
The Informal Economy in Algeria:

Towards Sustainable Digital Integration in the Era of Digital Transformation

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Abstract:

The informal economy in Algeria poses a structural challenge that hinders economic growth and financial sustainability, as it significantly contributes to economic activity without being subject to formal regulation.

This research adopts the descriptive–analytical approach to examine this phenomenon highlights that digital transformation can play a pivotal role in integrating this sector by enhancing transparency, broadening participation, and advancing financial inclusion. However, major obstacles remain, including weak digital infrastructure, the absence of suitable legislation, and limited awareness of the importance of digitization.

The study recommends adopting supportive legal frameworks, developing technological infrastructure, and promoting electronic payment systems as essential steps toward sustainably integrating the informal economy.

Keywords: Informal Economy; Digital Transformation; Financial Inclusion; Algeria; Digital Infrastructure.

Jel Classification Codes : E26, O17.

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1. Introduction :

In light of the economic and social transformations taking place globally, digital transformation has become an urgent necessity for achieving sustainable development. The informal economy is a fundamental component of the Algerian economy, as it contributes to job creation and the provision of goods and services to society. However, it suffers from a lack of regulation and integration into the formal system.

With rapid technological advancements, there is a pressing need to harness the potential of digital transformation to effectively integrate this sector. Doing so would contribute to greater transparency, improved economic efficiency, and the achievement of social justice.

The process of digital transformation is not limited to enhancing efficiency and productivity; it also encompasses promoting financial inclusion, improving tax administration, and increasing transparency in economic transactions. Nevertheless, achieving this sustainable integration requires overcoming numerous challenges, including insufficient digital infrastructure, weak technological awareness, and various regulatory and social barriers.

1.1. Research Problematic: How can Algeria achieve the sustainable digital integration of the informal economy in light of existing social and economic challenges, and what strategies are required to ensure a comprehensive digital transformation?

Hypotheses:

To address the research problem, the following hypotheses are proposed:

- The adoption of supportive government policies—such as tax incentives and legal facilitations for workers in the informal economy—can enhance their chances of integration into the digital system.
- The development of digital infrastructure alone is sufficient to achieve the sustainable integration of the informal economy, regardless of factors such as digital literacy or community engagement.
- Increasing digital awareness and providing targeted training programs for informal economy workers can improve their ability to engage with digital tools.

1.2. Research Aims:

This study aims to shed light on the current state of the informal economy in Algeria, explore the challenges and opportunities associated with its integration into the digital economy, and offer recommendations to support sustainable digital inclusion in the broader context of digital transformation.

1.3. Previous Studies:

Previous studies on the informal economy in Algeria have examined its definition, size, and economic and social impact. For example, *The Informal Sector in Algeria* focused on the sector's structural dimensions, while *The Impact of the Informal Economy on Economic Diversification in Algeria* highlighted bureaucratic and institutional obstacles. Other studies addressed informal trade practices and tax compliance, and some explored social and historical aspects, yet none proposed practical solutions for integrating the sector into the formal system. This study, in contrast, contributes by emphasizing digital transformation as a key tool for integrating the informal economy through electronic payments, digital documentation, e-commerce, and digital microloans, while promoting financial inclusion and enhancing tax compliance. It draws on recent data from the World Bank, the Bank of Algeria, and corruption perception indices, and incorporates lessons from Turkey, Italy, and Colombia to propose practical, sustainable strategies for expanding participation, improving transparency, and fostering formalization—an approach largely missing in previous research.

2. Definition and Characteristics of the Informal Economy :

2.1 Definition of the Informal Economy: There are various definitions of the informal economy, which can be summarized as follows:

• **Keith Hart** was the first to use the term “informal” in 1971, prior to the 1972 Kenya Report prepared by the International Labour Organization (ILO), which officially introduced the term “informal economy.” In this report, three different approaches were used to define the concept:

- “The informal economy is the economy that we cannot measure” – a statistical perspective on the informal economy.
- “The informal economy is the hidden economy that operates outside any legal framework” – a legal definition of the informal economy.
- “The informal economy is a set of actions aimed at filling the gaps and deficiencies found in the formal economy” – a socio-economic interpretation of the informal economy (El Wali, 2022, p. 395).

