1. Introduction

The informal economy or Informal Sector (IS) plays a significant role on employment, income and supplying overlooked markets in developing countries. However, the conditions of work and employment within the sector are still poor. Its expansion and changing structures have thus drawn the attention of researchers and international policy-makers to the factors hindering its formalisation. Among the factors addressed are the high costs of formalisation and the lack of incentives for operating in the formal sector.¹

The Informal Sector has been growing for decades and is the largest “economy” in many countries.² Many companies around the Mediterranean operate in the “informal economy,” in which they misreport employment, avoid certain taxes, ignore product quality and worker safety regulations, violate copyright and intellectual property laws, and sometimes do not register as legal entities. Over half of the informal enterprises lack accounting records. The problem is particularly acute in developing countries, where companies that operate informally produce as much as 80 percent of the output in some industries. Only a few policy makers are interested in the issue. Although informal companies have small-scale production and lower productive methods, they gain a substantial cost advantage that allows them to stay in business by avoiding taxes and regulatory obligations. In these conditions, formal companies have difficulty in gaining market share resulting in slower economic growth and job creation.

Poverty is a constant problem of the world, and its conceptualization and measurement remains problematic as the concept is multidimensional and political. It is a known fact that economic development does not necessarily eliminate poverty, while countries with different development levels and welfare state policies experience different levels of poverty. Hence, poverty has become a major problem for both the developed and the developing countries.

At the beginning of the 21st century, the issue of poverty has emerged as one of the most challenging socio-economic problems in developing countries. Currently, about 20% of the world’s population lives in absolute poverty with an income of less than US$ 1 per day. Aggregate figures for economic growth disguise the fact that the number of people in absolute poverty is still rising. Surviving on less than US$ 2 per day is a reality for almost half of the people in the world.

This paper aims to analyse the effects of poverty on informal economy in the Mediterranean Countries and Turkey and show that the informal sector causes poverty. Definitions of poverty and the informal sector are given followed by the analysis of informal economy and poverty in the Mediterranean Countries and Turkey.

2. Definition of Informal Sector

The term Informal Sector was first introduced by Keith Hart (1973)³. The informality of firms has since been described in relation to interrelated aspects: compliance with government regulations (i.e. registration, payment of tax and adherence to labour regulations); size of the firm; firm level resource endowment and

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² The number of informal enterprises without an accounting record has increased in Brazil. In 2003, 53% did not have any kind of accounting record and, in 36% of them the owners did accounting work without the help of an accountant. In 1997, those percentages were 46% and 39%, respectively. Employers’ enterprises made more use of accounting services and only 21% did not keep any record of it. Among own-account enterprises the percentage was higher, 57%.
applied technology (i.e. labour or capital intensive), location, the physical place of operation and the characteristics of workforce and ownership.\(^4\)

Wikipedia gives a definition of the informal economy. “In economics, the term informal economy (or second economy in the South African context) refers to all economic activities that fall outside the formal economy regulated by economic and legal institutions. It refers to the general market income category (or sector) wherein certain types of income and the means of their generation are unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated”.

Simply put, it is an economic activity that is neither taxed nor monitored by a government; and is not included in that government’s Gross National Product (GNP); as opposed to a formal economy.

Although the informal economy is often associated with developing countries and all economic systems also contain an informal economy in some proportion. The term “informal sector” was used in many earlier studies, and has been mostly replaced in more recent studies which use the newer term.

The English idioms “under the table” and “off the books” typically refer to this type of economy. The term black market refers to a specific subset of the informal economy in which contraband is traded - where contraband may be strictly or informally defined.

The term informal economy triggers a lot of confusion and interpretations depending on how people look at it. Economic and financial planners call it the Unobserved Economy. Labour advocates call it the Unorganized Sector. Social security officials label it the Unprotected Sector. Statistical authorities name it as Uncounted. Others say they are simply the poor and marginalized people who are forced to create their own employment. There is a huge debate on what the informal economy is. There is however one common denominator in all these interpretations - all of them refer to some type of exclusion: exclusion from social security, exclusion from statistical coverage, exclusion from traditional trade unionism, exclusion from GDP estimates, and exclusion from productive resources typically available to larger enterprises. True, they are inextricably linked to the formal sector through economic relationships - they are producers within supply chains, they market formal sector goods in hard-to-reach markets and communities. Yet, in most cases, their entitlements are low (e.g. human capital, physical assets) and their economic contribution is not matched with commensurate access to protection and resources.

The practice of defining informality in terms of the economic status of the individual (self-employed or own-account worker, domestic worker, small scale employer etc.) in conjunction with the characteristics of the employer (small scale, non-collective bargaining etc.) is well-established in the literature. A substantial number of early analyses of informality simply assume that the informal sector corresponds to sole-traders (own account workers) and those in small or micro enterprises. “Small” or “micro” is defined arbitrarily and may depend on questionnaire design.\(^5\)

The OECD defines the Informal Sector (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.

The current SNA (System of National Accounts 1993) treats the informal sector under the subheading ‘the household sector and its sub-sectors’. It introduces the concept of the informal sector and makes reference to the guidelines developed by the International Labour Organization (ILO) on employment in the informal sector.

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\(^4\) Esther K. Ishengoma and Robert Kappel, cit. p.7.

