” investments undertaken are also considered. According to the study, the percentage of investors among the adult population that have financed the start-up of a business activity over the past three years is 2.6%. The average informal investment among the adult population (18-64 years of age) is an estimated 5,814 USA Dollars (USD), and all informal investments in oPT total 317.68 million USD, 3.18% of Palestinian GDP (MAS 2013: 39-47). Investments are usually aimed at financing the activities of family members and relatives, followed by friends and neighbors. Over and beyond the useful information provided, the report appears to want to demonstrate that although informal investments are an important element for business activity in oPT, they can be a double-edged sword, being unable to ensure high growth rates and profits in the long run. In this case, a dichotomous vision emerges more clearly from the recommendations and proposed strategies and policies. Nevertheless, the report confirms the results of our survey, making them stronger.

4.2 Data collection methodology

When research wants to study “informal economy”, it has to face a problem of lack of data. In order to overpass such a problem, the researcher cannot use secondary data from official statistical sources, and it is therefore necessary to use primary data, and a consequential data collection on field. In fact, traditionally “informal agencies” (but also “borderland agencies”) tend to escape statistical surveys and are difficult to track down; therefore, official statistics are approximate, and focus mostly on the estimation of “informal economy” and “informal employment”, based on different criteria.

Referring to the two countries analyzed, there is a lack of qualitative statistics about the characteristic of “informal” agencies. The scarcity of qualitative surveys on the profile of “informal” firms in those countries shows that statisticians and policymakers tend to assume that such firms have certain pre-determined characteristics already abundantly described and analyzed by the academic literature; however it is necessary to empirically inspect country by country (and case by case) if such assumptions are valid. In this sense, we conducted a qualitative survey that shows that such intrinsic characteristics do not match with most of the “informal” (and “borderland”) firms in the empirical test.

The feature of the lack of qualitative studies about the characteristics of “informal” firms leads us to mention two main problems and limits. First, we had to search the qualitative characteristics by ourselves in order to check the empirical validity, in the concrete cases of Egypt and Palestine, of the theoretical assumptions about the characteristics of “informal” firms in general; secondly, we could not compare our survey’s data to other study so to make more robust our results. Nevertheless, as mentioned above it is not ambition of this paper to represent the whole private sector in Egypt and Palestine; therefore, the problem of the comparability and strengthen of the results is rather methodological and epistemological than empirical and concrete.

The data collection consists in a survey on both quantitative and qualitative features, so that it will be possible to have a more detailed picture of the enterprises in the considered countries. Furthermore, in order to find the characteristics of the “informal enterprises” in the Countries, we use descriptive statistics.

During the collection of data, conducted in the field, on the “informal” and “borderland enterprises” we had to face a problem of lack of data, lists, and sources concerning the firms to interview, since track down “informal” enterprises is difficult due to their nature of escaping the statistics collection and Governmental statistic institutes/agencies/offices.

The problem of lack of data, and the fact that the enterprises object of the analysis belong to a hidden population, has led us to choose a technic called “snowball sampling”. Such technic is a strategy of collection of data used by sociologists and statisticians exactly in situation where there is a hidden population that otherwise would not possible to know, and when there are no lists or sources to identify and locate the population analyzed. The snowball sampling is a non-probability sampling technic consisting in the selection of the following subject by the previous participant to the survey; in other words,

the subject (in our case the firm) points the further participant, so to allow the increasing of the sample that however would not be possible since the analyzed population is hidden and unknown.

Box 2: Sampling the “borderland”

The snowball sampling can be very helpful; nevertheless, it has many disadvantages. First, there is a problem of biasness since the first participant of the interview may have a strong impact on the selection of the sample, as well as the other participants to the survey. Another feature is the fact that such technic contradict the main assumption of the random sampling, therefore, we cannot use the term “random sample group”. Finally, it is not possible to know the total population, and it is not possible to know the capacity of the empiric test to represent the population studied, and its adherence to the reality described.

Besides advantages and disadvantages of the snowball sampling, there is a general agreement on the fact that the observer can mitigate the above-mentioned problems through some expedient. For instance, an accurate selection of the first participants can reduce the biasness due to the own-selection problem; in fact, the subjects may point other subjects having similar characteristics. Therefore, the sample may not faithfully represent the population object of study. The researcher could appropriately make a stratification and create clusters to better identify the first subjects interviewed in the survey, and obtain a representative sample. Another expedient may consists in finding target group with certain characteristics (e.g. in the case of this study, the business’ sector, the access to credit, or the geographical location) asking to the participants to point determined subjects having such characteristics.

4.3 “Formality” indicators

After analyzing the correlations between the different “formality” indicators, the paper moves to study more in depth such indicators, and particularly the distribution of the considered firms among them. Table 3 summarizes data per country and aggregated, concerning the distribution of the enterprises among the “formality” indicators.

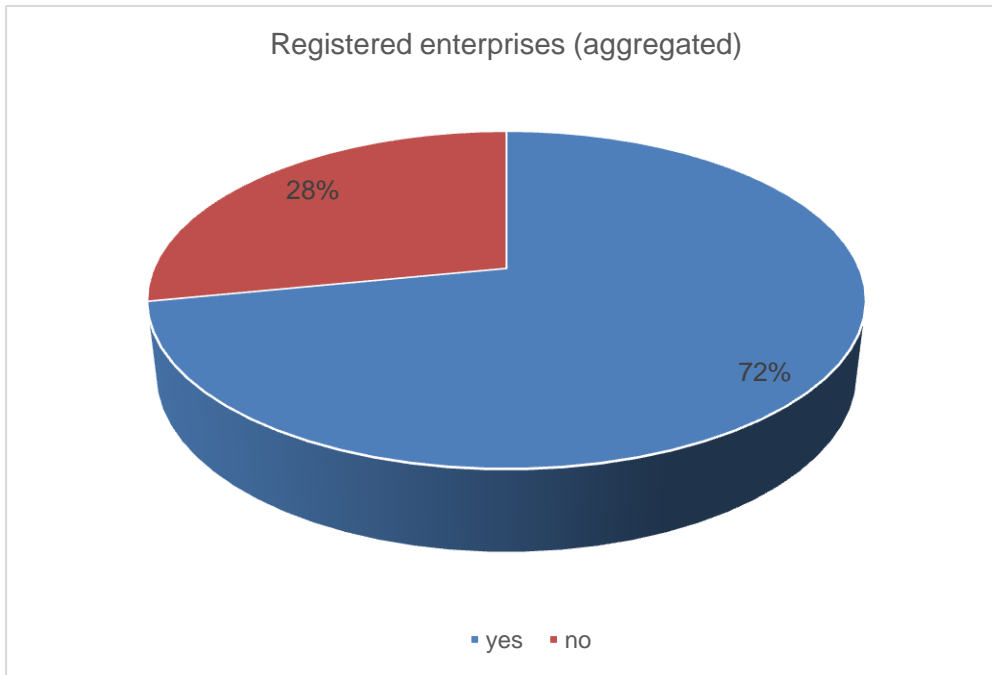
Table 3 – “Formality” indicators

	Registration		Bank Account		Official Balance Sheet	
	Yes	no	yes	no	yes	no
Egypt	10	6	7	9	0	16
OPT	13	3	8	8	9	7
Total	23	9	15	17	9	23

Source: our elaboration

The first variable chosen as indicator is the registration of the enterprises to the Chamber of Commerce or to other institution/agencies. The main reason why we have decided to use such indicator is that very often, “informal firms” are defined as those enterprises not registered. In contrast, our survey shows that it is possible that a firm is registered, but may not have any bank account or any official balance sheet. Therefore, it is quite important to take in consideration simultaneously more than one indicator, and leaving the mono-dimensional notion of “informality” as a synonymous with absence of registration.

Figure 9 - Number of registered enterprises



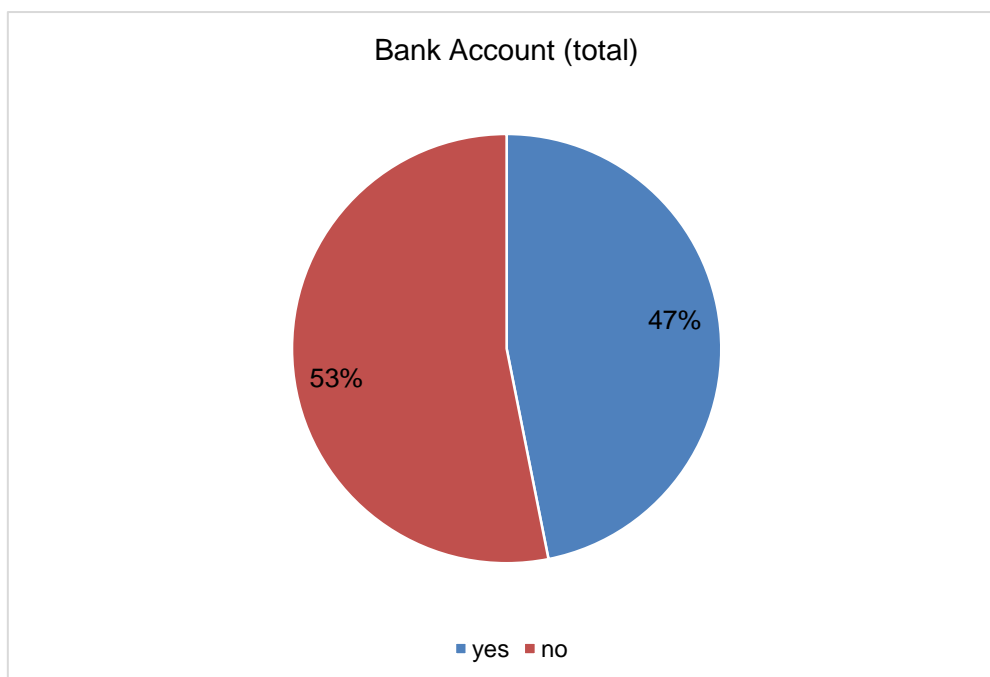
Source: our elaboration

The table below contains the total number of firms registered and unregistered, per country, and aggregated. The 72% of the analyzed enterprises are registered, and in both the countries, they represent more than the sixty percent of the total. Thus, the distribution of the numbers of registered firms among countries is balanced, and in both countries, they represent the majority of the enterprises considered. However, it is necessary to be very careful in the interpretation of this statistics, and do not jump to approximate conclusions, since most of the registered enterprises analyzed shows traits of informality, moving and developing through “borderland“ dynamics, and very often through unperceived or undervalued economic processes.

The second variable selected as “formality indicator” is the presence of a Bank Account. The reason why we decided to use such indicator is due to the assumption that identifying a firm as “formal” only because it is registered is a paradox, particularly if it is not provided of a bank account in name of the enterprises, to use for the transactions and for the payments.

Unlikely to the registration, the distribution of firms having a bank account is more balanced, since the fifty-three percent of the considered enterprises represents firms having a bank account. Moreover, also within the country there is a balance in the distribution; in fact, in oPT eight enterprises have a bank account, and eight do not, and in Egypt the ratio is respectively of nine to seven.

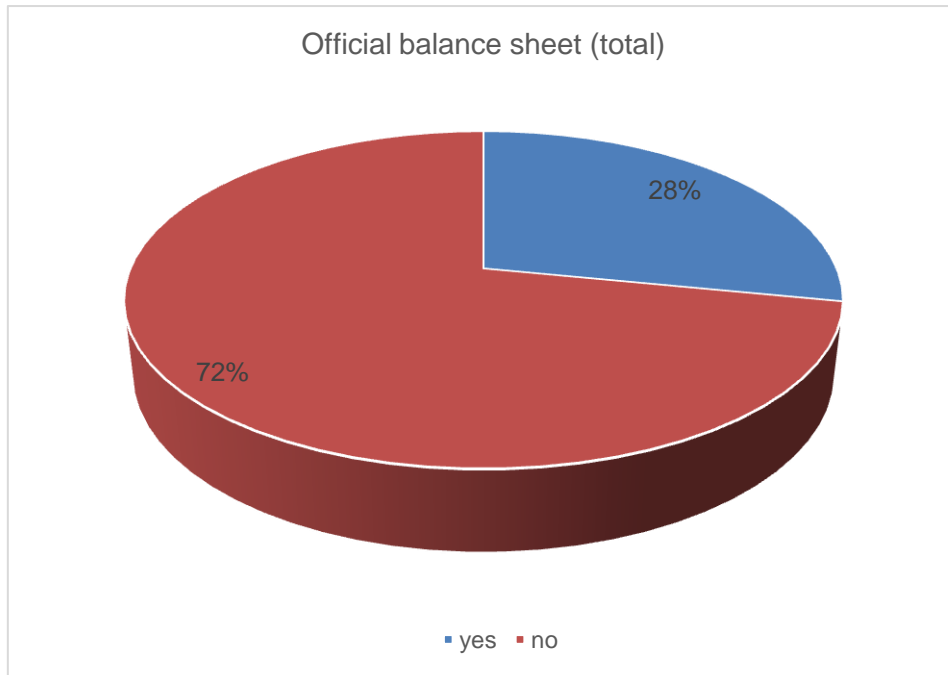
Figure 10 – Bank Account



Source: our elaboration

Finally, we decided to consider also the presence of an official balance sheet, since it may be controversial conceive an enterprise as formal only because registered, even if it does not have any official annual balance sheet to show to the Department of Revenue, to Public Authorities, to Governmental Institutions, or even to Banks. In fact, the registration of the enterprise is a criterion that do not explain whether such firms move through formal or informal paths; moreover the presence of an official balance sheet can be an indicator useful to “roughly observe” whether economic and employment relations tend to be “formal” or “informal”. It is necessary to stress that the presence of an official balance sheets is not exhaustive criterion, because it is possible that one enterprise have other balance sheets besides the official one, or that it reports only part of the activities in the balance sheet. Nevertheless, despite the limits, the presence of an official balance sheet represent an important criteria for the definition of “formal”, “informal”, and “borderland firms”.