According to the International Labour Organization (ILO): “It is a set of diverse economic activities, commercial enterprises, and informal workers who do not benefit from state protection. Accordingly, it consists of private commercial projects that are not legally organized and are not registered under any form specified in national legislation.” (Boudlal A., 2014, p. 71)

• **Vito Tanzi (1982)** defines the informal economy as: “The total income earned but not reported to tax authorities, or the total income not included in national accounts”.

This definition highlights that national income accounting relies to some extent on tax data; therefore, tax evasion inevitably leads to an inaccurate measurement of national income (Matouk, 2024, p. 860).

Based on the above, the informal economy can be defined as the total of economic activities that occur outside the formal framework or institutional system of the state, and which are not subject to formal regulatory or tax oversight.

2.2. Characteristics of the Informal Economy: The informal economy is generally characterized by the following features:

- **Lack of Regulation:** Activities within the informal economy are typically free from legal and regulatory constraints. This includes the organization of labor, production and marketing methods, and the employment of various categories of workers, including children. The sector is often marked by minimal or non-existent compliance with registration requirements, tax obligations, and labor laws.
- **Ease of Entry:** Entry into the informal economy is relatively easy, as it does not require significant financial or professional resources. This accessibility makes it a highly competitive market rather than one dominated by monopolies.
- **Low Educational Levels of Workers:** Workers in the informal economy generally possess low levels of formal education. Academic qualifications and educational attainment play little to no role in employment within this sector, which accommodates individuals from all social classes, especially youth, regardless of their educational background.
- **Employment of Women and Children:** The informal sector provides a fertile environment for the employment of women and minors, particularly in sectors such as textiles, ready-made garments, and domestic work.
- **Limited Access to Financing:** Informal economy units typically operate with weak financial capacity. They often rely on minimal or even non-existent capital, lack access to formal borrowing mechanisms, and depend primarily on personal resources and manual labor.
- **Low Income:** This results from the limited returns generated by informal economic activities, which are either exempt from taxation due to low income levels or go untaxed due to tax evasion and the lack of formal declaration of such activities. (Dhibih, 2020, p. 102)

2.3. The Size of the Informal Economy in Algeria:

Economic activity constitutes a fundamental pillar for achieving sustainable development. However, such activities do not always fall within formal frameworks, as a significant portion is characterized by an informal nature, operating outside legal and regulatory systems. This economic dimension is often overlooked, despite its central role in the lives of individuals and communities, particularly in developing countries such as Algeria. Consequently, understanding the size and impact of the informal economy represents an essential step toward assessing the challenges and opportunities it poses to the national economy.

Despite the efforts undertaken by Algeria to combat the informal economy and attempt its integration into the formal sector—such as providing support to small enterprises and promoting projects related to traditional activities—its size remains substantial, as illustrated in the following table:

Table N°1: Size of the Informal Sector in Algeria as a Percentage of Gross National Product (GNP) During the Period 2010–2025

Year/Period	Percentage of GNP	Absolute Size (Approximate)	Main Source	Remarks
2010.2017	30%.	-	International Monetary Fund (IMF)	Regional report on North Africa including Algeria
2018	31.4 %.	USD 82.5 billion	Institute for Security Studies (ISS)	Estimate for 2018, with a projected decline to 25.6% by 2043
2023-2025	29%.	-	World Economics	Recent estimate added to official accounts to adjust the size of the real economy
May 2025	24.2%.	USD 59.9 billion	International report (cited by tadamsanews.dz)	Based on the official GDP for 2023 (USD 247.6 billion)

Source: Prepared by the researcher based on data from:

- International Monetary Fund (IMF)
- International reports (tadamsanews.dz)
- Institute for Security Studies (ISS)
- World Economics

The table shows that the size of the informal sector in Algeria represents a considerable share of the gross national product, with proportions ranging between 24.2% and 31.4% during the period from 2017 to May 2025. This situation directly affects gross income in particular and the national economy in general, as these activities remain outside the scope of fiscal control, thereby creating imbalances within the Algerian economy.

However, this proportion has relatively declined in recent years. This decrease may reflect the expanded use of electronic payment methods and the implementation of digital reforms (taxation, commercial registry). Nevertheless, this decline does not necessarily indicate a contraction in the actual size of informal activities, as it may instead be attributed to exchange rate fluctuations or differences in the reference GDP value used for estimation..