According to the World Bank, the ILO and WIEGO (Women in Informal Employment: Globalizing and Organizing), the informal sector entails a wide range of unregistered and or sometimes (partially) illegal market activities, which on the one hand are survival activities of individuals and families in an opportunity-poor economic environment and on the other hand profit-maximizing activities of micro enterprises in a highly competitive and opportunity-rich economic environment.6

The Informal Sector represents a substantial portion of economic activity, especially in developing and transition countries. The contribution of the informal sector to non-agricultural GDP has been estimated at 27 percent for Northern Africa, 41 percent for Sub-Saharan Africa, 29 percent for Latin America, and 31 percent for Asia. The sector has not only grown in recent decades, but has emerged in new guises and unexpected places in the wake of industrial restructuring, globalization, and financial crises. It is of high policy interest in many parts of the world. First, it is linked directly and indirectly to the main development objectives such as increased income, job creation and reduction of poverty. Second, the informal sector’s characteristics are key factors in designing and monitoring targeted support and assistance programs.7

3. The Informal Sector in Mediterranean Countries and Turkey

3.1 The Informal Sector in Mediterranean Countries

For a variety of reasons, the size of the informal sector in the Mediterranean Countries is relatively large. According to the ILO (Figure 1 below), the average percent of informal employment relative to total employment is above 40 percent. This observation applies to Algeria, Egypt, Morocco and Tunisia. It also applies to both men and women, although the percentage is somewhat higher for men.8

![Graphic -1 Informal Sector in Mediterranean Countries](source: ILO)

The rise of informal employment is partly the result of the limited working opportunities in the formal sector relative to the proportion of the inactive working age population. In part, it is the natural result of the fact that those who opt to work in the informal sector tend to be poor and cannot afford to be “unemployed”. In fact, the relatively high levels of the Minimum Wage in some Mediterranean Countries influence in a way the firms’ behaviour with respect to employment.

The United Nations has made the demographic forecasts for 2020. It will be necessary to create 22.5 million new jobs, which corresponds to an annual growth rate of 1.9% over 15 years (see Table-1).

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As mentioned above, the Informal Sector is very large in Mediterranean Counties. For example the Syrian economy and labour market in particular, is plagued by a large informal sector, which involves no less than 43% of workers and seems to be increasing (from 40% in 1995 to 43 in 1999). There is no unified definition of the informal sector, but the definition applied in Syria in the census of 1999 covered those who are “playing a role in economic activity outside the institutions”. That implies all small units and individuals producing and distributing goods and/or services, working for their own account, with a very small capital (even without any) using primitive methods that need low level technologies and low skilled workers. The structure of the labour force by occupation is estimated at 40% in the agriculture sector, 20% in the industrial sector and 40% in services. Agriculture, building and construction (24%) and trade (14%) cover 80% of the informal sector. The high proportion in the agriculture sector can be explained because 63% of the workers are located in rural areas, where agriculture is the dominant economic activity. It may come as no surprise that the educational level of most of the informal sector workers is low. Around 77% of the total number of informal workers has an educational level below primary school, some of those are even not able to read and write and are, therefore, highly vulnerable. Due to the ongoing changes in the economy, the large size of the informal sector, the fragmentation of responsibility, the reliability of human resources information is questionable.

The most important pull factor is the nature of the economies in the Southern European countries. Greece in particular has a large informal economy that account for up to 30-35 per cent of the GDP. Small-scale family businesses are still very prominent in Greece. Roberto Dell’Annot and others researched the informal economy in the Mediterranean Countries: France, Spain and Greece and found the following results.

1) Unemployment appears as one of the main causes for the existence of the informal economy. This indicator presents a positive sign in all the models and for all the countries. This aspect is very important if we have to take into account the supposition that these workers cost double for the country; they receive monetary income from the country and the country is losing the taxes they should be paying for their (hidden) incomes.

2) There is a positive relationship between the size of the non-observed economy and the self-employment indicator. This variable is one of the main contributors to the growth of the shadow economy irrespective of the level of development of the economy.

Table: 1 Number of new jobs to create in 2020 to maintain the ratios of activity and unemployment unchanged.

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Employment 2020</th>
<th>To create 2005-2020</th>
<th>Share (%) in employment 2005</th>
<th>No. of unemployed</th>
<th>Inactive of 15-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>8 892 917</td>
<td>2 046 953</td>
<td>29.90</td>
<td>1 915 441</td>
<td>19 216 175</td>
</tr>
<tr>
<td>Egypt</td>
<td>24 570 872</td>
<td>6 452 272</td>
<td>33.61</td>
<td>3 038 643</td>
<td>39 104 175</td>
</tr>
<tr>
<td>Israel</td>
<td>3 231 130</td>
<td>737 530</td>
<td>29.58</td>
<td>319 278</td>
<td>2 743 046</td>
</tr>
<tr>
<td>Jordan</td>
<td>1 797 275</td>
<td>593 069</td>
<td>49.25</td>
<td>278 150</td>
<td>3 273 608</td>
</tr>
<tr>
<td>Lebanon</td>
<td>1 363 371</td>
<td>266 086</td>
<td>24.25</td>
<td>126 973</td>
<td>1 680 600</td>
</tr>
<tr>
<td>Morocco</td>
<td>12 802 203</td>
<td>2 889 007</td>
<td>29.14</td>
<td>1 583 844</td>
<td>13 629 681</td>
</tr>
<tr>
<td>Palest. A</td>
<td>998 460</td>
<td>420 021</td>
<td>72.61</td>
<td>366 210</td>
<td>2 119 299</td>
</tr>
<tr>
<td>Syria</td>
<td>7 227 151</td>
<td>2 405 394</td>
<td>49.89</td>
<td>955 982</td>
<td>9 839 058</td>
</tr>
<tr>
<td>Tunisia</td>
<td>3 587 904</td>
<td>661 204</td>
<td>22.59</td>
<td>596 288</td>
<td>4 989 120</td>
</tr>
<tr>
<td>Turkey</td>
<td>27 983 306</td>
<td>9 337 306</td>
<td>26.93</td>
<td>3 197 403</td>
<td>34 609 956</td>
</tr>
</tbody>
</table>

Total MPS 92 454 688 22 408 841 31.99 12 378 211 131 200 718

Source: F. Blanc, M. Louis, p.5.

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3) Social contributions are a significant determinant of the shadow economy for these countries. Thus, the job market regulations can be considered another cause of the unofficial economy in Spain, Greece and France.