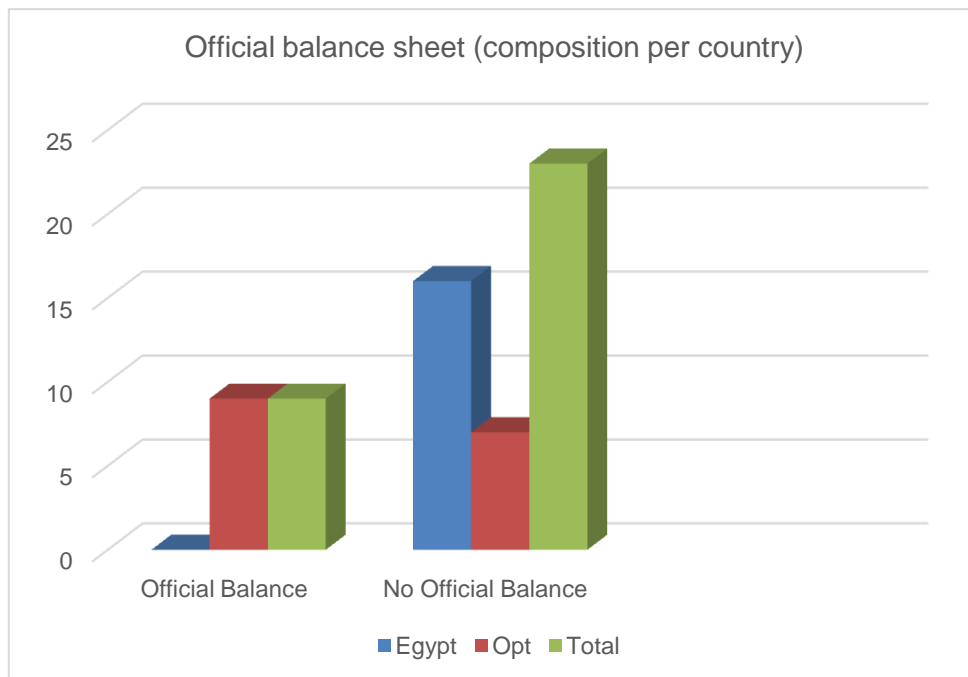
Figure 11 - Official balance sheet



Source: our elaboration

Seventy-four percent of the firms declares to not have an official balance sheet. However, such statistic has been altered by the fact that there are no Egyptian firms having an official balance sheet. Observing only the Palestinian enterprises considered, gives a completely different picture: fifty-six percent of the firms has an official balance sheet; thus, enterprises having an official balance sheet represent the majority of the Palestinian firms analyzed.

Figure 12 - Official Balance sheet



Source: our elaboration

In conclusion, the data show that the ratio between “formal” and “informal” firms changes drastically depending on the indicator that we take in

consideration. In fact, such ratio is consistently in favor of “formal” firms, if we take in consideration the registration, but becomes balanced considering the criteria of the existence of a bank account, and clearly in favor of “informal” firms including also the presence of an official balance sheet as indicator. Moreover, considering any of the three indicators without considering the others can lead to under-estimate or over-estimate the number of “formal” and “informal” firms. More important, it gives a flat and static black and white picture, that is not faithful to the entrepreneurial context analyzed, and that do not give importance to the other colors different from black and white, representing the different combination of the indicators among the considered firms.

Appendix C contains regression maps concerning the correlation between the three different indicators of formality lines. In Palestine, we observe a significant correlation between presence of an official balance sheet, registration, and presence of a Bank account in name of the enterprise; furthermore, there is a correlation between presence of a bank account, registration, and presence of official balance sheet. In Egypt, we did not find any significant correlation. Nevertheless, the amount of firms considered does not allow to run a regression, and to obtain robust results. Therefore, we did not develop any regression analysis, but focuses only on the descriptive statistics obtained from the empirical test.

The most important reason why decided to combine the different indicators is that we put aside the dichotomy and contraposition between “formal” and “informal” in favor of a new definition of “borderland”. Particularly, the main implication of this methodological shift is that from the combinations of indicators sparkle groups of firms showing traits of both “formality” and “informality”. As mentioned above, we talk about “informality lines”, not about “informality degrees”. Second, we try to show that assuming that registered enterprises match with certain predetermined characteristics can lead to wrong and superficial conclusions. These reasons led us to decide to combine the different indicators, and identify six groups within the considered enterprises, given by the different combinations of indicators. The different combinations of the three indicators give eight clusters; however, we find that the analyzed firms fit only in six of those groups. The identified clusters are:

- Registered, bank account, official balance sheet;
- Registered, bank account, no official balance sheet;
- Registered, no bank account, no official balance sheet;
- Registered, no bank account, official balance sheet;
- Unregistered, no bank account, no official balance sheet;
- Unregistered, no bank account, official balance sheet;
- Unregistered, bank account official balance sheet;
- Unregistered, bank account, no official balance sheet.

It is important to underline that object of the paper is to focus on similarities between enterprises neither focusing on dissimilarities between “formal” and “informal” firms, nor concentrating on the heterogeneity within “informal enterprises” (as the “continuum” approach tends to do). That means that the analysis will not focus on the borderlines, or differences between the subcategories identified through the combination of “formality” indicators. What the analysis try to prove here is that we cannot link predetermined characteristics to both registered and unregistered enterprises, linking the latter

to the characteristic of being unorganized. Moreover, we find that “formal”, “informal”, and “borderland firms” show similar characteristics.

We decided to synthetize the clusters in three groups of firms: “informal”, “borderland”, and “formal” (Table 4).

Table 4 - Groups per "formality lines"

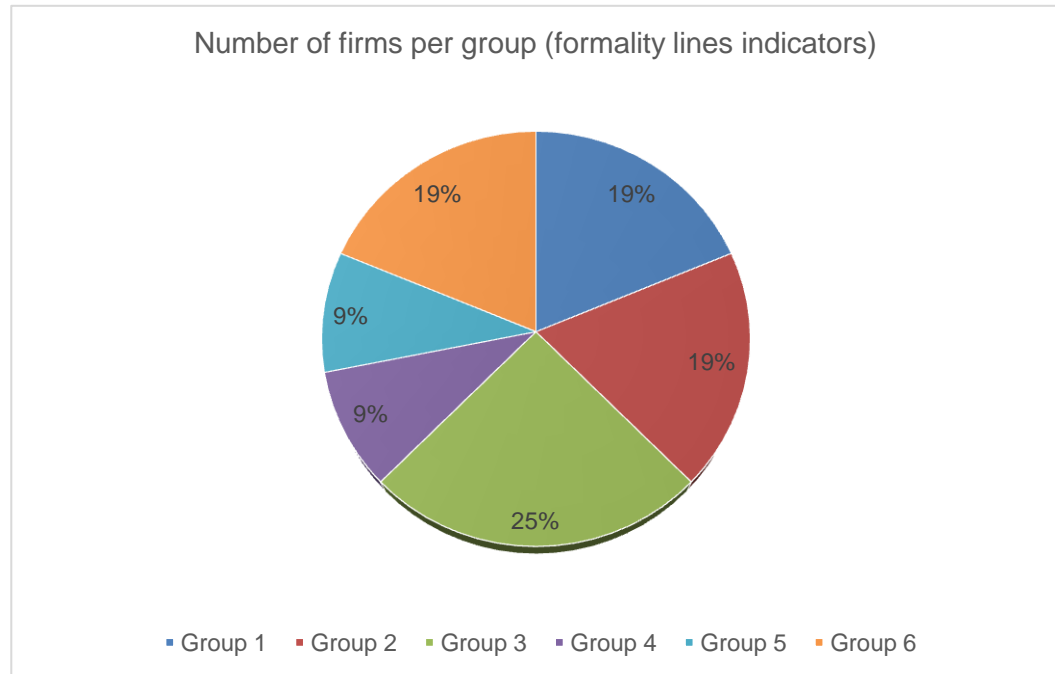
Group	Lines	EGYPT		oPT		TOTAL	
		Number of firms	Percentage	Number of firms	Percentage	Number of firms	Percentage
Group 1	-Registered, bank account, official balance sheet;	0	0%	6	37.5%	6	18.75%
Group 2	-Registered, bank account, no official balance sheet;	4	25%	2	12.5%	6	18.75%
Group 3	-Registered, no bank account, no official balance sheet;	6	37.5%	2	12.5%	8	25%
Group 4	-Registered, no bank account, official balance sheet;	0	0%	3	18.75%	3	9.375%
Group 5	-Unregistered, bank account, no official balance sheet.	3	18.75%	0	0%	3	9.375%
Group 6	-Unregistered, no bank account, no official balance sheet;	3	18.75%	3	18.75%	6	18.75%
Group 7	-Unregistered, no bank account, official balance sheet;	0	0%	0	0%	0	0%
Group 8	-Unregistered, bank account official balance sheet;	0	0%	0	0%	0	0%

Source: our elaboration

There are no firms belonging to Group 7 and Group 8, constituting respectively unregistered enterprises without bank account, but provided of an official balance sheet, and unregistered enterprises with bank account and official balance sheet. Thus, we can identify among the big group of the unregistered firms, just two combinations of indicators, which are the unregistered enterprises without bank account and official balance sheet, and

unregistered enterprises with bank account and without an official balance sheet.

Figure 13 - Number of firms per group

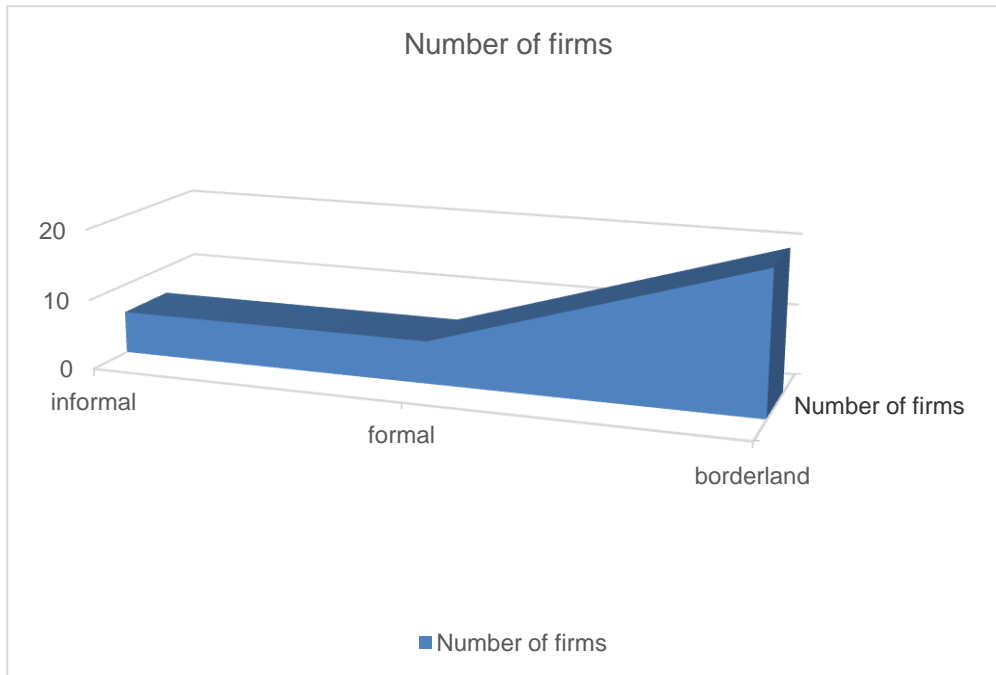


Source: our elaboration

From the combination of different indicators of formality results six clusters fitting the considered enterprises. More important, we cannot separate clearly “formal” and “informal firms”, and there is no linearity between such indicators. In other words, we cannot automatically assume that registered enterprises have a bank account and an official balance sheet, and vice versa, that unregistered enterprises do not have neither a bank account nor an official balance sheet. These results can support the critics moved against the dualist school, and the “continuum” approach, that there is no homogeneity among the “informal firms”. According to those authors, “informal enterprises” are unregistered and unorganized. Our survey show that the analyzed firms do not match with such characteristics, and that the enterprises are characterized by similar development dynamics and similar, management and financing tools. Moreover, such approach does not account the fact that very often “formal” and registered enterprises move among informal channels, and may prefer “informal” institutions. In this perspective, our data show that registered and unregistered enterprises (whether they are “formal”, “borderland”, or “informal firms”) have to face similar issues and barriers to access the market, have similar characteristics, and move through similar economic pattern.