According to World Bank estimates up to the year 2020, drawn from the Informal Economy Database (which covers countries including Algeria for the period 1990–2020), the size of the informal economy was calculated using two main methodologies:

- DGE (Dynamic General Equilibrium): estimated at 27% of GDP.
- MIMIC (Multiple Indicators Multiple Causes): estimated at 32.2% of GDP.(Bank, 2024)

Moreover, the 2023 Annual Report of the Bank of Algeria, published in November 2024, estimates the amount of money outside the banking system at approximately 8,273 billion Algerian dinars, which represents 33.99% of the total currency in circulation (24,330 billion dinars). This is equivalent to roughly \$61.7 billion USD.

This phenomenon likely contributes to widespread tax evasion, including the loss of approximately one-third of potential value-added tax (VAT) revenues, in addition to a significant portion of income tax revenues.

This situation also contributes to volatility and the emergence of a parallel foreign exchange market, with a difference reaching 80–82% between the official and black-market exchange rates during November and December 2024 (according to the report). This gap weakens the Algerian dinar and disrupts monetary stability.

2.4. Challenges of Integrating the Informal Economy into the Formal Economy

2.4.1 Weak Legal and Regulatory Frameworks:

The lack of clear legislation and effective mechanisms for registering and monitoring informal activities remains one of the main obstacles to integrating the informal economy into the formal system in Algeria. This challenge manifests in several aspects, including the laws themselves, their coherence, and the mechanisms for implementation and enforcement.

One major issue lies in the absence or inconsistency of legislation. While some legal texts focus on combating tax evasion, they often fail to provide mechanisms that encourage the voluntary transition of informal actors into the formal economy. Within the framework of coordinated efforts to fight tax fraud, digital tax identification cards were introduced to monitor various economic activities. In addition, joint control teams involving the tax, customs, and trade authorities were established in accordance with Executive Decree No. 98-290 issued in 1998. Databases and lists of tax evaders were also created under Ministerial Instruction No. 97-127 dated July 26, 1997. These lists are distributed among all institutions involved in combating tax fraud and evasion.

Furthermore, the authorities have adopted several deterrent measures to prosecute forgers and tax evaders. These measures include the obligation to declare financial accounts, the withdrawal or cancellation of tax privileges upon the discovery of fraud, the imposition of financial penalties, and the enforcement of prison sentences. According to Nasser (Nassir, 2011, p. 68), such measures are essential in addressing deliberate fraud. In addition, the 2013 Finance Law introduced the compulsory tax collection Procedure, which allows the tax

administration to detect and correct fraudulent behavior in real time, monitor short-term economic activities, and intervene before the deadlines for tax declarations expire (DGI, 2013, pp. 6-7).

Despite the existence of these legal tools, many of the provisions in force conflict with other regulations related to commercial registration, taxation, and social security. These inconsistencies increase the complexity of compliance, particularly for small and informal enterprises, and act as a disincentive for integration into the formal economy.

Excessive bureaucracy: represents a major obstacle for individuals working in the informal sector. The length and complexity of administrative procedures hinder efforts to integrate these activities into the formal economy. In Algeria, establishing a company requires going through numerous steps, including commercial registration, obtaining licenses, and dealing with tax authorities. Additionally, formal registration entails various costs, such as registration fees. (Ordinance No. 76-105 dated December 9, 1976).

the lack of transparency and integrity: The spread of corruption in some public institutions fosters the expansion of the informal economy, as some individuals choose to pay bribes to avoid taxes or to circumvent compliance with regulations. According to Transparency International, Algeria ranks poorly on the Corruption Perceptions Index (CPI) among 167 countries, as shown in the following table (International, 2025)

Table N°2: Algeria's ranking on the Corruption Perceptions Index (CPI) by Transparency International

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Rank	108	112	105	106	104	117	116	104	107

source: (www.transparency.org)

From the table above, it is evident that Algeria's ranking in Transparency International's CPI report fluctuated between 104th and 117th during the period 2016–2024, remaining above 100th place throughout. This indicates that the public system in Algeria suffers from a high level of corruption across various sectors, manifested in widespread bribery, bureaucratic inefficiency, favoritism, embezzlement, tax fraud, money laundering, drug trafficking, and more.