4) Indirect taxes are the main fiscal determinants of the informal economy in Spain and direct taxes are the main contributors to the existence of the shadow economy in France. However, there does not appear to be any evidence of this in Greece. Consequently, the more developed the fiscal system and the bigger the country’s growth, the clearer the economic agents’ perception of the real taxes paid.

5) The level of development of a country, measured in terms of gross domestic product per head, and of political stability seem plausible explanations of the shadow economy. Low incomes per head and insufficient provision of public goods and services (education, health, security, etc.) may foster the need for additional (non-declared) sources of income.

6) Greek results, although statistically significant, should be interpreted with caution.

3.2 The Informal Sector in Turkey

The studies on the Informal Sector in Turkey go back to pre-1950s. These studies have been done primarily by social scientists, rather than economists, who investigated mainly squatter settlements and reached important findings. One paramount finding among them shows that the Turkish squatter settlements are quite different from those, for example, in Latin America in their relatively sound house structures, rich household facilities, appliances and particular cultures.11

The OECD estimated that Turkey’s informal economy could be roughly 50% of formal economic activity with the official GDP around $400bn. This high percentage reduces the overall growth potential of the Turkish economy.

The Informal Economy consists of all the income generating activities that are unregulated or concealed from the government and its omission may distort macroeconomic indicators and thus policies to be undertaken by the government. The Informal Sector is a cheap way of doing business which unfortunately also loses the possibility of increasing productivity.

In 2006, the Turkish government created an action plan - “KADIM”12 - to challenge the Informal Sector, coordinating various government and other institutions.

Statistics on the size of the Informal Sector in Turkey vary. One source estimates that 41% of the employed population in Turkey is engaged in the Informal Sector, or about 9.9 million people; another source estimates that the self-employed in Turkey are about 5.9 million. As misreporting is common in this sector, it is feasible to consider the first source to be more accurate.

Table: 2 Employment of Unregistered Persons

<table>
<thead>
<tr>
<th></th>
<th>Regular employee</th>
<th>Casual employee</th>
<th>Employer</th>
<th>Self Employed</th>
<th>Unpaid family worker</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2.286</td>
<td>1.353</td>
<td>322</td>
<td>3.102</td>
<td>2.865</td>
<td>9.929</td>
</tr>
</tbody>
</table>

Source: TurkStat

The consequences of informal economic activities on the economic structure of Turkey are both positive and negative. These are briefly listed below.

12 Fight against informality project. Kayit Dışı İstihdamla Mücadele (KADIM) Projesi.
Negative impacts:

- Unreal official economic indicators, which mean that macroeconomic variables such as GDP and inflation are not reliable. Policy-makers are not provided with reliable data to cure economic problems.

- Unfair competition for formal economy: firms fulfilling tax requirements will incur higher production costs compared to firms operating in the informal economy. FDI has been affected negatively in Turkey because of the Informal Sector.

- Ongoing budget deficits: A large informal sector means a low tax base and decreasing government revenues. There have been two domestic economic crises (1994 and 2001) and one international one (1998) resulting in the aggregation of systemic risks in the economy triggering the risk premium with the real interest paid on domestic debt going up to 35%. The average real interest rate paid over the post-1990 period was 13.1 percent, whereas in the post-1994 period it averaged 17.8 percent.

- High public sector borrowing rate: Alternative financing of government expenditures due to insufficient tax collection. High growth rates were maintained during the 1990-95 period at the cost of increased foreign and domestic borrowing, which funded an inflationary government budgetary and monetary policy.

- Negative financial structure in social security system. The net impact of unregistered employment will diminish revenues of social security organizations which in turn weakens the quality of service they provide.

- Negative impacts on public reconciliation, which means negative public opinion against government policies.

Although open to discussion, the Informal Sector has some positive impacts such as;

- Creation of economic boom, at least in short term due to lack of restriction on production.

- Increase in labour employment when the labour market is operating without any restriction. When tax and social security premiums are very high and enterprises prefer to employ in the Informal Sector.

- Postpone or decrease the public unrest.

- Positive effects on economic growth. For example between 2003 and 2007, the Turkish economy grew at an average annual rate of 6.9%

There are many causes for the existence of the informal economy, but some of the most important can be readily identified in Turkey. These are:

- High tax burden: The net impact of tax burden increase on individuals increases tax evasion. Corporate tax rate was reduced to 20% from 46% in 2007. Increasing tax rate after the Optimal Point diminishes total taxes collected due to increases in tax evasion.

- Weak banking systems: There were two financial crises in 1994 and 2001. Bottlenecks in the financing of enterprises due to the weakness of financial intermediaries push these enterprises to seek other sources of financing mainly in informal economy.

- Business regulations and legislation: the Turkish Commercial Code was passed in 1954. Over-regulation in an economy and imposing unduly legislative barriers give incentives to operate in the Informal Sector.
- Inefficiency of government institutions: Especially in developing countries there is a high level of bureaucracy in almost all the government institutions at every level. Thus individuals prefer to keep away from state bureaucracy in order not to face time and resource-consuming operations.

- High unemployment rates: High unemployment and weak social security system is a very lucrative source for shadow employment of the masses.

- High inflation rates: Inflation rates were very high during the last decade. It was over 100 percent for many years.


- Low GDP per capita: The informal economy tends to be greater in the developing and transition countries due to more corruption and low incomes. The GNP per capita, which was $6,625 in 2006 and $7,139 in 2007, is below the population’s expectations.

4. Poverty in Mediterranean Countries and Turkey

4.1 Definition and Measuring of Poverty

According to the World Bank’s website, poverty has many faces, changing from place to place and across time, and has been described in many ways. Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom. Most often, poverty is a situation people want to escape from. So poverty is a call for action, for the poor and the wealthy alike, a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities.  

A common method used to measure poverty is based on incomes or consumption levels. A person is considered poor if his or her consumption or income level falls below some minimum level necessary to meet basic needs. This minimum level is usually called the “poverty line”. What is necessary to satisfy basic needs varies across time and societies. Therefore, poverty lines vary in time and place, and each country uses lines which are appropriate to its level of development, societal norms and values.