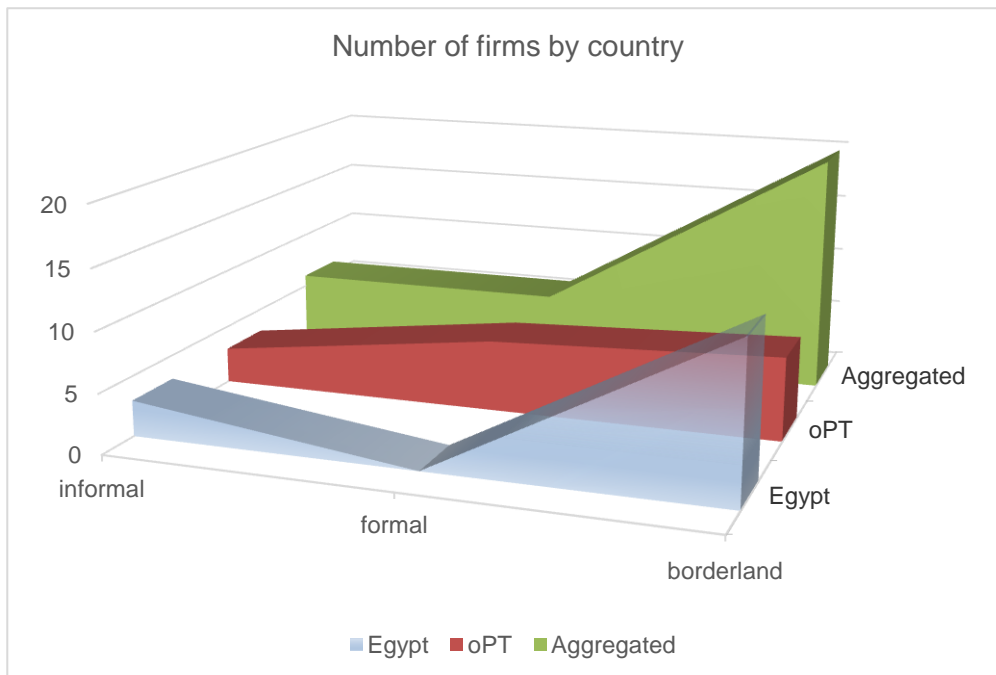
At this point, we decided to create three main groups of firms according to the combinations between formality lines. Such groups are “informal firms”, “borderland firms”, and “formal firms”. Despite analysis, models and policies focus on “formal” and “informal firms”, we found that most of the firms operating in the “borderland” are the so called “borderland firms”. More generally, they represent the main part of an economic system. The graphs below show this tendency.

Figure 14 – Number of firms



Source: our elaboration

Figure 15 - Composition by country



Source: our elaboration

From the graphs, we can also see that the presence of an official balance sheet is determinant to separate “formal” and “informal” from the “borderlands”. Is not a case that most of the policies focusing on the borderlines push for the formalization of the enterprises in order to register the transactions usually reported in the official balance sheet. The result is that most of the firms has to choice between showing the official balance sheet to the authority or not.

The combination of the different “formality lines” indicators shows the existence of a new category of firms that are the “borderland firms”.

Therefore, at an operative level, our analysis left the dichotomy “formal-informal”, to embrace a “three-logic” analysis adopting the three different categories; we decide to focus on similarities and differences between the three groups of firms.

As mentioned above, following our approach, the distinction between “formal” and “informal” lacks of analytical power; moreover, we found another category, that need to be incorporated in the statistics, and in the econometrics, since they base models and analysis on the “formal-informal” dichotomy. Besides this, a wide production has focused on the differences between “formal” and “informal” firms, while little space has dedicated to the characteristics and similarities of those firms. The result is the misrecognition of “informal” and “borderland agencies” in their economic, social and politic dimension and the elaboration of policies that cut-off “informal agencies”, and exclude them from the elaboration of development policies and strategies not recognizing them first as right-holders, and as stakeholders.

Despite the small dimension of our empirical test, Subika Farazi (2014: 2-27) has conducted a large survey on more than 2,500 firms in 13 countries of Sub-Saharan African and Latin American countries, which confirms our findings. The main results of the study shows that both “formal” and “informal” firms can have or not a bank account; particularly registered firms are fifty-four percent more likely to have a bank account and unregistered firms in the likelihood to have a bank account(Farazi 2014: 20-21). Besides the difference among registered and unregistered firms, it is clear that there is a huge part of the analyzed enterprises not fitting the category of “pure formal” and “pure informal”.

4.4 Main characteristics

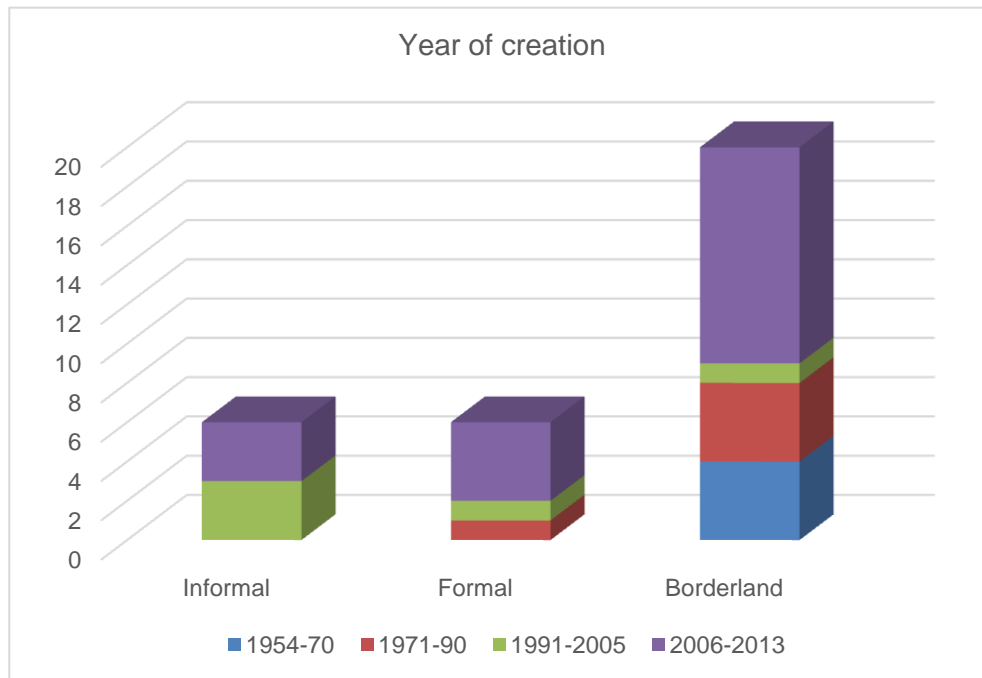
The results of our empiric test show the existence of “fake labels” applied by analysts and policymakers to the not “formal” enterprises. Moreover, we found that most of the considered firms are very dynamic since they launched new products and buy new equipment over the past two years, and since the diffusion of development plans (often unwritten) among the firms. We also found that such firms hire specialized workforce, and base the production on the customers’ demand. Besides characteristics and enterprises’ development dynamics, we investigated also the political inclusion of such firms, and we found that most of them are cut-off from policies and International cooperation projects, and do not access to credit and financial services despite their entrepreneurial dynamicity.

Fake labels

We start the analysis by stressing that one of the assumption very diffused among dualists and legalists is the idea that “informal enterprises” are likely to disappear among the time. Conversely, we found that all the three Egyptian “informal firms” considered created in the period between 1991 and 2005. In Egypt, we found also that the data of creation of the firms do not rely on the “formality lines”; in fact four enterprises founded in the period 1954-1970, four in the period 1971-1990, and four in the period 2006-2013. The situation in oPT is quite different since most analyzed firms have recent life, and started

in the period 2006-2013, no matter the “formality line” of the firm; the two older enterprises are both “formal” and founded respectively in 1971-1990, and 1991-2005. The data suggests that the date of creation of the enterprise in both Palestinian and Egyptian firms of our empiric test does not base on the formality.

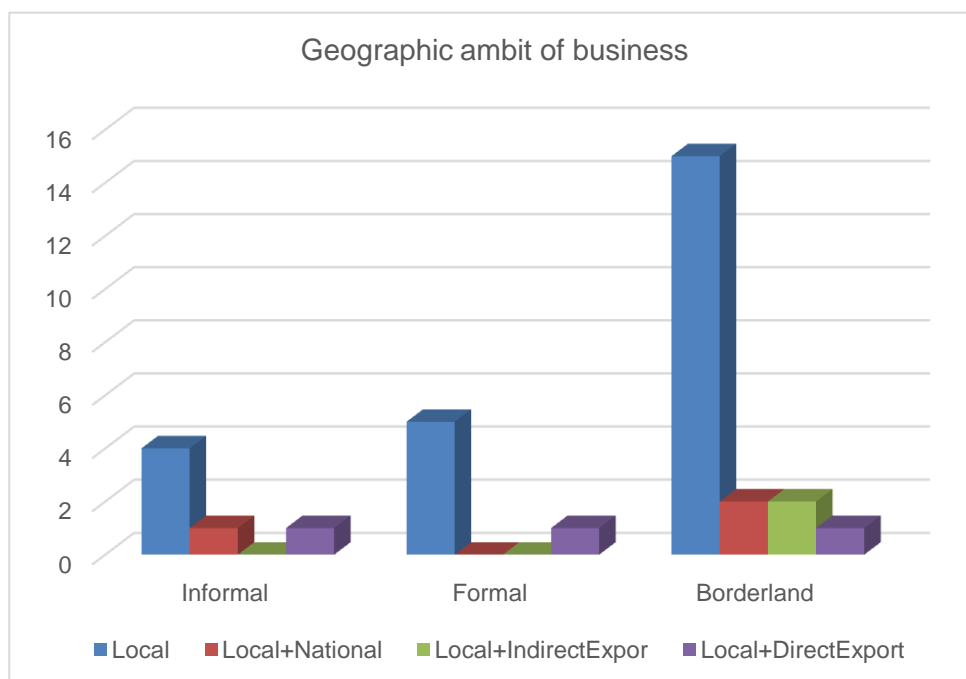
Figure 16 – Year of creation



Source: our elaboration

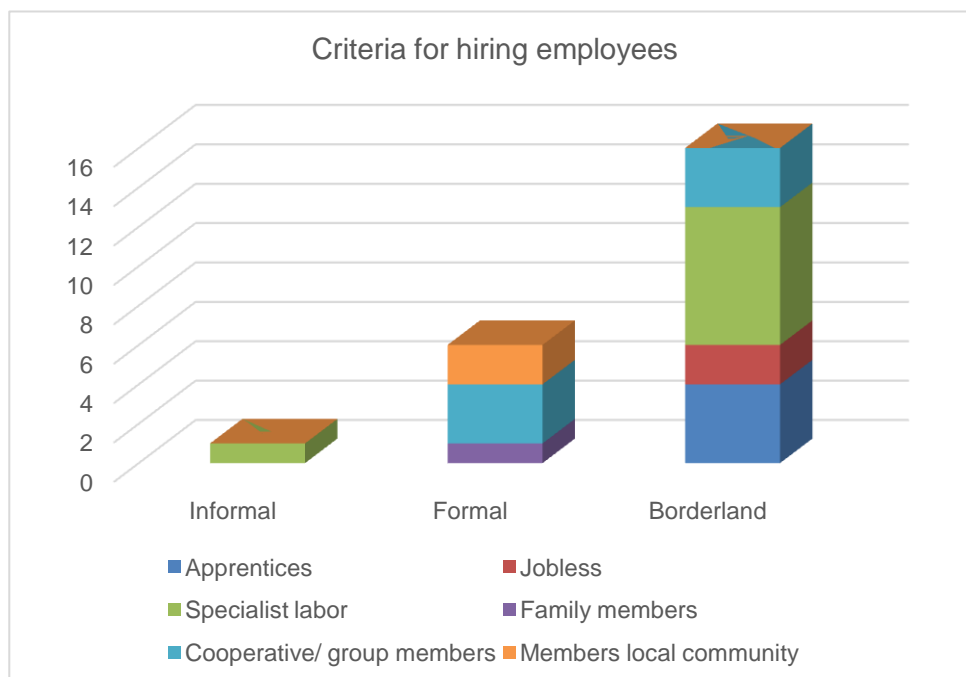
Another interesting finding concerns the enterprises’ geographic ambit of business. Both Egyptian and Palestinian firms tend to prefer the local market. Nevertheless, the most interesting feature is that Egyptian “borderland firms” directly and indirectly export; similarly, in oPT there are one “informal firm”, one “borderland firm” and one “formal” enterprise that direct export the product. Thus, the considered “informal” and “borderland firms” directly or indirectly trade in the export market. The presence on the indirect export market of such firms is in line with the “structuralist” assumption of an “informal sector” interacting with and producing for export “formal” firms. Nevertheless, we the presence of “informal” and “formal” firms on the direct export market suggests that such firms are more integrated in the market and they not play only a marginal role, since they directly export the products.