- Lack of incentives: There are insufficient programs to support individuals and small businesses in transitioning to the formal economy, such as tax exemptions.

Algeria has attempted to attract informal activities into the formal economy by issuing a new investment law (No. 22-18) in the Official Gazette No. 50 (Law, 2022). This law includes several investment incentive schemes and seeks to simplify procedures and provide a more attractive investment environment in an attempt to promote transparency, but its results have yet to materialize.

2.4.2 Complexity of the tax and administrative system:

The complex tax system is difficult to understand and navigate, and this complexity arises from frequent amendments to tax laws, such as the complexity of tax calculation and tax administration procedures, which affect tax fairness and taxpayer compliance (Bournissa, 2021, p. 414).

2.4.3 Lack of effective oversight

Inadequate inspections and penalties allow the parallel market to continue operating and make it difficult to track all activities that may arise or already exist but are not declared. It is necessary to simplify administrative procedures and increase the number of supervisors and inspectors in this area in order to reduce the spread of this type of economy and activate the activities of the formal economy, which achieves development and prosperity for all societies. (Daman, 2020, p. 110)

3. The Role of Digital Transformation in Integrating the Informal Economy

Digital transformation is considered an opportunity to integrate the informal economy into the formal system through modern tools and technologies that help reduce the gap between the two sectors. These tools are not limited to enhancing transparency only, but also include providing innovative payment channels, digital documentation, and access to markets, thus paving the way for achieving comprehensive and sustainable economic development.

3.1 Electronic Payment Systems : There are several definitions of electronic payment, including the following:

Electronic payment can be defined as “any means used to make a payment through an electronic network.” In recent times, many new payment services have emerged based on technological innovations such as cards, mobile phones, and the internet.

Electronic payment can also be defined as the digital transfer of funds from one party to another (such as public administrations, institutions, workers, commercial shops, and consumers) (Moloudj, 2018, p. 97) It is also defined as the process of transferring money, which is essentially the price of a good or service, in a digital way, that is, by using computers and sending data through a telephone line, a network, or any other data transmission method. (Hawalf, 2014/2015)

The informal economy has come to erode the economies of countries in general, and developing countries in particular. Its scope has expanded to cover almost all economic sectors. Tax evasion now costs governments billions in revenue annually, and this may be due to the failure of these countries to adopt electronic payment systems in individuals’ daily transactions (Moloudj, 2018, p. 91) Electronic payment in Algeria is considered “weak” in terms of transaction volume, even after 25 years of reforms aimed at modernizing the financial system. This is due to the fact that electronic payment requires the declaration of accurate business revenues, making them subject to real taxation — a condition that clashes with the prevailing mindset of Algerian economic actors.

Moreover, “an ineffective tax system cannot accommodate the introduction of a payment method based on transparency and clarity.”

Therefore, it is essential to accelerate the development of banking services and to establish a climate of trust that enables a “cultural change” in payment behavior among Algerians. Consumers and merchants are still resistant and hesitant — a resistance largely due to the lack of confidence in this type of payment method.

The main reasons for this resistance are rooted in the structure of the Algerian economy, which continues to favor cash payments due to the widespread presence of the informal economy and the weakness of banking operations. ((APS), 2021)

Among the key measures likely to attract the informal economy into the formal economy are the following:

- Reforming the tax system and aligning it with global developments.
- Strengthening penalties for tax evasion.
- Undertaking reforms that liberalize regulatory laws and enhance the economy's capacity for growth and competitiveness.
- Enforcing laws that mandate the use of checks, written payment methods, and bank cards is essential in order to reduce the excessive use of cash, particularly in the informal (parallel) market.

Additionally, considering the replacement of the circulating paper currency and the opening of Islamic banks are also among the proposed solutions. (Boudlal A. , 2018, p. 224)

3.2 Digital Loans

This involves providing small and fast loans to project owners operating within the informal economy. The financing would be done through smartphones or electronic platforms, eliminating the need to visit traditional banks.