Information on consumption and income is obtained through sample surveys, with which households are asked to answer detailed questions on their spending habits and sources of income. Such surveys are conducted more or less regularly in most countries. These sample survey data collection methods are increasingly being complemented by participatory methods, where people are asked what their basic needs are and what poverty means for them. Interestingly, new research shows a high degree of concordance between poverty lines based on objective and subjective assessments of needs.

When estimating poverty worldwide, the same reference poverty line has to be used, and expressed in a common unit across countries. Therefore, for the purpose of global aggregation and comparison, the World Bank uses reference lines set at $1 and $2 per day (more precisely $1.08 and $2.15 in 1993 Purchasing Power Parity terms). It has been estimated that in 2001, 1.1 billion people had consumption levels below $1 a day and 2.7 billion lived on less than $2 a day. These figures are lower than earlier estimates, indicating that some progress has taken place, but they still remain too high in terms of human suffering, and much more remains to be done.

While much progress has been made in measuring and analyzing ‘income poverty’, efforts are needed to measure and study the many other dimensions of poverty. Work on non-income dimensions of poverty -

14 Ibid.
15 Ibid.
defining indicators where needed, gathering data, assessing trend - is presented in the World Development Report (WDR) 2000/01: Attacking Poverty. This work includes assembling comparable and high-quality social indicators for education, health, access to services and infrastructure. It also includes developing new indicators to track other dimensions - for example risk, vulnerability, social exclusion, access to social capital - as well as ways to compare a multi-dimensional conception of poverty, when it may not make sense to aggregate the various dimensions into one index.16

Living standards have risen dramatically over the last decades. The proportion of the developing world’s population living in extreme economic poverty - defined as living on less than $1 per day ($1.08 in 1993 dollars, adjusted to account for differences in purchasing power across countries) - has fell from 28 percent in 1990 to 21 percent in 2001.

While there has been great progress in reducing poverty, it has been far from even, and the global picture masks large regional differences. Poverty is a global problem. Global trends in poverty reduction have been dominated by rapid growth in China and the East Asia and the Pacific region. Poverty also fell in South Asia over the past 20 years, and while the decline was not as rapid, almost 45 million fewer people were living in extreme poverty by 2001.

Other regions have seen little or no change. In the early 1990s the transition economies of Europe and Central Asia experienced a sharp drop in income. Poverty rates rose to 6 percent at the end of the decade before beginning to recede.17 According to projections by the World Development Indicators Report 2004, poverty rates will fall fastest in East Asia and the Pacific outside of China, but the huge reduction in the number of people below the $1 a day line in China will dominate global totals. In Europe and Central Asia and in the Middle East and North Africa, where poverty rates measured at $1 a day are low, a continuation of current trends will cut poverty rates to half their current levels. South Asia, led by continuing growth in India, is likely to reach or exceed the target. But growth and poverty reduction are proceeding more slowly in Latin America and the Caribbean, which will not reach the target unless growth picks up. The most difficult case is Sub Saharan Africa, where poverty has increased since 1990 and will, on present trends, fall very slowly in the next 11 years, unless there is a major change in prospects.

In Sub-Saharan Africa, where GDP per capita shrank 14 percent, poverty rose from 41 percent in 1981 to 46 percent in 2001, and an additional 150 million people were living in extreme poverty.

4.2 Poverty in Mediterranean Countries

Poverty has increased in Mediterranean countries and now has a different face. Aside from the “classical” poverty characterised by particularly destitute material conditions, another more recent type of poverty linked to the rural exodus and adjustments brought by changes in the allocation of resources has developed. This “modern” poverty which has emerged even in the most developed countries is found essentially in urban areas. It is characterised by mechanisms of exclusion - from the working world, from the growing consumer society, from social solidarity and from the possibility of integration. This new development, both in the North as well as the South, requires heightened consciousness and collective solutions. It is even more worrisome because migrations allow this poverty to “circulate” throughout the Mediterranean and Europe. There is, in effect, a considerable risk in accepting the terrible process by which the poor engender the poor in a closed and excluded society without any hope of the poverty issue coming to the forefront of public debate.18

Although the method of measuring poverty is inexact and controversial, at least 5 per cent of the total population in the Mediterranean region still lives on less than one dollar per day (Purchasing Power Parity, PPP). Although considerably lower than other regions of the world, it concerns some 11 million people. By fixing the poverty line at 50 dollars per month (the poverty line used by governments in Mediterranean countries), the number of poor in the region reaches some 40 million individuals or about 20 per cent of the population. Experts agree that the development of poverty is directly tied to earnings per capita and income

16 Ibid.
17 World Development Indicators 2004.
distribution. Available estimates indicate that income inequality grew considerably in the 1990s (the Gini coefficient which measures earnings differences - the closer it is to 100 the greater the difference - is 39 for the principal Mediterranean countries and 33 for Eastern European countries).19

Poverty is higher in south Mediterranean Countries than in the European countries. With respect to the percentage of the population living under the international poverty threshold, which is conventionally fixed at an average consumption expenditure of 1 dollar (1985 PPP$) per capita per day, it is possible to note highly heterogeneous levels of economic destitution among the various countries of the Mediterranean. In fact, they range from 1.1% of poor people in Morocco’s overall population, to 2.5% in Algeria, 2.5% in Jordan, 3.9% in Tunisia, and - finally - 7.6% in Egypt. Nevertheless, if we take 2 dollars per day as the term of comparison, these relatively low poverty incidence rates increase sharply to become: 17.6% in Algeria, 19.6% in Morocco, 22.7% in Tunisia, 23.5% in Jordan, and more than half of the population (51.9%) in Egypt.20

In fact, there is a real risk that social integration may become ungovernable. This would lead to a process that focuses on economic development in the Euro-Mediterranean Area without taking into account social development or the principles of cultural poly-centralism in the region. This would result in marginalisation from the productive sector, the exclusion of the weaker parts of the Mediterranean basin from the development process, forms of dependence, and permanent deep rifts between the North and South with respect to growth, incomes, work opportunities and dignified life conditions. Finally, it might generate new forms of conflict which would block the development mechanisms of the whole region’s system.21

In order to reduce poverty and to strengthen human development, which are the main objectives of the Mediterranean countries, top priority should be given to those initiatives that speed up demographic transition. Above all, priority should be given to initiatives aimed at reforming the social security network (by programming focused and selective public transfer systems that satisfy the real needs of the poor), to guaranteeing health assistance and primary education for all (with the aim of completely eradicating illiteracy), and to favouring flexible work. This will make it possible to fight the main individual factors that cause poverty.