Figure 17 - Geographic ambit of business



Source: our elaboration

Figure 18 - Criteria for hiring employees



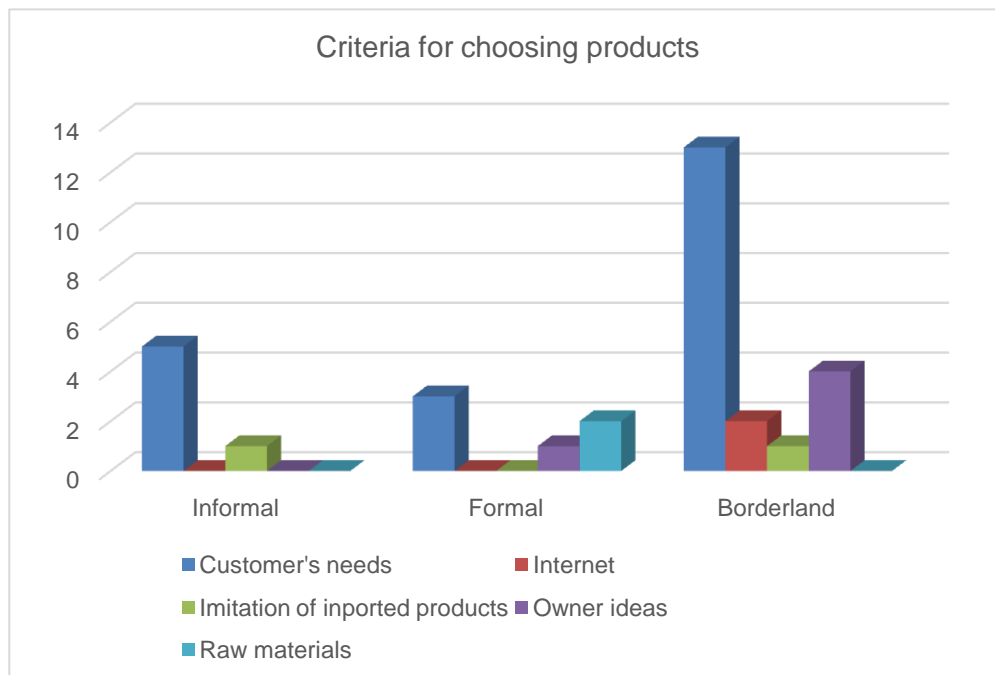
Source: our elaboration

Most of the literature, particularly in the “dichotomist approach family”, conceives “informal economy” as synonymous of household economy and confuse the notions of “informal firms” and household business. Inconsistent with this vision, only one Palestinian “formal” enterprise in our survey declared to choose employees among the family members. More important, most of the firms hire workers based on the skills. Furthermore, only two firms (both Egyptian) choose the workforce among the jobless; meanings that “informal” and “borderland firms” do not play only a role of absorbing the excessing

workforce in the “formal economy”; more important, “informal” and “borderland” firms prefer hiring specialized workforce rather than relatives or unskilled workforce.

Finally, another stereotype not fitting the characteristics of the considered firms is the criteria for choosing the production. In fact, we found that many firms base the production and the choice of products on the clients’ demand, and in some case basing on owners’ ideas, or through internet research. Therefore, we found that the entrepreneurs considered have are very insert in the local market, and are able to obtain information, and move through networks and personal connections.

Figure 19 - Criteria for choosing products



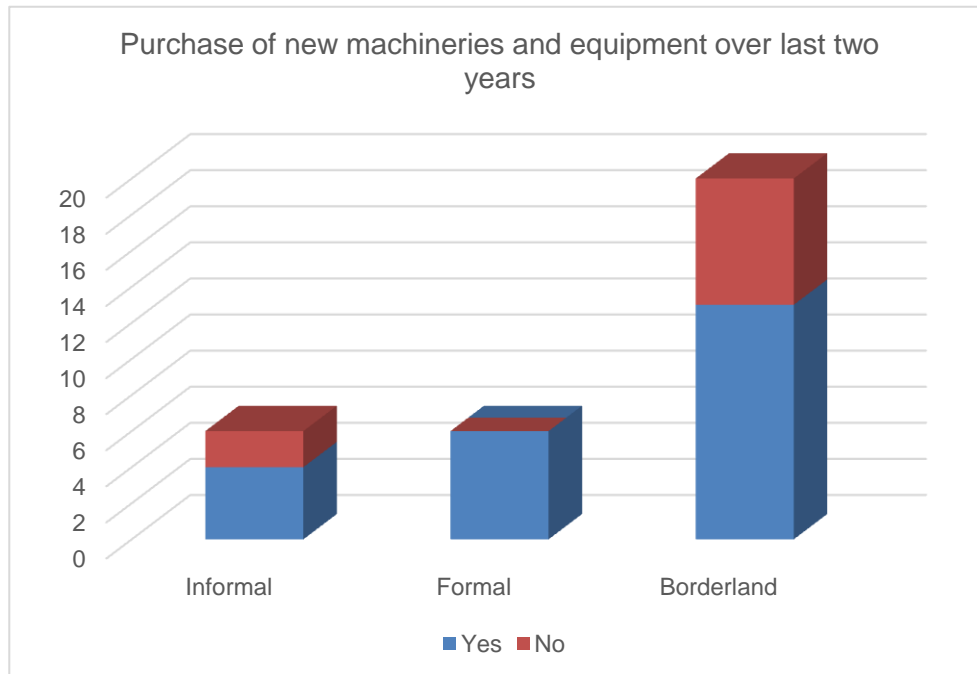
Source: our elaboration

Dynamic enterprises

The empiric test shows that the considered firms in both the countries are extremely dynamic. This finding is quite important, since many authors conceive “informal firms” as uncompetitive, and assume that the entrepreneur does not have an entrepreneurial attitude since they lack of professional skills and human capital. Conversely, most entrepreneurs interviewed showed a strong business attitude, and the analyzed firms are quite dynamic. Our conclusions rely on the fact that most of the firms, no matter the formality lines, have bought new machineries and products and have launch new products over the past two years. Therefore, despite the social and political situation is quite instable in both oPT and Egypt, these firms are investing, contributing to creation of employment and generation of employment as well as innovation and launch of new products. Another interesting indicator is the presence of development plans. Only one enterprise does not have any development plans, while the remaining firms have development plans. Nevertheless eight enterprises, two in Egypt and six in oPT have unwritten development plans; in oPT all the three “informal firms” have unwritten

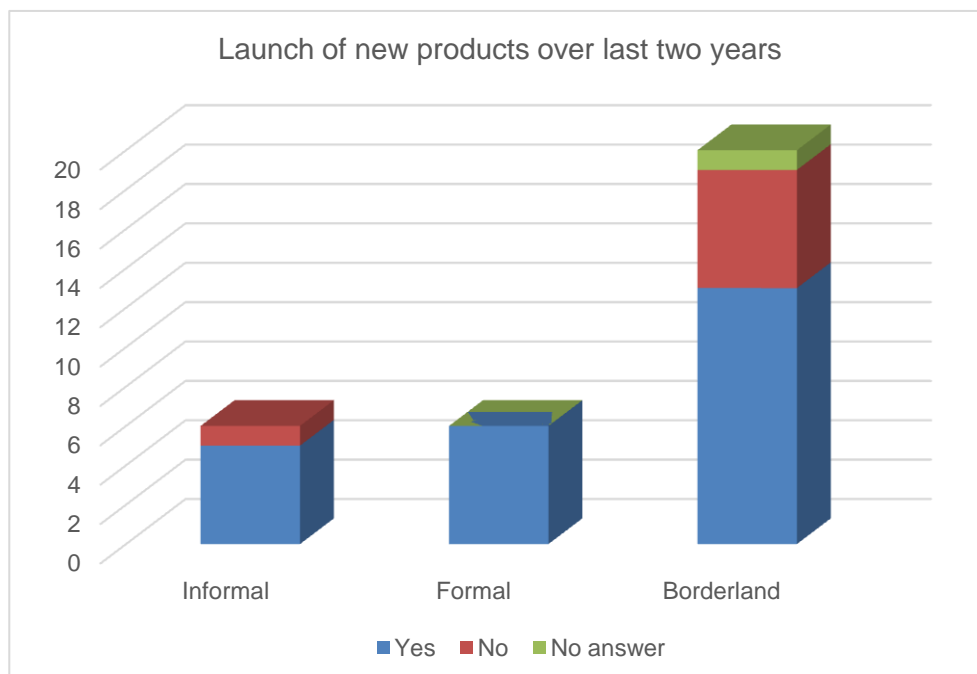
development plans; nonetheless also two “borderland firms” and one “formal firm” have unwritten plans.

Figure 20 - Purchase of new machineries over last two years



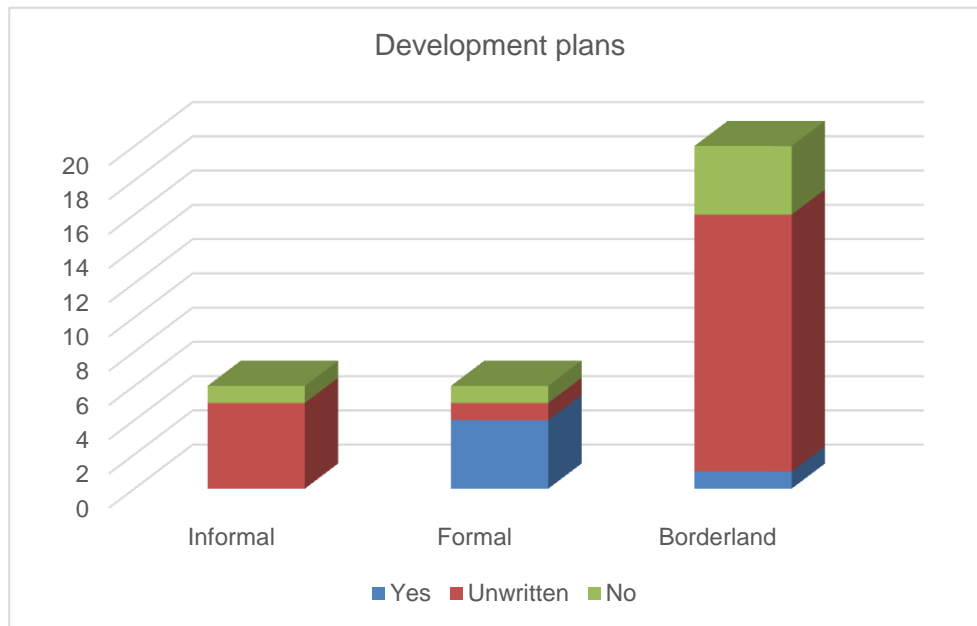
Source: our elaboration

Figure 21 - Launch of new products over past two years



Source: our elaboration

Figure 22 - Development plans

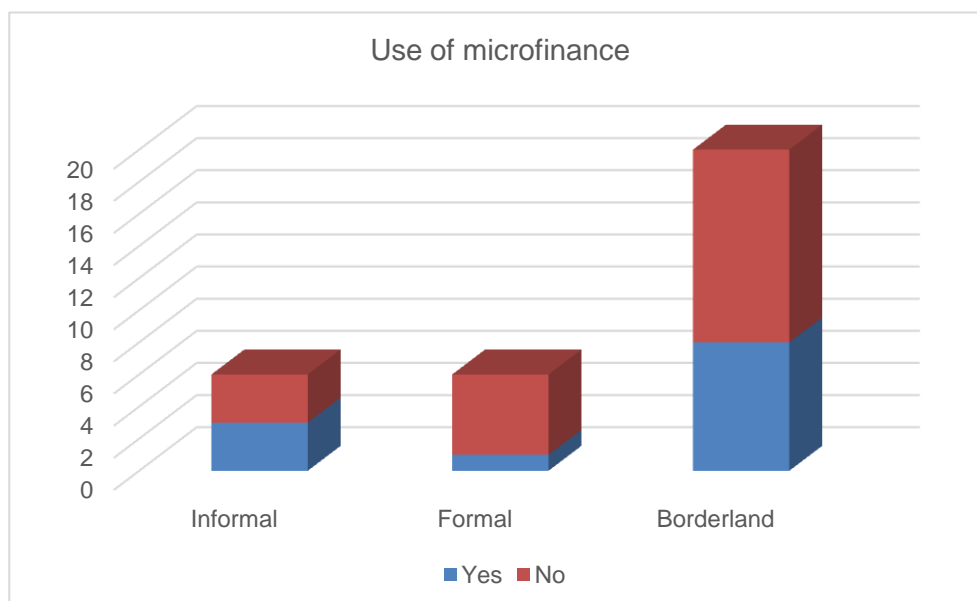


Source: our elaboration

Limited access to credit

Moving to the access to credit, we asked to the firms' owners how they face the start-up costs, and we found that most of them financed the start-up using personal savings, and just a few of them borrowed loans from relatives and friends. Only ten firms obtained a loan from banks or micro-credit institutions. Moreover, we found that most of the considered firms do not have access to micro-finance; nevertheless in oPT seven firms had access to micro-finance: one "formal", two "informal", and four "borderland firms". The lack of access to credit for the considered firms, strength our findings about their dynamicity, despite they move in an adverse political and socio-economic environment.

Figure 23 – Use of microfinance

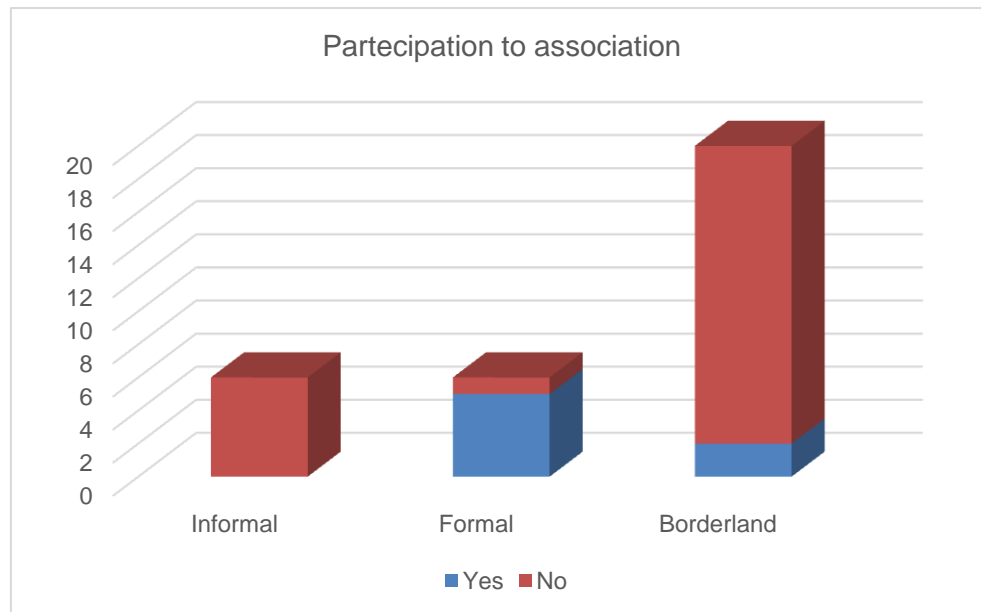


Source: our elaboration

Political exclusion

Finally, we tried to understand whether the considered firms are involved in the political dimensions. Particularly we found that only seven firms participate to association, no one in Egypt; in oPT two “borderland” firms and five “formal” firms join associations. Therefore, we found that mostly ”formal firms” join official associations; conversely, “borderland” and “informal firms” are not recognized or do not want to participate to such organizations.