3.3 E-Commerce

This includes platforms such as online marketplaces (e-commerce) that aim to expand the reach of informal products and services. The nature of e-commerce transactions, which occur in a virtual environment to exchange digital goods, has sparked debate regarding the fiscal treatment of such transactions and the methods for determining the income generated from them.

The income derived from e-commerce transactions includes all profits earned by companies operating in the digital domain. This encompasses profits from commercial activities, both primary and secondary, as well as profits

resulting from the exploitation of intellectual property rights — such as patents, copyrights, and trademarks — for various goods and services exchanged via the internet (Wouchane, 2016/2017, p. 178)

4. Towards Sustainable Digital Integration: Strategies and Recommendations:

In light of global digital transformations, digitization plays a pivotal role in promoting transparency and economic and social integration. It has therefore become necessary to consider sustainable solutions aimed at integrating informal activities into the formal economic framework through the adoption of innovative digital strategies.

4.1 Strengthening Digital Infrastructure:

- An advanced digital infrastructure, based on a sophisticated wired and wireless communications network, allows both foreign and domestic companies to access information quickly and efficiently. This enhances the competitive environment in the local market, promotes equal opportunities among all existing companies, and facilitates openness to international markets.
- Given the current digital situation in Algeria, which is considered very weak, it has become imperative for the Algerian government to explore ways to develop and enhance the country's digital infrastructure in order to attract more investment in this sector. This can be achieved by encouraging the private sector to invest in the development of telecommunications networks and data centers (Mohcine, 2024, p. 22)

4.2 Promoting Financial Inclusion:

- This can be achieved by developing electronic payment systems to facilitate transactions within the informal sector. Financial inclusion provides significant economic benefits to society and the national economy by enabling all segments of society—particularly low-income groups—to access financial services.
- Thus, public authorities can rely on financial inclusion as an intermediate objective to achieve a range of broader goals, such as reducing poverty and unemployment and achieving sustainable development (Tarshi, 2019, p. 135) .

Providing affordable digital loans to small informal projects to encourage their integration into the formal economy.

4.3 Encouraging Public-Private Partnerships:

Involve technology companies and digital banks in supporting digital projects targeting the informal sector. Provide incentives to private companies to develop tools and platforms that serve the informal sector.

4.4 Providing Tax Incentives:

Grant tax reductions to newly registered entities in the formal economy, support private social security projects for workers in the informal economy, and provide technical assistance to small and medium-sized enterprises.

In Turkey, for example, a comprehensive plan was developed to reduce the scope of the informal economy and improve tax compliance through:

- **Reducing tax rates:** In 2006, the corporate tax rate was reduced from 33% to 20%, and personal income tax rates were reduced from 49.5% to 35%. In 2008, the income tax burden on minimum wage earners was set at zero, depending on marital status and number of children. In addition, the value-added tax (VAT) on health, education, clothing, and tourism was reduced from 18% to 8%, while VAT on staple foods was reduced to just 1%.
- **Establishing a tax audit council and investing in human capital and technology:** 1,500 tax inspectors were hired, and tax penalties were increased.

In addition to sharing databases between different departments and professional bodies to facilitate information for taxpayers, and continuing the development of electronic banking in order to track financial flows in the economy.

- Focusing on international cooperation in combating the informal economy by concluding double taxation agreements with 82 countries and information exchange agreements with 5 countries.

as a result of these efforts, the size of the informal economy in turkey as a percentage of GDP decreased from 35.2% in 2002 to 26.5% in 2013 (Bou Elhila, 2017).

as for Italy, the government attempted to help entrepreneurs in the informal economy transition gradually to formal status by offering tax and quasi-tax reductions for a period of three years (2001–2003), as stipulated in law 383/2001. Those concerned, who decide to declare their previously undeclared income, could pay their taxes retroactively at a marginal rate of 10% in the first year, 15% in the second year, and 20% in the third year. additionally, social security contributions owed by business owners for previously undeclared workers were reduced to 8%, 10%, and 12%, respectively, during the three-year adjustment period. These workers themselves also benefited from preferential tax rates on their income once they began reporting it.

During the first year of implementing this law, 800 applications were submitted to regularize the status of 1,500 workers. However, this outcome was less than what the government expected, due to the lack of trust among business owners and their fear of being unable to continue their activities after the end of the reduction period.