All studies indicate several specific causes behind the development of poverty: (i) the first is demographic pressure and the rise in women’s participation rate which bring about a surplus of workers who naturally turn to domestic or foreign urban labour markets, (ii) the second is linked to the relative fall in agricultural employment, (iii) the third is the intensification of agriculture reducing its capacity to absorb the working age population (which has sharply risen again in rural areas as a result high fertility rates in the concerned regions), (iv) the fourth is linked to the decreasing role of the state as employer, which was necessary for stabilisation and transition, (v) the fifth is a result of the reallocation of resources imposed by liberalisation and (vi) the sixth is due to limitations on social aid which constitute the only means by which the long-term unemployed could avoid plunging into utter poverty.22

Without asserting that the EU is directly responsible for current trends in Mediterranean economies and societies, these remain of great concern to it. The surplus of workers moving from rural to urban areas could also clearly target European cities. There are, in effect, some 5 million individuals from Mediterranean countries in the EU of which 60 per cent are Yugoslavs and Turks (Germany is home to 80 per cent of them) and 40 per cent from Maghreb who for the most part reside in France (70 per cent).23

High concentrations of poverty among populations exposed to climate risk are a source of vulnerability. The 2.6 billion people - 40 percent of the world’s population - living on less than US$2 a day is intrinsically vulnerable because they have fewer resources with which to manage risks. Similarly, for Mediterranean countries with a combined population of 509 million people in the low human development category of the

21 Carla COLLICELLI CE SIS, p.72.
Human Development Index (HDI), The HDI in the following table-3 refers to 2005 and covers Mediterranean countries. The HDI is an important tool for monitoring long-term trends in human development. To facilitate trend analyses across countries, the HDI is calculated at five-year intervals for the period 1975-2005. Many Mediterranean countries have low levels of literacy. In comparing standards of living across countries, economic statistics must be converted into purchasing power parity (PPP) terms to eliminate differences in national price levels.24

Table: 3 Human development indexes in Mediterranean Countries

<table>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9 Netherlands</td>
<td>0.953</td>
<td>79.2</td>
<td>98.40</td>
<td>32.684</td>
<td>0.904</td>
<td>0.988</td>
<td>0.966</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>10 France</td>
<td>0.952</td>
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<td>30.386</td>
<td>0.919</td>
<td>0.982</td>
<td>0.954</td>
<td>8</td>
<td>11</td>
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<tr>
<td>13 Spain</td>
<td>0.949</td>
<td>80.5</td>
<td>90.6</td>
<td>28.529</td>
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<td>80.3</td>
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<td>80.3</td>
<td>97.1</td>
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<td>24 Greece</td>
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<td>79.9</td>
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<td>0.856</td>
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<td>96.8</td>
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<td>84.2</td>
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<td>78.4</td>
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<td>86 Jordan</td>
<td>0.773</td>
<td>71.9</td>
<td>91.1</td>
<td>8.530</td>
<td>0.782</td>
<td>0.868</td>
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<tr>
<td>88 Lebanon</td>
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<td>71.5</td>
<td>84.6</td>
<td>8.530</td>
<td>0.775</td>
<td>0.871</td>
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<tr>
<td>91 Tunisia</td>
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<td>74.3</td>
<td>7.371</td>
<td>0.808</td>
<td>0.750</td>
<td>0.739</td>
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<tr>
<td>104 Algeria</td>
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<td>71.7</td>
<td>69.9</td>
<td>7.371</td>
<td>0.811</td>
<td>0.771</td>
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<tr>
<td>108 Syria</td>
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<td>80.8</td>
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<tr>
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<td>52.3</td>
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<td>0.811</td>
<td>0.771</td>
<td>0.711</td>
<td>-22</td>
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</table>

Urban poverty, now developing on the outskirts of European cities, in many ways resembles urban poverty in Mediterranean cities and has similar characteristics. Likewise, as the rural exodus and the more or less rapid fall of agricultural production in Mediterranean countries are at the heart of migrations to cities, it is difficult to believe that the questions raised earlier regarding the agricultural issue are unanswerable. The difficulty of adjustment and reallocations between sectors, which will accompany the development of a free-trade area, also create new forms of poverty on top of the endemic poverty of which Mediterranean countries already suffer.25

25 Carla COLLICELLICE SIS.
On combating poverty in Euro-Mediterranean countries

- Poverty is a global scourge that affects every region of the world, including the most developed regions, in varying degrees and different forms;

- The aims of combating poverty must fit in with the perspective opened up by the Millennium Development Goals adopted by the United Nations for the period 2000-2015;

- The concept of development must not be limited to economic growth alone, but must be extended to include social, environmental and human considerations, and to take account of redistributive aspects in order to ensure respect of human rights for all;

- The efficacy of the fight against poverty depends in large measure on respect for good governance, inter alia the fight against corruption and thus the effective functioning of public authorities and their harmonious cooperation with the social partners and other representatives of civil society, and on the real involvement of those directly suffering extreme poverty;

- Civil society, in particular ESCs and similar institutions, must be involved in drafting and implementing strategies to combat poverty;

- Peace is an essential prerequisite for combating poverty;