Figure 24 – Participation to associations

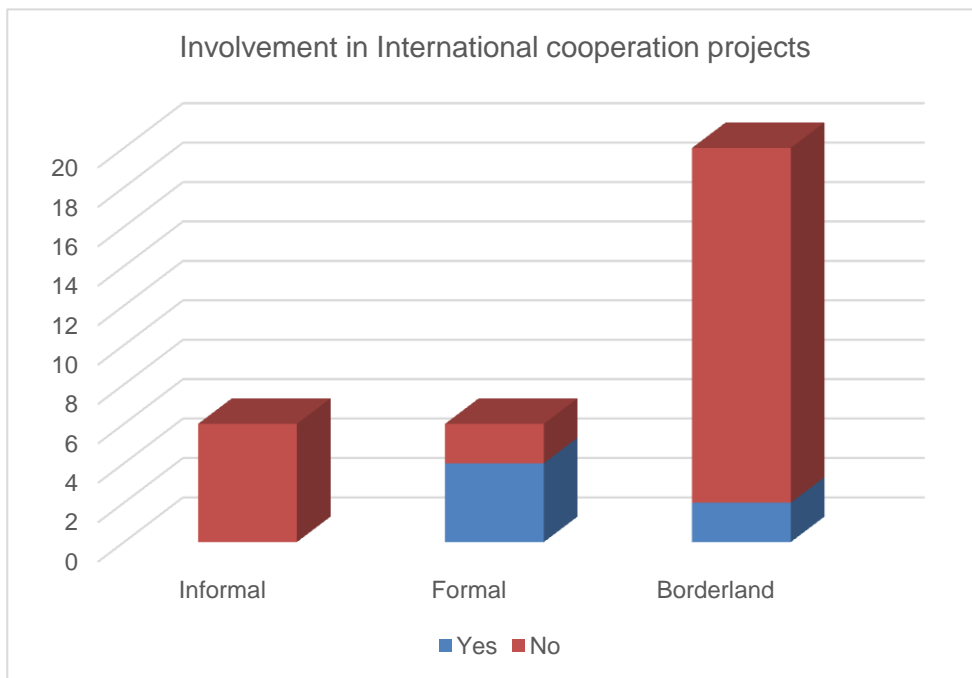


Source: our elaboration

We found that six enterprises get involved in International cooperation projects. Again, no Egyptian firm benefits of International cooperation projects; in oPT two “borderland firms” and four “formal firms” has been involved in International cooperation interventions. Another time, no “informal firms” have been involved in any projects. Finally, we found that only nine firms join activities to support the enterprise: four Egyptian firms, and five Palestinian. Out of the five Palestinian firms, four are “formal”; therefore again the formality seems to be crucial for the involvement in activities promoted by Government and Local authorities.

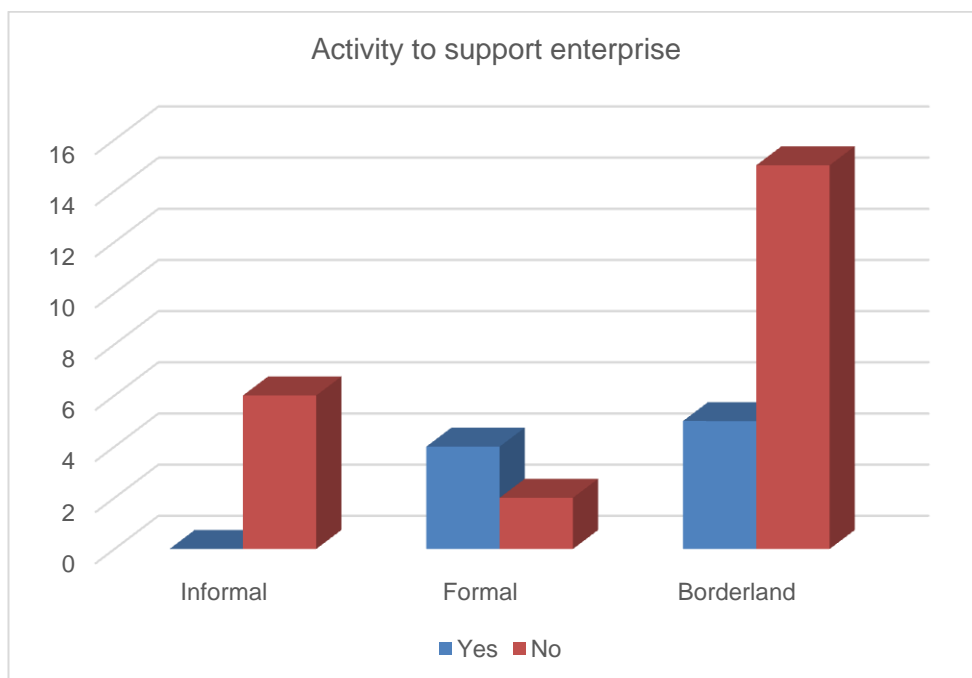
The three considered indicators shows that “informal” and ”borderland agencies” are very often excluded by policies and ignored or forgotten by policymakers and International cooperation agencies.

Figure 25 – Involvement in International cooperation projects



Source: our elaboration

Figure 26 – Involvement in activities supporting the enterprise



Source: our elaboration

Chapter 5 Conclusions and policies

The analysis conducted in for the case study in Egypt and oPT shows the difficulty to analyzing economic actors basing on dichotomist or “continuum” categories. Therefore, our analysis shows the need for adopting a new approach, the “borderland”. The “borderland” approach has a conceptual fecundity for the comprehension of the phenomenon, and consequentially for the implementation of policies. Nevertheless, applying dichotomist or “continuum” categories to the description of economic reality and agencies for the purposes of elaborating development policies and interventions, may lead to implement policies that are likely to have a reduced impact on the reality of interventions, since they are too exclusive and addressed to a few agencies.

5.1 “Informal economy” and regulatory policies

Over and beyond the methodological and epistemological limitations of the dichotomous approach, the decision to lighten the bureaucratic apparatus may bring about paradoxical consequences: employment levels in the public sector would fall, and this would again increase the number of workers in the “informal sector”. The World Bank has recently reached such a similar position, suggesting the reform of the fiscal system and administrative sector as the main solution to the problem of access to credit in Egypt, for “formal” and “informal” enterprises and families. Many authors focused on the relation between legal regulatory system and “Informal economy”, through dichotomist approach diverging in the assumptions but all suggesting raising or lowering the borderlines between “formal” and “informal” through a reform of the regulatory system. The dualists argue that the government interventions in the labor market may lead to rigidity in wage, and in turn to an increasing in “informal” employment. The legalist approach considers the excessive regulation as the main cause of the raise of “informal sector”, and suggest the formalization of property rights for the “informal” workforce as the keystone to convert “informal” assets into real assets (Chen 2005: 9). Opposite to this vision, structuralists generally argue that Governments have played a crucial role for the regulation of the unequal regulations between big “formal” business and subordinated “informal agencies”. Chen (Chen 2005: 9-10) distinguish between three different situations: over-regulation, deregulation, and lack of regulation. According to legalist approach, the over-regulation may raise the barriers for working formally; however, on the other hand, it may lead also to an increasing in barriers and costs to working informally. Over the past thirty years, the liberalization and privatization policies, as well as the restructuring policies, and the Structural Adjustment Loans (SAL), have led all over the world to a massive deregulation of labor market and capital market. However, Chen (Chen 2005: 10) argues that the deregulation of the labour market is linked to an increase in “informal employment” because workers are trap between a ‘*rapid flexibilization*’ (Chen 2005: 10) of the employment and a ‘*slow liberalization*’ (Chen 2005: 10) of the labor mobility. Finally, the lack of regulation system, resulting from the deregulation and liberalization of the labor market can be costly as an excessive regulation system for the “informal” workers.

In conclusion, besides the different positions from Chen's analysis emerge the need for an appropriate regulation system, not a deregulation or a lack of regulation. Therefore, it is necessary to leave the deregulation neo-liberal policies, and elaborate new policies supporting the "borderlands" where both "formal" and "informal" agencies operate, promoting more suitable regulation systems, and respecting the vocation of such agencies. Nevertheless, development policies and strategies led in Egypt and oPT based on the formalization of "informal" economy and agencies, need to be re-addressed. The new policies should shift the target from the "wild" de-regulation and liberalization of the labor market, toward new economic and social policies able to promote equitable development and to support the florescent raise of activities and agencies in what we call "borderland", and finally recognizing them as essential interlocutors.

5.2 New economic, social and political dynamics and phenomena in the "borderland economy"

Besides the great importance in terms of potential contribution to economic growth, we cannot reduce the concept of development only to a matter of economic growth; moreover, there are new economic, social and political dynamics, and new economic phenomena that the policymakers should take in consideration. Therefore, economy is just one of the dimension involved in development processes. More important, the need to support and accompany such processes is preparatory for the elaboration of more effective policies respectful of the vocation of the agencies and of their political and social demands.

The increasing of "informal" employment and "informal" activities, among the last two decades, has simultaneously led to a raise of new agencies, collective agencies, unions, and organizations (Lindell 2010: 1-7). Such agencies may should represent new politic and social subjects to recognize for the elaboration of policies, since they can play a role of mediator between governmental institutions and "borderland agencies". The recognition of the different social and political realities in Egypt and oPT seems to be particularly important. In fact, the former is facing now a "stabilization" stage in the domestic political situation after the revolution of 2011, and the involvement of "borderland agencies" in all the stages and levels of the politic dialogue may represent a keystone for the increasing of both socio-political stability, and social justice. In Palestine, the participation of the new agencies can be crucial for the ongoing process of building of the Palestinian state, which the Palestinian National Authority (PNA) is implementing in the recent years, despite the difficulties due to the continuing war, and the Israeli occupation (Palestinian Ministry of National Economy and ARIJ 2011: 1-16). Moreover, the involvement of such agencies may increase the impact of development programs and interventions, bringing instances and claims of "borderland agencies" to the attention of International cooperation agencies that have been blind to them until now.

In such a landscape, particularly interesting is the recent diffusion of "organic clusters" in Egypt; such new economic phenomena have led government and local authorities to find new strategies to support these processes. The notion "organic clusters" refers to the spontaneous formation of "informal" economic

clusters, which are economic processes investing both “formal” and “informal firms” in a specific and delimited geographical area. A typical example of economic clusters can be the textile industrial district of Prato, in Italy. The main assumption is that there is a spillover effect generated by trade and interactions between different firms in an area. In fact, the growth of an enterprise may result in an increasing of the demand for input provided by neighbor firms; additionally, there is a diffusion of knowledge and innovations, guaranteed by imitations of technics and machineries, and by the mobility of skilled workforce. The “organic clusters” represent a typical example of “borderlands”, since they are socio-economic phenomena interesting both “formal” and “informal” agencies that integrate in a same space. Nevertheless, the raise of organic clusters is an important occasion for the supporting of socio-economic processes and involving agencies, that traditionally are not considered by policymakers and International cooperation agencies.

5.3 Conceive “informal agencies” in their economic, social and politic dimension: not only stakeholders, but also right-holders

The recognition of the social and political dimension of the “borderland agencies”, and their participation in policies and strategies, represents a crucial step to overcome the previous approaches at an operative level. In fact, despite a recent literature (Banerjee et al. 2011: 7-11) attributes to the “informal economy” the crucial role of wage generators in the lower income groups and the function of reducing poverty, there is still a lack in the recognition of the political and social dimension of those agencies, which are *de facto* excluded from the political dialogue and from the implementation of policies. Therefore, it is necessary to recognize those agencies as stakeholders, involving them in the political dialogue during the elaboration of policies and development strategies. This is particularly crucial for the International cooperation projects that need to involve “borderland agencies”, in all the stages of the project cycle management of programs; that means that “borderland agencies” represent social and political interlocutors to take in consideration to improve relevance, impact, and efficiency of development projects. However, the recognition of those agencies as stakeholders it is not enough: it is necessary to conceive “borderland agencies” above all as right-holders. The question is crucial, since identifying them as right-holders, imply the respect of their vocation, and the awareness of a need for emancipating them, guarantying the safeguard of their rights.

The political participation of the “borderland agencies” is necessary, since even when those agencies play very good economic performances, the political isolation of them and the lack of support for the processes involving them can result in low social and development indicators: above all the child mortality, the life expectancy, the education, and the access to infrastructures and functioning. In these sense, in a previous study about “informal economy” in Benin that we conducted in 2010 (Floridi 2013: 120-121), it emerges that “borderland agencies” involved in the shrimps value-added chain operating in “informal” markets perceive income five times higher than a functionaries in the public administration, showing the incredible business mentality and economic dynamicity of those agencies. However, despite the incredible

economic performances, such agencies live in a political isolation that does not allow them to improve the social situation. In fact, the mortality rates, the education rate and the access to services and functioning did not change over the last twenty years, and those agencies are not recognized as interlocutors, so they cannot bring their demands at a political level.