As for Colombia's experience in combating the informal economy, the Colombian government adopted a number of measures, the most important of which was the issuance of a comprehensive tax amnesty in 1994, under which individuals with money circulating in the informal economy were allowed to deposit their funds in bank accounts without being subject to any tax and without being questioned about the source of those funds.

The objective was to attract money generated from drug trafficking and integrate it into the formal financial system. Once this money entered the banking system, all transactions would become traceable.

The government accompanied the tax amnesty decision with the introduction of a tax identification system, whereby all transactions had to be conducted using a bank card and linked to an identification number registered in this system, which helped to reduce dealings with the informal economy. (Bou Elhila, 2017)

5. Results and discussion

The informal economy in Algeria constitutes a significant portion of economic activity and is characterized by several features, the most important of which are the lack of organization of its activities and the low skill level of its workers. Its size has reached high levels in Algeria, and this increase is due to several factors, including the complexity of the tax and administrative system, weak legal and regulatory frameworks, and high unemployment, which drives many people to turn to this sector.

The results showed that weak legal frameworks, lack of digital awareness, and limited digital infrastructure are among the main obstacles to achieving this integration. The study also indicated that there are significant opportunities to leverage e-commerce platforms to promote digitization and expand the base of participants in the formal economy.

Recommendations:

To integrate the informal economy into the formal economy, it is necessary to:

- Strengthen legal and regulatory frameworks by adopting encouraging and simplified policies to support digital transformation and the registration of informal activities.
- Develop digital infrastructure and improve internet coverage, as well as promote investment in modern technologies to reach remote areas.
- Raise digital awareness by organizing awareness campaigns to explain the importance and benefits of digitization, along with providing incentives such as tax exemptions for start-ups.
- Engage the private sector, in cooperation with technology companies and local organizations, to launch digital initiatives that facilitate the integration of informal sector workers.
- To achieve financial transparency and curb the expansion of the informal economy, it is recommended to mandate the use of checks or bank transfers for all commercial transactions exceeding 500,000 DZD. This measure can be reinforced through digitalization, by electronically recording and tracking transactions, ensuring full documentation, facilitating the monitoring of fund flows, and enhancing the tax authorities' capacity for effective collection and oversight.
- Accordingly, the success of digitalization in limiting the expansion of the informal economy does not depend solely on the availability of technological tools, but rather on the effectiveness of the institutional

framework, particularly the Supreme Council for Digitalization, in transforming the National Digitalization Strategy 2030 into executable policies that can be effectively implemented on the ground. In this context, this role can be realized through the launch of unified digital platforms for registering small and informal economic activities, along with the adoption of simplified procedures that encourage economic operators to voluntarily integrate into the formal economy. Furthermore, electronic payment systems can be expanded in popular markets and neighborhood trade, and linked to temporary fiscal and social incentives, thereby broadening the tax base without placing an excessive burden on economic operators. In addition, the Supreme Council for Digitalization plays a key role in coordinating efforts among relevant sectors (finance, trade, postal services, and telecommunications) and ensuring the integration of databases, which enhances transparency and facilitates the monitoring of economic transactions.

6. Conclusion:

In light of the economic and social challenges facing Algeria, the integration of the informal economy into the formal economy requires a comprehensive and sustainable strategy. The study concluded that digital transformation represents an effective tool that can contribute to reducing the size of the informal economy and improving financial and tax inclusion.

Testing the validity of the hypotheses:

- Adopting encouraging government policies such as tax incentives and legal facilitations for workers in the informal economy can enhance the chances of integrating them into the digital system. This is a valid hypothesis, and it has been adopted by some countries in order to integrate the informal economy into the formal economy.
- The development of digital infrastructure alone is sufficient to achieve sustainable integration of the informal economy, regardless of factors like digital awareness or community participation. This is a false hypothesis, as other factors are essential for achieving this integration, such as promoting financial inclusion and providing tax incentives.
- Increasing digital awareness and offering training programs directed at workers in the informal economy can improve their ability to interact with digital tools. This is a valid hypothesis, as such programs provide informal sector workers with the necessary skills to use modern technologies such as digital documentation systems, e-invoicing, electronic marketing, and others. However, the lack of internet access in remote areas remains a barrier to digital training.

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