- The phenomenon of poverty and social exclusion exists in EU countries just as it does in other Euro-Mediterranean countries;

- Recognise the efforts made in each country to combat the scourge of poverty;

- In the Mediterranean Countries poverty hits rural areas, women and the unemployed especially hard. Pockets of acute poverty in urban areas and the emergence of new forms of poverty like the “working poor” have appeared. The Mediterranean Countries should seek new resources to finance the World Solidarity Fund for Poverty Eradication;

- The emergence of extreme poverty for those affected is an attack on their human dignity;

- Consider the negative effect of the debt problem and the trade deficit vis-à-vis the European Union on the economic development of the countries of the southern Mediterranean;

- The Euromed Partnership should be re-launched focusing on the goal of combating poverty especially among the most vulnerable groups in society;

- The Euromed Partnership should adopt a comprehensive and integrated approach to combating poverty. This approach should be based on a certain number of stated general objectives, with implementation being a matter for each member country in the partnership, based on the open method of coordination;

- Social protection systems based on solidarity and accessible to all, providing basic guarantees in the area of health and protection of the most vulnerable, in particular women, elderly people, people with disabilities, and children should be developed;

- Education and lifelong learning measures should be adopted so as to avoid the transmission of poverty from generation to generation.

26 EURO-MEDITERRANEAN SUMMIT OF ECONOMIC AND SOCIAL COUNCILS AND SIMILAR INSTITUTIONS, FINAL DECLARATION, Ljubljana, 15-17 November 2006.
4.3. Poverty in Turkey

Poverty in Turkey is strongly associated with age and household composition; children and families with children are poorer than average. Poverty rates are higher for unemployed family male heads, and female heads, and sharply higher for illiterate heads. There is a sharp difference in the poverty rates between rural and urban households, with rural poverty substantially greater.

Poverty increases monotonically with additional household members, starting at three members. Larger households are poorer than smaller households, and this is primarily due to the fact that the additional household members are more likely to be children, who have a higher poverty rate. Households with no children or only one child have poverty rates below the average. There is also a correlation between having elderly members and household poverty, though this correlation is not as marked as with having additional children. Having one more elderly member did not noticeably increase the risk of poverty, and having two or more slightly elevated the risk. With respect to correlation with age, younger children are poorer, active-aged adults are not as poor on average, and the elderly are poorer than adults, but not as poor as children.27

The level of public spending on education also increased significantly after 1998, both in real terms and as a percentage of the Gross Domestic Product (GDP). While rapid progress in recent years is encouraging, analyses of household survey data reveal that there is significant room for further pro-poor improvements when it comes to:

(i) Quality of schooling - the parents of poor children are more likely to report problems with schools, and they are less likely to be satisfied with the quality of education their children receive;
(ii) Enrolments in secondary education - the poor, females, and children who do not have a secondary school in their residential area are all substantially disadvantaged.

Turkey’s health care delivery system and its finance are fragmented. Despite significant efforts, the service delivery network remains highly uneven, with major concentrations in urban areas. Both Household Consumption and Income Survey (HCIS) and Household Budget Survey (HBS) data suggest that over one-third (36 to 37 percent) of the population in Turkey does not have access to health insurance, and almost half the population in rural areas remains without any coverage. The Government gave 10 million green cards to the poor allowing them free health services; however they continue to face significant access barriers to health in some institutions.

Additionally, according to the TurkStat Household Labour Force Survey for 2007, the population 15 years of age and over is 49.2 million and the annual average of labour force participation rate in Turkey is 47.8% (23.5 million). The labour force participation is 72.3% and 25.4% for men and women respectively. The employment rate was 43.2% in 2003 and increased to 47.8% in 2007. The employment rates are 62.2% and 20.8% for men and women respectively. While the seasonal employment rate is not included in the survey, the informal sector and subsistence in agriculture are included. In Turkey, as in most countries, poverty is closely related to employment status and the type of job, whereby informally employed and casual workers have higher rates of poverty. Education plays a key role in explaining employment and poverty outcomes. Unemployment in Turkey was around 10 percent in 2007. There are very sharp differences in labour market participation rates between men and women, with extremely low rates of female labour market participation in Turkey. Reasons for not seeking a job varied from factors relating to age or family structure (student, housewife, elderly) to disability or seasonal employment. Poverty rates of those who had permanent employment were lower compared to those with casual or temporary jobs.

Poverty was found to be sharply associated with the lack of registration at a social security institution. The largest sector of employment in Turkey is agriculture, which is also the sector with the highest poverty rate of those employed in it.

Turkey is one of the countries where income distribution inequality is quite high. As is well known from the literature, the income level for the country as a whole may be increasing, but the crucial dimension for poverty is how income is distributed among the various population groups.

According to TurkStat data in 2006, 0.74 percent of Turkey’s population (which means approximately 539,000 individuals) were living below the food poverty line and 17.81 percent of Turkey population which means 12,930,000 individuals were living below the complete poverty line that covers food and non-food expenditure. There aren’t any people whose daily expenditure per capita is below $1 according to the Purchasing Power Parity.

Poverty restricts the poor from accessing many goods and services. The poor are less able to afford discretionary expenditures. Turkey is a middle-income country, and its inequality is high. The rate of extreme poverty in Turkey is quite low. However, the overall rate of poverty is high when compared to the EU, and this reflects the first fact on inequality. In 2006, the monthly food poverty line is $170 whereas the monthly complete poverty line is $457 for a 4-person household.

The ratio of individuals who live below the food poverty line which was 0.87 % in 2005 decreased to 0.74 % in 2006. Similarly the ratio of individuals who live below the complete poverty line decreased from 20.5 % in 2005 to 17.81 % in 2006.

Both consumption and income indexes indicate that inequality is higher in urban areas than in rural areas, but not much. Other data confirm overwhelmingly that there is a sharp East-West divide in Turkey where South-eastern and Eastern Anatolia regions are much poorer and have sharply lower human development indicators than Western Turkey. Turkey’s poverty rate of 27 percent is in the midrange for most medium income countries but is much higher than those in the European Union countries.