A further example from Benin is the management of pirogue-bus in Lac Nokouè. In order to guarantee the mobility within the Lac and the access to the close city of Cotonou, the Municipality decide to involve the pirogue drivers of the Lac in the management of the public transport. The interesting collaboration bases on the agreement between drivers that do not need to formalize, but have to respect the timing and the stops planned by the municipality (Floridi 2013: 97-98). Similarly, Guha-Kasnobis et al. (2007: 5) reported an interesting example of successful collaboration between local authority and “informal agencies” of the local community, for the management of a forestry Reserve in Nepal. These and others example of participation between “formal” and “informal agencies” may represent a new reality to consider in the elaboration of new policies and strategies.

Finally, the increasing importance in terms of contribution to GDP, and creation of employment, of the “informal economy”, and the recent rise of informal union workers (especially in West Africa), lead us to another crucial point: the recognition of “informal agencies” as stakeholders and right-holders, and their involvement in the process of definition of the post-2015 agenda. In fact, the post-2015 agenda can be an important occasion for the involvement at a political level of “informal agencies” in the discussion and definition of the new MDGs. Nevertheless, the recognition of the emerging agencies besides the traditional organizations and unions may develops the discussion through new paths, leading to the identification of new issues and topics that the traditional associations do not consider or undervalue. More important, the definition of the post-2015 agenda represents a crucial political match to play, since the MDGs, and the achievement of the development targets, represent very often a milestone in the framework of International development cooperation projects and initiatives. Therefore, the recognition of “borderland agencies” in the debate it is necessary and preparatory for their political involvement and for their recognition as stakeholders in the project cycle management of development programs.

5.4 Conclusions

After the report of ILO in 2002 that has introduced the concept of “continuum” and the new notions of “informal economy” and “informal employment”, there was no significant attempt to move forward the debate. We have tried to introduce a new approach through the empirical example of “borderland economy”, “borderland firms”, and “borderland agencies” in Egypt and oPT. We have exposed that the application of dichotomist models, as well as the “continuum” categories, have led to the elaboration of ethical and evolutionist analysis, and to the implementation of policies lacking in terms of impact and efficacy. After summarizing the academic and statistical debates, we have introduced the new approach adopted, and explained the main notions underpinning the new approach, that are “borderland economy”, “borderland firms” and “borderland agencies”. The definition of the new

epistemological framework has been necessary for a new analysis conducted with the data representing our empirical test. Finally, the analysis has shown the incapacity of the “formal-informal” dichotomy to describe socio-economic dynamics and phenomena, leading us to make a last step, based on the recognition for the need of new policies able to involve the “borderland agencies” and to support socio-economic processes affecting the economy.

The paper represents a first attempt to define a new scientific program (in the Lakatosan acceptance) based on the concepts of “borderland economy” and “borderland agencies”. The empirical test that we proposed here is only a verification of the “validity” of the new approach, and the analysis does not claim for any representativeness of the wider landscape of Egypt and oPT. Nonetheless, there is still need to **corroborate** the approach by conducting other surveys on a bigger scale, analyzing also other Countries and other economies. The results show that there is space for the elaboration of new scientific programs able to avoid the “formal-informal” dichotomy, and to provide the key features for a definitive re-definition of epistemological framework. Moving from the need to give concrete implications to the new epistemological framework, we have tried to outline new policies able to find answers to the claims of “borderland agencies”, based on the recognition of “borderland agencies” as stakeholders and right-holders.

The empirical test confirms that most of the assumptions concerning not “formal” firms (“informal” and “borderland” firms) base on consolidated stereotypes that need to be revisited, and that do not match with the characteristics of the considered firms. Particularly we find that there are “fake labels” applied to “informal” and “borderland firms”, reflecting the dichotomist tendency to define what is not “formal” in a negative perspective as a mere opposition of “formal”. Such tendency results in neglecting the homogeneity within the “continuum”, and in underestimating the characteristics of the firms operating in the “borderlands”. Nevertheless, many “continuum” supporters accept the definition of “informal firms”, reducing the “continuum” to a mere space of interaction between “informal” and “formal” firms, and focusing only on the heterogeneity within “informal economy”. Inconsistent with both views, we focus on the heterogeneity within the “borderlands” in terms of variety of agencies operating (“formal”, “informal” and “borderland” firms), and we analyze the characteristics of the firms instead of assuming certain stereotypical features.

Finally, from the new epistemological framework spark the need for new policies based on the support to socio-economic phenomena and processes affecting the “borderland economy”, such as the raise of new organizations, unions, and political subjects in both Egypt and Palestine, or the diffusion of organic clusters in Egypt. Such policies rely as well on the recognition of “borderland agencies” as political agencies, and their involvement in the political dialogue as stakeholders and right-holders, and of course in the elaboration and implementation of new policies and development strategies.

Appendices

Appendix A The statistics debate

The different approaches animating the debate on “informal economy” have strongly affected the formulation of statistical methods for the collection of data, the interpretation of such data, the elaboration of economic models, and finally the implementation of policies. Therefore, the debate on “informal economy” has a crucial extent, since it did not stick at a theoretic level, spilling in many different fields, from the statistics to the elaboration of policies. In the statistics landscape, the main referring points are the United Nation System of National Account (UNSNA or SNA), and the European system of Accounts (ESA). Moreover, International organizations, and particularly ILO, have played a crucial role in the recent debate, and have published reports, contributing to the elaboration of new definitions, and measuring methods.

SNA93

The United Nation System of National Account (UNSNA or SNA), is a set of recommendations for the measurement of the National account, internationally agreed. Its main function is to guarantee homogeneity of the national data, in order to compare data more easily amongst different countries. In the 1993, following the final resolution of the XV ICLS, the SNA93 has opted for the adoption of a new definition of “informal sector”, providing also measuring methods in order to achieve a homogeneity in the collection of data, so to compare data between different countries.

The SNA 93 refers to the notion of “informal sector”, defining it as: *“The informal sector is broadly characterised as comprising production units that operate on a small scale and at a low level of organisation, with little or no division between labour and capital as factors of production, and with the primary objective of generating income and employment for the persons concerned; operationally, the sector is defined on a country specific basis as the set of unincorporated enterprises owned by households which produce at least some products for the market but which either have less than a specified number of employees and/or are not registered under national legislation referring, for example, to tax or social security obligations, or regulatory acts.”* (OECD, www.oecd.org/std/na/2674296.pdf) (OECD. : 23) .

In other words, the SNA93 defines the “informal sector” in terms of the basic production units, which are the “informal enterprises”. The SNA93 recognizes that such units have the function of generating income and employment for people that work in the “informal sectors”, and very often, it represents the only source of wage. However, despite the recognition of the role of generator of income, the definition conceives “informal enterprises” as characterized by low level of organization, small dimensions, small scale of production, and no clear division between labor and capital. Moreover, the SNA93 defines the “informal sector” as the set of unincorporated enterprises owned by households, with less than a certain number of employees and/or not registered. Consequentially, according to this definition, the “informal economy” is synonymous of “household economy”, and there is no clear distinction between “family business” and “informal enterprises”. More important, on one hand SNA93 defines the “informal economy” in terms of

the characteristics of the “informal enterprises” (productive unit), rather than focus on the characteristics of people and workers involved in these activities; on the other hand, it ignores the interactions between “formal” and “informal sectors”. The resulting picture is an economic system divided into two sectors, “formal” and “informal sectors”, which do not have any contact, and where the informal employment entirely places in the “informal sector” and in the “informal enterprises”. Besides its innovations and limits, the SNA93 is expression of the dichotomist tendency to define “informal sector” and “informal enterprises” in a negative connotation, as a mere opposite of the “formal sector”. Thus, the focus is on what “informal sector” is not, rather than what is the “informal sector”. The SNA93 can be considered as an attempt to synthesize the different approaches belonging to the family of the “Dichotomist approaches” (dualists, structuralists, and legalists).

ESA 95

The European System of Accounts is the set of statistic tools and methods used in Europe, to guarantee homogeneity of the economic data, and could be functional to the elaboration of integration policies.

The ESA95 defines the “informal economy” as one of the three parts composing the “Non Observed Economy” (NOE). The NOE is the set of economic activities that cannot be directly measured by the official statistics.

Particularly, these three categories are:

- a. Illegal Economy: all the activities forbidden by law, or forbidden if exercised without a license.
- b. Submerge Economy: the set of legal activities and transactions that are not registered, because of the will of avoiding taxation.
- c. Informal economy: set of activities finalized to the own-consumption and the own-production.

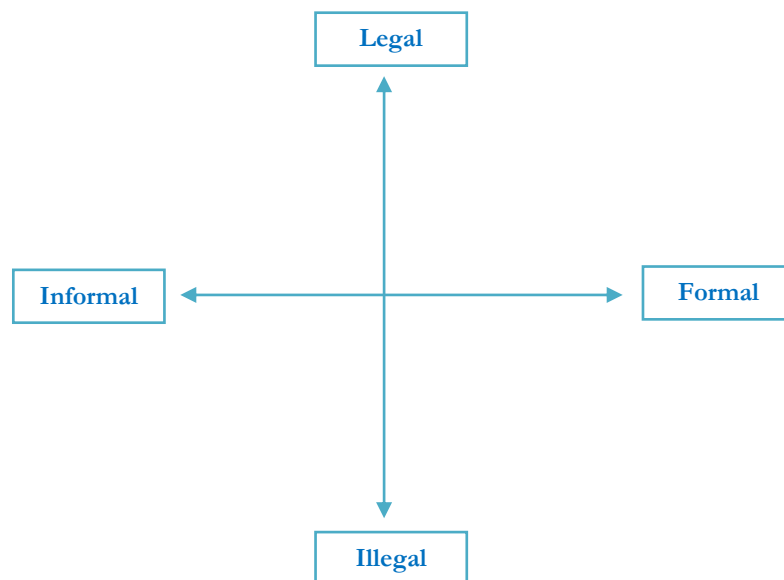
Many authors have criticized the SNA93 and the ESA95, for different reasons, and the concept of NOE itself seems to be quite controversial, since from a statistical perspective it defines “informal economy” as a part of the set of activities not directly detectable. Thus, “informal agencies” are condemned to be not recognized as political and social agencies, in name of the misrecognition of their economic dimension. Moreover, this approach reflects the tendency to analyze in a dichotomist perspective giving a negative connotation to “informal economy” as negation or in opposition to “formal economy”.

Moreover, the model is static and tends to undervalue the dynamicity of economic agencies, by enclosing them in a sector rather than in another sector: economic agencies may be simultaneously “formal”, “illegal”, and “submerge”. For instance, there is an interesting journalist report called “Bamba” (Berizzi, and Zappadu; 2012) about the value added chain of cocaine in Bolivia; such report takes the example of farmers in Bolivia, which produce vegetables for the personal consumption in the front yard, but grow cocaine in the backyard, so to cushion the impact of economic shocks. In this case, it is difficult to determine whether an agency is “illegal” or “informal”. Nevertheless, the classification ignores the variable nature of the definition of what is “legal” and “informal”. In fact, very often, what it is legal in a country can be illegal in the neighbor country; and what it is legal or illegal today may be not legal tomorrow. In other words, the approach does not take in consideration the

dynamicity of economic agencies, and the differences in space and time of the legal frameworks. Furthermore, the categories applied to discern between “informal”, “illegal”, or “submerge”, have a limited and controversial analytical power. For instance, what characterized the submerge economy is the will to avoid the taxation, while informal activities are finalized to the own-consumption; but it is very difficult to determine whether the production of goods it is finalized to the own-consumption or to the sell. Moreover, it could be possible that the same agency can move simultaneously in the three sectors. Consequentially, the descriptive power of the analysis is weak, and the analytical power of the categories applied is not adequate for the purpose.

Cross (2000, in Bellanca 2008: 113), has suggested a theoretical scheme to overpass this model. The idea is to divide the activities of an economic system in two axis: the horizontal axis is the formality axis, while the vertical is the legality axis. In this way, the set of economic activities characterized by a different degree of formality and legality: and the activities will be divided into four great groups: “legal-formal”, “legal-informal”; “illegal-formal” and “illegal-informal”.

Figure 1 – Cross’ theoretical scheme



Source: adapted from Cross (2000), in Bellanca (2008)

This model overpass the contraposition between “legal” and “informal”, showing how the two sectors can be interrelated, and very often overlaps. Methodologically the contribution of Cross helps to understand how is possible to overpass the contrapositions between “formal” and “informal” sectors/agencies not only within the so-called NOE, but also concerning the formal/informal dichotomy. More important, this can be an example of how the formality can be one of the coordinates of the economic activity, and not an analytical category referable to certain invariable characteristics. Besides the critic moved by Cross, and the improvements brought by his model, the main limit of both SNA93 and ESA95 is that they identify the “informal sector” as the set of “informal enterprises” ignoring that there are also “informal workers” that are employed by “formal enterprises”. Moreover the definitions given of “informal sector” are only expression of the statistic point of view, and do not take in consideration the contractual relations and the concept of “informal employment”, as well as it does not the question of the “illegal

economy” is actual, since recently, EUROSTAT has purposed to account in the estimation of the GDP, also the “illegal economy”.

ILO 2002

In 2002, ILO has published a study called “Women and men in the informal economy: a statistical picture”. This report represents a definitive overpassing of the previous dichotomist approach promoted by UNSNA93 and ESA95, and it is one of the most important steps for the elaboration of the current definition of “informal economy”. The aim of the report is to provide a more detailed and more faithful representation of the “informal economy”, enlarge its definition, and elaborate new measuring methods able to better capture the composition, the dynamics, and the trends of the “informal economy”. There are two main ways to define the “informal economy”: the first approach defines the “informal economy” in terms of the basic productive units (“informal enterprises”). The second approach defines the “informal economy” in terms of the employment relationships and legal framework. The study of the ILO combine both the approaches and give a more comprehensive definition of “informal economy” that includes also the employment outside “informal enterprises”, and that makes clear why “informal economy” it is a concept wider than the notion of “informal sector”.

The ILO defines “informal economy” as “*comprised of informal employment both inside and outside informal enterprises*”. More specifically, according to the definition:

- “Informal employment” is characterized by absence of “*secure contracts, worker benefits, or social protection*”; and Informal enterprises are “*the small unregistered or unincorporated enterprises*”.
- “Informal employment” in “informal enterprises” includes: “*employers, employees, own account operators, and unpaid family workers in informal enterprises*”.
- “Informal employment” outside “informal enterprises” (“formal enterprises”, households, or no fixed employer) includes: “*domestic workers, casual or day labourers, temporary or part-time workers, industrial outworkers (including homeworkers), and unregistered or undeclared workers.*” (Chen et al. 2002).

The merit of this approach from a statistical perspective is to enlarge the samples and the amount of data, thanks to the inclusion of self-employment and “informal workers” outside “informal sector”. More important, the new definition has a crucial methodological extent, because it changes the object of the statistical and shifts completely the focus of the analysis from the “informal sector” to the “informal economy”, embracing in the definition both unit of production (informal enterprises), and legal framework of the employment relations (workers in informal sector and informal workers in the formal sector). Following the definition, the “*production, distribution, and employment relations tend to fall at some point on a continuum between ‘formal’ relations at one pole and ‘informal’ relations at the other*” (Chen et al. 2002). In other words, the economic system can be conceived as a continuum of economic relations, where the economic activities and relations, are characterized by a different degree of formality. The result is an innovative picture upsetting the previous notion of “informal sector”: a continuum space, where the economic activities characterized by a different degree of formality interact and integrate. Nevertheless, the report contains also crucial innovations for the statistics, due to the enlargement of the statistic samples, and (the report) guarantees more

homogeneity of data thanks to the adoption of the same measuring method used during the direct collection in the different countries.

Besides the innovations and the contribution to enlarge the definition of “informal economy”, the report mainly conceives informal works as characterized by lack of decent work. However, on the other hand, the ILO recognizes the potential contribution of the “informal employment” to the poverty reduction, and its strategic role in the elaboration of new policies. Furthermore, the report focuses mainly on the “borderlines” between the different categories and subcategories of employment, giving crucial importance to the segmentation within the “informal economy”, and drawing a picture that tends to crystallize the agencies involved in the economic activities, enclosing them in a fixed pattern, and ignoring their dynamicity. Another feature is that the report is still expression of a statistic approach. Thus, it does not take in account the fact that all the economic agencies are also social and political agencies, and that the economic process it is a social and political process too. Thus, every economic phenomenon is primarily a social and political phenomenon; every economic transaction is above all a social transaction; and every economic agency (whether it is an employee, an employer, an enterprise, a household, an association, an organization, or a work trade union) it is first and above a social and a political agency. Therefore, despite the importance of the innovation represented by the new approach of ILO, there are still some controversial limits that need to be discussed and focused. The main limit of the new approach is that the focus is on the "borderlines", rather than on the "borderlands". In other words, instead of focusing on the common space of interaction and integration between “formal” and “informal”, the attention is on the separation lines between the different categories and sub-categories of employment. In other words, the focus is on the heterogeneity within “informal sector”; if it is true that the report of ILO (Chen et al. 2002) finally overpass the idea of an “informal sector” as homogenous and isolated from the “formal sector”, the focus is mainly on the segmentation rather than on the interaction between “formal” and “informal”. In fact it is restrictive the idea of binding the interactions between sectors only to the existence of “informal employment” outside the “formal sector”. This is feature is crucial, since many economic models and policies address the effort trying to raise or lower the division bar between “formal” and “informal”, instead of focusing on supporting processes in act in the “borderlands”.

UNSNA 2003, and ILO 2012

The critics by ILO mentioned above have led the ICLS to elaborate and adopt a new definition of “informal economy”, that include both the system of production (where the “informal enterprises” and the workers in the “informal sector”), and in terms of employment relations (informal workers in both “informal” and “formal sector”). As described forward, this new definition is expression of a new approach (also called the continuum approach), and represents an effort to combine two different approaches. The UNSNA 2003 has adopted the definition purposed by the ILO and contained in the final report and in the final resolution of the XVII ICLS that has taken place in November 2003. More recently, ILO has published a re-edition of “Women and men in the informal economy: a statistical picture” (International Labour Organization- ILO and WIEGO 2013). This report represents the last step in

the landscape of the international statistic debate on “informal economy”; it consists of a second updated edition containing new data concerning forty-seven countries (while the edition of 2002 contains data about twenty-five countries). These data are for the first time a set of data directly collected in each country by the national statistic institutes with the help of the local ILO offices situated in such countries. This helps to ensure the homogeneity of data, allowing cross-countries analysis, avoiding the problem of the differences between collection methods.

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Appendix B Overview on “informal” economy all over the world

The emergence of the “informal” economy in the development debate and the renewed interest from policymakers is due to the raise of “informal” economy in terms of both contribution to GDP (or to Gross Value Added-GVA) and creation of employment. The increase of “informal” activities in the last two decades has regarded Developing countries as well as Developed countries, and interested with different degree the various regions of the world. The data used in this section are taken from the first and the second editions of the report “Women and men in the “informal” economy: a statistical picture” edited by ILO and WIEGO respectively in 2002, and 2012. We explain in chapter 2 the innovations and the methodology adopted in the report, so it is not necessary now to focus on technical features; therefore, this section consists only on a brief description of the data that is necessary to have a deeper understanding of the phenomena and processes within the economy.

After the decision taken by the UNSNA 93, most of the Countries have started including the “informal” economy in the computation of the Gross National Product (GNP). The tables below contains data about the estimation of the contribution of “informal” economy to GNP referred to the period 1999-2000. The data are collected per geographical group.

From the analysis of the data emerges that the weight of the “informal” economy for some countries in Africa, reaches and sometimes exceed the 50 percent of the total.

Table 1 - “Informal” economy in % of GNP 1999/2000 for some African countries

Country	%
Algeria	34.1
Benin	45.2
Botswana	33.4
Burkina Faso	38.4
Cameroon	32.8
Ivory Coast	39.9
Egypt	35.1
Ethiopia	40.3
Ghana	38.4
Madagascar	39.6
Malawi	40.3
Mali	41.0
Morocco	36.4
Mozambique	40.3
Niger	41.9
Nigeria	57.9
Senegal	43.2
South Africa	28.4

Country	%
Tanzania	58.3
Tunisia	38.4
Uganda	43.1
Zambia	48.9
Zimbabwe	59.4
Average	42

Source: adapted from Schneider and Enste (2000)

The percentage for Egypt, together with other countries in northern Africa, is still high, although not at the level of countries in Sub-Saharan Africa. The percentage for Egypt is 35.1 percent, and it seems to be similar to those of the countries of the area. With regard to OPT, there are no official estimates as to the weight of the “informal” sector in terms of GNP, and such data are integrated with those on the State of Israel. However, the second edition of the report of ILO (2012) contains data concerning the contribution of “informal” economy to creation of GVA; moreover, new data about the “informal” employment are now available.

Table 2 - “Informal” economy in % of GNP 1999/2000 for Asian countries

Country	%
Bangladesh	35.6
China	13.1
Hong Kong	16.6
India	23.1
Indonesia	19.4
Iran	18.9
Israel	21.9
Japan	11.3
Jordan	19.4
South Korea	27.5
Lebanon	34.1
Malaysia	31.1
Mongolia	18.4
Nepal	38.4
Pakistan	36.8
Philippines	43.4
Saudi Arabia	18.4
Singapore	13.1
Sri Lanka	44.6
Syria	19.3
Taiwan	19.6
Thailand	52.6
Turkey	32.1

Country	%
United Arab Emirates	26.4
Vietnam	15.6
Yemen	27.4
Average	26

Source: adapted from Schneider and Enste (2000)

The economies of Latin America are also marked by a strong presence of the “informal” sector in terms of GNP, as the table below shows.

Table 3 - “Informal” economy in % of GNP 1999/2000 for Latin America

Country	%
Argentina	25.4
Bolivia	67.1
Brazil	39.8
Chile	19.8
Colombia	39.1
Costa Rica	26.2
Dominican Republic	32.1
Ecuador	34.4
Guatemala	51.5
Honduras	49.6
Jamaica	36.4
Mexico	30.1
Nicaragua	45.2
Panama	64.1
Peru	59.9
Uruguay	51.1
Venezuela	33.6
Average	41

Source: adapted from Schneider and Enste (Schneider and Enste 2000)

Finally, to be able to make a more complete comparison, the table below gives data for the “informal” economy’s influence in terms of GNP in OECD economies.

Table 4 - “Informal” economy in % of GNP 1999/2000 for OECD countries

Country	%
Australia	15.3
Austria	10.2
Belgium	23.2
Canada	16.4
Denmark	18.2
Finland	18.3
France	15.3

Country	%
Germany	16.3
Greece	28.6
Ireland	15.8
Italy	27.0
Netherlands	13.0
New Zealand	12.7
Norway	19.1
Portugal	22.6
Spain	22.6
Sweden	19.1
Switzerland	8.8
United Kingdom	12.6
United States	8.8
Average	14.0

Source: adapted from Schneider and Enste (2000)

As mentioned above, “informal” economy is raising as well in many developed countries, representing an emerging political, social and economic reality that policymakers should take in consideration. However, the second version of the report of ILO (2012) focuses on the employment arrangements offering limited benefits and social protection; moreover, great importance is given to the ‘*changes taking place in arrangements in developed countries*’ (International Labour Organization- ILO and WIEGO 2013).

Contribution to GVA

Another estimate method consists on the computation of the contribution of “informal” sector to the creation of General Value Added (GVA), which is the GDP minus taxation on the products and minus incentives to products. Such a method is used in the last version of the report of ILO and WIEGO (2012) instead of using the contribution to GDP adopted in the previous version of 2002. However, the data are less in number compared to the data available regards the contribution of non-agricultural “informal” sector to GDP; therefore has been necessary to incorporate the data obtained with both the estimation methods. Nevertheless, it allows the comparison within country between the two indicators, giving a more comprehensive frame.

Table 5 – “Informal” economy’s contribution to GDP: Sub-Saharan Africa

Country	%
Benin (2000)	61.8
Burkina Faso (2000)	36.2
Cameroon (2003)	46.3
Niger(2009)	51.5
Senegal(2000)	48.8
Togo (2000)	56.4
Average	50.1

Source: adapted from ILO (2013)

Most of the Countries in SSA have a percentage higher than forty-five percent, meanings that the “informal” sector plays a dominant role in the economy. Moreover, the data refers only to the non-agricultural “informal” sector; therefore considering also the contribution of the non-agricultural sector may increase significantly the percentage, since the importance of the “informal” sector in the rural activities, and the dimension of the first sector in such countries. The mathematical average between the SSA countries analyzed is 50.1 percent, and Benin (61.8 percent) is the country with the highest rate, while Burkina Faso has the lowest rate (36.2 percent). “informal” activities in SSA are also an important (very often the only) source of wage and of employment in both rural and urban areas. Therefore, considering and involving “informal” agencies in the elaboration and implementation of development policies and strategies may lead to more efficient policies and may contribute to the reduction of poverty (which is a priority in the political agenda of many SSA countries) and to the development and growth of those countries.

Table 6 - “Informal” economy’s contribution to GDP: MENA

Country	%
Algeria (2003)	30.4
Egypt (2008)	16.9
Islamic Republic of Iran (2007)	31.1
Tunisia (2004)	34.1
Palestine (2007)	33.4
Average	29.2

Source: adapted from ILO (2013)

The MENA countries have a lower average percentage of contribution of non-agricultural activities to GVA compared to SSA countries, since the mathematical average between the considered countries is 29.2 percent. The Country with highest contribution is Tunisia, where these activities contribute for the 34.1 percent to the GVA. Palestine shows a percentage that it is in line with the values of other countries, 33.4 percent; such value is quite high and lead the observer to a reflection about the negligence of policymakers and International development agencies that too often have cut-off or forgotten “informal” agencies. In Egypt, the percentage is the lowest of the MENA group, and it is about 16.9 percent; the last trend it is quite important, since it shows that the non-agricultural sector (“informal” firms plus “informal” employment) represents a significant share of the total creation of GVA. Therefore, “informal” firms can be considered as strategic for growth and development dynamics in Egypt, despite the policymakers’ tendency to penalize those preferring “formal” firms of big dimension.