The ratio of individuals who live in rural areas and live below the complete poverty line is 31.98%, whereas the ratio of individuals who live in urban areas and live below the complete poverty line is 9.31 %.

In 2006, while the ratio of individuals living in households which are comprised of 3 or 4 people and who live below the complete poverty line is 8.49 %, this rate among the individuals in households comprised of 7 and more people is calculated as 42.98 %.

According to household type, while the ratio of individuals who are in a nuclear family unit with children and who live below the poverty line is 17.41 %, the poverty rate for individuals who are in a nuclear family without children decreased to 10.14 %. The poverty rate for individuals who live in large families is estimated as 20.24 %.

According to analysis in percentage rates, first quintile’s share received from the total disposable income decreased, whereas fifth quintile’s share increased. According to Household Budget Survey’s results of 2005, household disposable income first quintile’s share received from the total disposable income is 6.1%, whereas households of the fifth quintile’s share received 46.2% of it.
Table 4: The Poverty Rates according to Poverty

<table>
<thead>
<tr>
<th>Methods</th>
<th>Percentage of poor individuals (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
</tr>
<tr>
<td><strong>TURKEY</strong></td>
<td></td>
</tr>
<tr>
<td>Food poverty</td>
<td>1.35</td>
</tr>
<tr>
<td>Complete poverty (food+nonfood)</td>
<td>26.96</td>
</tr>
<tr>
<td>Below 1 $ per capita per day (1)</td>
<td>0.20</td>
</tr>
<tr>
<td>Below 2,15 $ per capita per day (1)</td>
<td>3.04</td>
</tr>
<tr>
<td>Below 4,3 $ per capita per day (1)</td>
<td>30.30</td>
</tr>
<tr>
<td>Relative poverty based on expenditure (2)</td>
<td>14.74</td>
</tr>
<tr>
<td><strong>URBAN</strong></td>
<td></td>
</tr>
<tr>
<td>Food poverty</td>
<td>0.92</td>
</tr>
<tr>
<td>Complete poverty (food+nonfood)</td>
<td>21.95</td>
</tr>
<tr>
<td>Below 1 $ per capita per day (1)</td>
<td>0.03</td>
</tr>
<tr>
<td>Below 2,15 $ per capita per day (1)</td>
<td>2.37</td>
</tr>
<tr>
<td>Below 4,3 $ per capita per day (1)</td>
<td>24.62</td>
</tr>
<tr>
<td>Relative poverty based on expenditure (2)</td>
<td>11.33</td>
</tr>
<tr>
<td><strong>RURAL</strong></td>
<td></td>
</tr>
<tr>
<td>Food poverty</td>
<td>2.01</td>
</tr>
<tr>
<td>Complete poverty (food+nonfood)</td>
<td>34.48</td>
</tr>
<tr>
<td>Below 1 $ per capita per day (1)</td>
<td>0.46</td>
</tr>
<tr>
<td>Below 2,15 $ per capita per day (1)</td>
<td>4.06</td>
</tr>
<tr>
<td>Below 4,3 $ per capita per day (1)</td>
<td>38.82</td>
</tr>
<tr>
<td>Relative poverty based on expenditure (2)</td>
<td>19.86</td>
</tr>
</tbody>
</table>

Source: TurkStat

By this result, the ratio of the fifth quintile’s share to the first quintile’s share S80 /S20 which is the inequality criteria has been calculated as 7.3. That ratio became 7.7 in 2004.

For households that live in urban areas the ratio of fifth quintile’s share to the first quintile’s share is calculated as 6.8, for rural areas this ratio is calculated as 7.2.

The Gini coefficient (one of the income inequality criteria) is calculated to be 0.38 for Turkey with 0.37 for urban areas and 0.38 for rural areas. As the Gini coefficient gets closer to one, income distribution becomes less fair, and getting closer to zero means it becomes fairer. Urban and rural areas were 0.40, 0.39 and 0.37 in 2004. The Gini coefficients for income for 2002 were 0.44, which is noticeably lower than the very high Gini coefficients in many extremely low-income countries. However, Turkey does not measure up well against Western Europe which is substantially less unequal.

While the poverty rate for regular workers is 6%, it is 28.63% for casual workers, 3.75% for employers, 22.06% for persons working as self employed and 31.98% for persons working as unpaid family workers in 2006.

Agriculture has the highest poverty rate among all sectors. While the poverty rate among the people who work in the agricultural sector was 33.86 % in 2006, it was 37.24 % in 2005. The poverty rate among people employed in the industry sector has been calculated as 10.12% and the poverty rate for people employed in

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28 The Gini coefficient is a measure of statistical dispersion most prominently used as a measure of inequality of income distribution or inequality of wealth distribution. It is defined as a ratio with values between 0 and 1: the numerator is the area between the Lorenz curve of the distribution and the uniform distribution line; the denominator is the area under the uniform distribution line. Thus, a low Gini coefficient indicates more equal income or wealth distribution, while a high Gini coefficient indicates more unequal distribution.
the service sector has been calculated as 7.23% in 2006. Poverty rates are 13.6% and 20.05% for economically inactive people and for unemployed persons respectively.

The higher the education level, the lower is the poverty risk. The poverty rate is 33.71% among the illiterate, 14.19% among the elementary graduate, 5.2% among the high school and equivalent, and for professional school graduates it is 1.01%.

The share of salaries and wages in total income exceeds other types of income. Looking at functional distribution of income, 39.2 percent of annual disposable income of individuals is salaries and wages; 28.8% of that is entrepreneur income; 23% of that is transfer income; 5.6% of that is property income and 3.3% of that is daily wage. The same ratios were 38.7%, 31.8%, 21.2%, 4.9% and 3.5% in 2004.