Table 7 – “Informal” economy’s contribution to GDP: Latin America

Country	%
Colombia (2006)	32.2
Guatemala (2006)	34.0
Honduras (2006)	18.1
Venezuela (2006)	16.3
Average	25.1

Source: adapted from ILO (2013)

Table 8 – “Informal” economy’s contribution to GDP: Asia

India (2008)	46.3
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Source: adapted from ILO (2013)

Moving to the group of Latin American countries, the average is 25.6, and we can observe a heterogeneous situation, since countries such as Venezuela and Honduras shows percentage rate lower than twenty percent, respectively 16.3 and 18.1 percent. Other countries like Colombia and Guatemala have rates higher than thirty percent, meanings that the “informal” sector has a more consistent weight in terms of contribution to creation of GVA. The only Asian country considered in the database is India with a percentage of 46.3 percent; in fact, it has not been possible to find data about the other Asian countries. This data are not representative for the whole Asian Continent, since traditionally “informal” economy plays an important role in Indian economy. The diffusion of “informal” activities in India is based on the deep-rooted caste system, and statistically can be explained by the fact that there are many statistical institutes and many different definitions adopted at local, regional, and National level; as a consequence, there is often an overlapping of information, or a gap between institutions considering “informal” what other institutions define as “formal”.

Table 9 – “Informal” economy’s contribution to GDP: Transition Economies

Country	%
Armenia (2008)	19.5
Azerbaijan (2008)	13.1
Belarus (2008)	3.7
Bulgaria (2006)	16.5
Estonia (2008)	10.1
Kazakhstan (2009)	20.0
Kyrgyzstan (2008)	27.5
Latvia (2007)	10.2
Lithuania (2008)	11.8
Macedonia (2008)	14.9
Russian Federation (2009)	8.6
Ukraine (2008)	12.9
Average	14.0

Source: adapted from ILO (2013)

Concerning the group of Transition Economy countries, the mathematic average is fourteen, and it represents the lowest average between the groups of countries considered here. Many Transition Economy countries show values not much different from the average, except for Kyrgyzstan (27.5 percent), Kazakhstan (twenty percent), and Armenia (19.5 percent). Belarus and Russian Federation have the lowest rate, respectively 3.7 percent and 8.6 percent.

Despite the fact that the data allows to have a general idea of the dimension of the “informal” economy all over the world, the main methodological feature of representing the “informal” economy only in terms of contribution to GNP (and equally to GVA), is that there is no estimation about the international economic and trading relations. However, the inclusion of such estimates in the official statistics means to admit the existence of trade in breach of national fiscal rules.

Of greater interest perhaps is the question of indirect trading relations, in other words the contribution made by SMEs having high rates of “informal”ity, and producing on behalf of “formal” companies that perform export activities. The statistics naturally take into account only the final agencies (for instance the exporting company) even if products have been supplied by another company. In addition to this phenomenon there is the question of Egyptian and Palestinian companies exporting to countries in the area, from where products are then re-exported. This is often the case for sectors such as leather, fabrics and agricultural foodstuffs. Naturally, the same is also true concerning imports. Moreover, such firms may be competitors of other “formal” import-export firms, since they are both able to provide and be provided of goods and services at local, national and international level. It is interesting to note on this point that many SMEs, particularly those operating with high rates of informality interact, trade, and produce for “formal firms” in the local and national market. Thus, there is a common economic space where the firms with different lines of “formality” operate, co-operate, and compete.

The dynamics described find an empirical validation in the enterprises considered in the study. In fact, there are firms both directly and indirectly exporting the products; other firms directly or indirectly import the inputs for the production; finally there are also enterprise provided by and providing firms at national level, and not only in the local market. It is also interesting to notice that most of the “informal” enterprises not having access to the international market, are forced to purchase machineries, goods, and other inputs and products in the local market, dominated by cheaper and low-quality products (imported mainly by Asian producers, and in the case of Palestine the products are mainly imported by Chinese companies).

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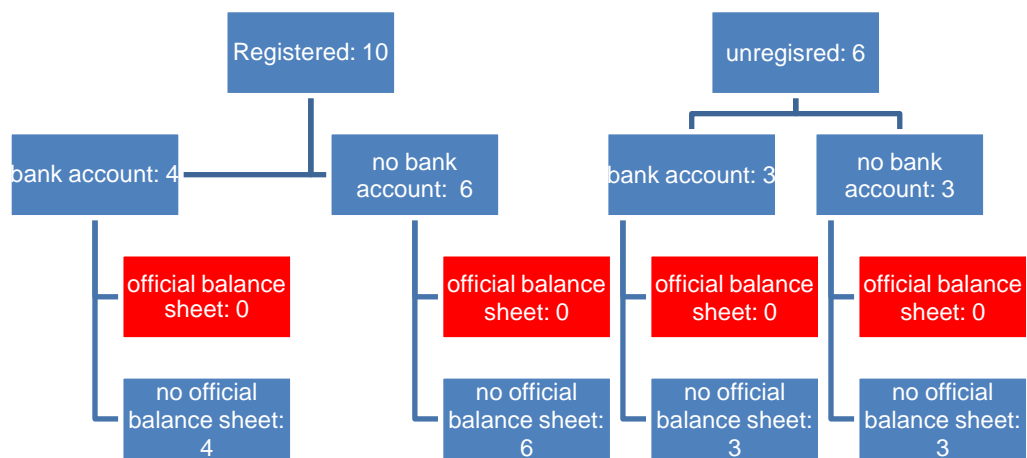
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Appendix C Regressions' maps

The map below contains data concerning the relation between registered firms, presence of a bank account, and existence of an official balance sheet. Out of ten registered firms, four have a bank account and six do not have any bank account. Out of the six unregistered, three have a bank account, while three do not have any bank account. No firm among the Egyptian enterprises considered has an official balance sheet.

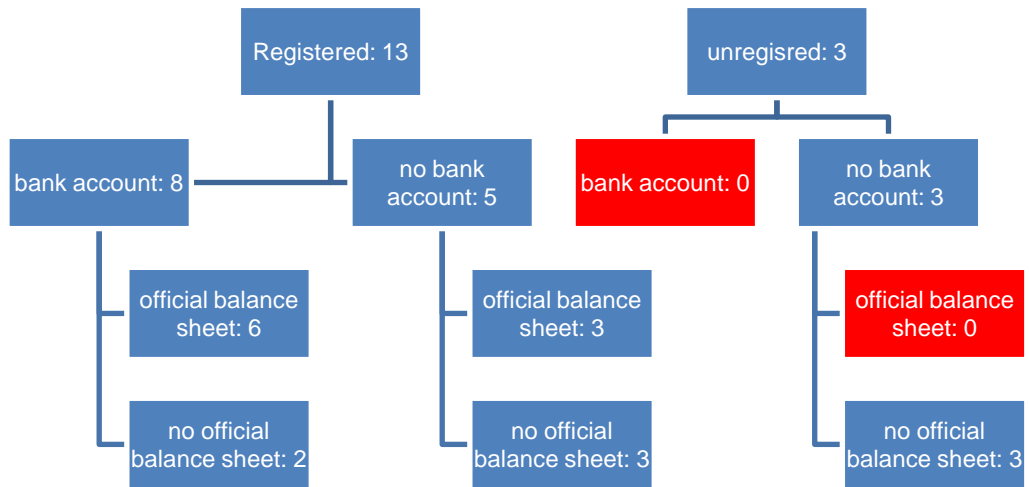
Graph: Egypt (Registered-bank account- official balance sheet)



Source: our elaboration

Moving to oPT, out of 13 registered, 8 enterprises have a bank account, and 6 of these 8 firms have an official balance sheet; on the other hand, 5 enterprises registered, do not have any bank account, and 3 of those has an official balance sheet, while 2 do not have anyone.

Graph: oPT (Registered- bank account- official balance sheet)

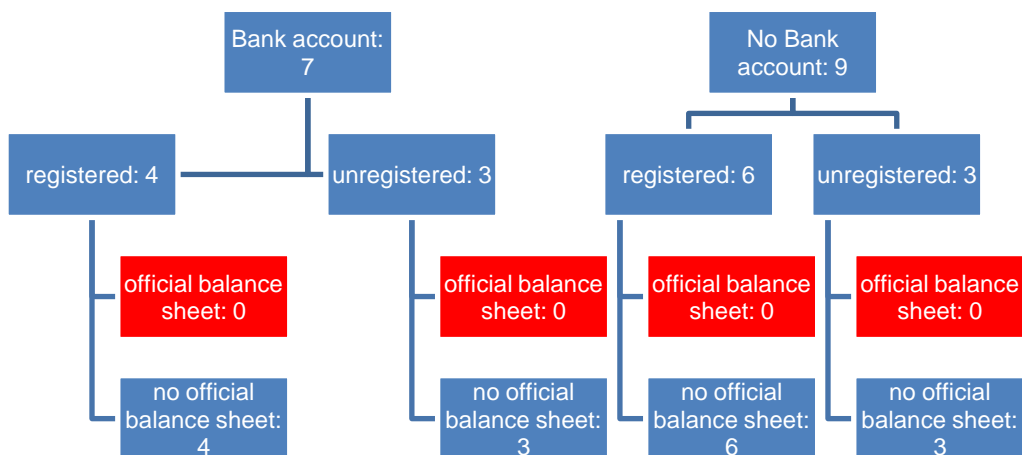


Source: our elaboration

Looking at the inverse relation, thus how many firms that has a bank account the picture is quite different:

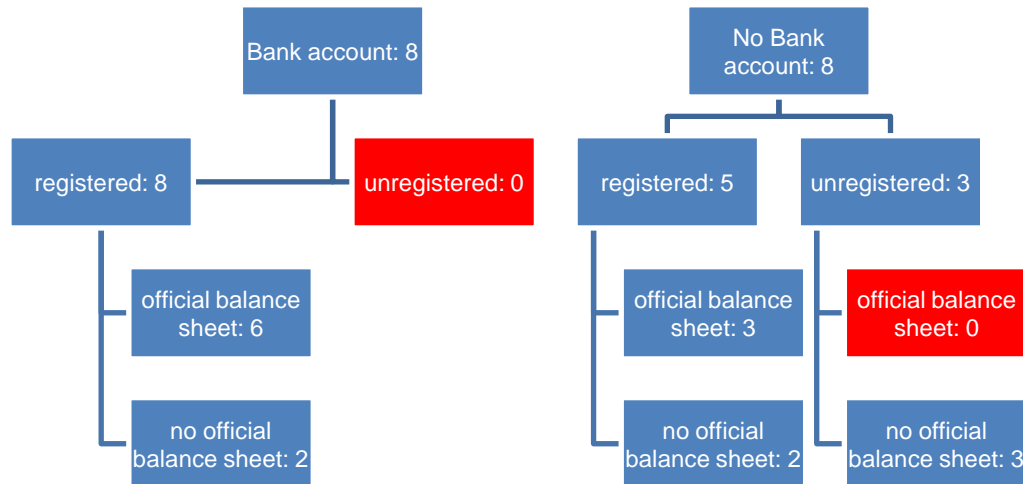
Concerning the Egyptian firms considered, out of seven enterprises having a bank account, four are registered, and three are unregistered; out of eleven firms without bank account, six are registered, and five are unregistered.

Graph: Egypt (Bank account - registered- official balance sheet)



Source: our elaboration

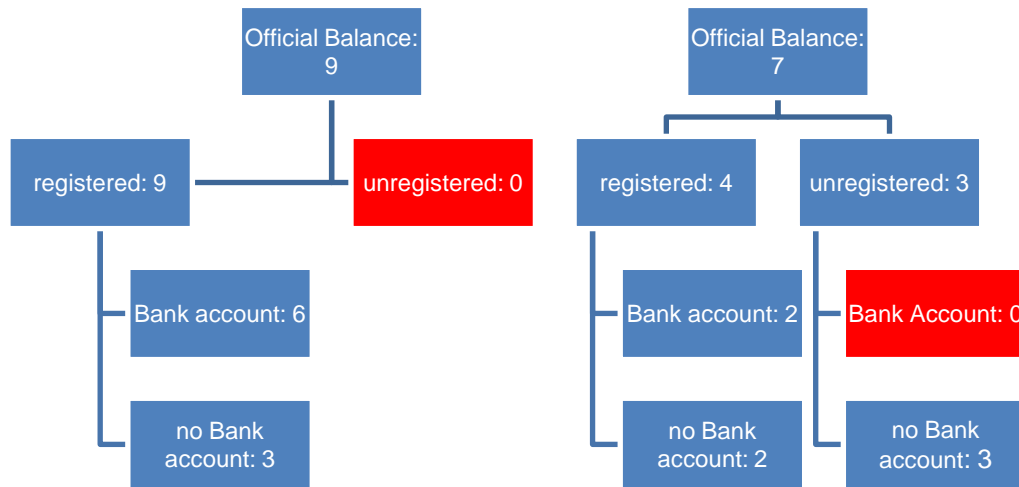
Graph: oPT (Bank account - registered- official balance sheet)



Source: our elaboration

Similarly, the Palestinian enterprises show a balance in the distribution within enterprises having or lacking of a bank account. In fact, eight of those have a bank account, while eight do not have any. All the eight firms having account are registered too, and six of them have an official balance sheet. Thus, there is a strong correlation between bank account and registration in the Palestinian firms of the test. Moving to the firms not having any account, five of those are registered, and three are unregistered; these latter do not have any official balance sheet (that means that enterprises without bank account and unregistered, are more likely to not have an official balance sheet), while out of five registered firms, three have an official balance sheet, and two do not.

Graph oPT (Official balance sheet-Registered- Bank account)



Source: our elaboration

Moving to the relation between existence of an official balance sheet, registration, bank account, all the Egyptian enterprises analyzed, the do not have any official balance sheet; therefore, it has been necessary to not analyze such a relation among the Egyptian firms. Concerning the Palestinian firms, all the nine enterprises having an official balance sheet are registered, and six of them have a bank account, while three do not. Seven firms do not have an official balance sheet: four are registered, and two of them have a bank account; regarding the three unregistered enterprises, none of them has any bank account.

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