5. The Informal Sector and Poverty

The incidences of poverty and the informal economy (sector) are larger in the poor (developing and transition) countries when compared with the highly developed countries. There is also a causal link between poverty and informal economy especially in the developing and transition countries with common factors such as high unemployment and corruption rates affecting both poverty and the underground economy. High social security and tax burdens were found to account for the high rates of informal economies in the highly developed countries even with people’s awareness of the implications if caught.

There are contradictory views regarding the relationship between poverty and the informal economy. On one hand, the informal economy seems to trap its actors in poverty while on the other; it contributes to the eradication of poverty. However, the informal economy offers jobs that are of low quality, have poor employment and working conditions and therefore do not contribute much to poverty reduction. Among the working population, workers in the informal economy are poorly remunerated, underemployed, have no social protection; their rights are less respected, and they are excluded from social dialogue and decision making. Thus, workers in the informal economy run a high risk of injury and their health is harmed on a daily basis. In the event of injury or illness they have no protection or safety net to help them and their families survive on a reduced or cut-off income. Thus, it can be inferred that poverty forces people to engage in the informal economy and working in the informal economy means poverty. By comparing some of the dimensions of employment and working conditions of the formal and informal economy, Orlando29 revealed that in 1991 and 1997 earnings per hour in the formal sector in Venezuela were 44 and 49 percent higher than in the IS, respectively. Looking at income dimensions of poverty the IMF reported that in Serbia and Montenegro the incidence of poverty, relative poverty risk, poverty depth and poverty severity are higher for people working in the informal economy than those in the formal one. The situation is even worse for female informal workers whose average earnings are 70 percent less than those of informal male workers30.

The size of the informal sector, particularly in terms of its contribution to total employment, is quite large in most countries of the Mediterranean region. However, the incidence of poverty in this sector tends to be high due to low earnings. The serious problem of poverty cannot be tackled without paying closer attention to the informal sector.

The efficiency of the effort to combat poverty in the Euro-Mediterranean zone depends, to a large degree, upon good governance. Phenomena of over-centralization, accompanied by informal economy and lack of transparency in the interaction between public and private actors, must be dealt with so that anti-poverty policies may be less costly and more productive.31 Poverty is also affected by mutually reinforcing migration, urbanization and the expansion of the informal economy. The phenomena of over-centralization, accompanied by the informal economy and lack of transparency in the interaction between public and private actors, must be dealt with so that anti-poverty policies may be less costly and more productive in

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30 Esther K. Ishengoma and Robert Kappel, cit. at p.22.

31 CONSELHO ECONÔMICO E SOCIAL, p. 4.
Mediterranean Countries. A special effort must be addressed to facilitate the integration of the informal sector into the formal economy.

The informal economy is associated with sustained poverty with a long term Informal Sector affecting poverty negatively. When developed and undeveloped countries are compared with regards to the size of the informal economy, in general, the informal economy is smaller in developed countries.

5. Conclusions

The people in the informal sector serve an important function where employment opportunities are scarce and industrial employment is inadequate or even shrinking. If one can define entrepreneurship as a relentless and sometimes desperate pursuit of opportunities, regardless of resources or outcomes, persons in the informal sectors are certainly entrepreneurs. They create the most-needed employment for themselves and others similarly situated.

There is a lower level of education, productivity and income in the informal sector. These people share already existing jobs rather than create new ones. It is not possible to produce the much-needed outcome of raising the quality of labour and jobs through the informal sector.

High population growth in the rural areas and the productivity increases in agriculture create migration to urban areas in the Mediterranean countries. But it must create jobs for new job seekers to prevent poverty in urban areas.

The reduction of bureaucracy can be accomplished by having a one stop-shop for registration, decreasing registration procedures, and increasing the effectiveness and efficiency of offices involved in the registration process. It will help to decrease informality in the Mediterranean countries.

The national tax system needs to be well structured, clear and transparent. Local levies may be transformed into fees for the use of community resources in order to encourage the efficient provision of local public services and accountability. Measures aimed at enhancing national-level accountability need to be taken. Straight-forward property right registration and efficient contract enforcement mechanisms which recognise and incorporate informal, popular rules need to be brought into the process of securing property rights. Ways to link multilateral private governance structures and the formal judicial system in relation to contract enforcement may have to be found to simplify the process, increase its effectiveness and efficiency and improving its reach to all business operators in the Mediterranean countries.

The national social security system needs to be reformed to prevent informal employment in the South Mediterranean countries. Formal sector jobs must be created as it is the main lever for poverty reduction, and it is necessary to have macroeconomic stability to reduce poverty. The Government’s reform program should include measures on strengthening the tax system, including the elimination of loopholes and increased transparency, equity, and progressively of taxes. The tax strategy should assist in addressing the South Mediterranean’s, including Turkey’s, persistent income inequality, which has been a brake on poverty reduction.

Reducing the size of the informal economy would generate huge positive economic gains. To reap them, governments can fight against poverty. The formalisation of informal enterprises can be viewed as an empowerment process and a poverty reduction strategy. There should be legal/official recognition of the living conditions of the poor and their sources of income. This can be possible if the voices of employers and employees in the informal sector are empowered. If the people in the Informal Sector participate in decision-making and the formulation of policies/regulations they may in turn be motivated to comply with them. Increased formalisation requires incentives that is to say; the provision of public and infrastructural services needs to be obvious, efficient, reliable and cheaper.

In order to ensure long-term economic growth and equity, there is a need to maintain public education spending levels of at least 5 percent of GDP. The quality of education also needs improvement especially for the poor: parents of poor children are more likely to report problems with schools, and less likely to be satisfied with the quality of education their children receive.
In order to formalise informal finance, there is a need to encourage micro-finance institutions in such a way to reduce the cost of borrowing, especially in rural areas, and to maximise the number of people who are eligible for credit in the hope of reducing poverty in the medium and long term.

The fight against informality and poverty should be seen as a common endeavour of the peoples of the whole area.

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