

**Does Trust on Institution Affect the Informal Activities Among Youth in MENA Region
(Algeria, Tunisia, Morocco, Egypt and Lebanon)**

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Abstract

Several empirical works have analyzed the determinants of being in informal sector. Most focus on the effect of socioeconomic factors such as level of education, regions of residence, skills acquired, and gender. The most recent works has find that institutional factors can influence decisions to undertake activities in the informal sector such as corruption, regulations and legislation (Hart, 2012; Schneider et al., 2010) or tax burden (Schneider and Enste, 2000; Ferraira-Tiryaki, 2008, Friedman and al, 2000, Frey and Torgler2007) but alternative explanation concerning the institutional factor include Portes (1994, 2005, 2010) and Burroni and al. (2008) concern the effect of institutional trust “Informality is curbed by institutional trust”. This article presents an empirical analysis of the determinants of being in informality for youth’s people in selected MENA countries (Algeria, Egypt, Lebanon, Morocco and Tunisia) focusing on the effect of institutional trust. The analysis of the data suggests that the general level of young people’s trust in different institutions is low. The estimation results of discrete choice model using recent survey“ SAHWA “, confirm that youth’s people trusts in institutions have a significant effect on the likelihood of being in informality. However, it seems to differ according to witch institutions are considered and by countries.

Keywords: Labor market, Informality, Trust on institutions, Youth, Algeria.

JEL: J40, J46, J60, O55

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1. Introduction

Several empirical works have analyzed the determinants of being in informal sector. Most focus on the effect of socioeconomic factors such as level of education, localities and regions of residence, number of dependents, skills acquired, marital status, age and gender (Gallaway and Bernasek, 2002, Sassen-Koob, 1989, Kesteloot and Meert, 1999, Williams, 2004, Schneider and al., 2001, Becker, 2004, Schneider and al., 2010, Loayza, 1996, Leonard, 1994, 1998, Venkatesh, 2006, Williams and Lansky, 2013).

The most recent works has find that institutional factors can influence decisions to undertake activities in the informal sector such as corruption (Schneider and Enste, 2000; Ferraira-Tiryaki, 2008), Regulations and legislation (Hart, 2012; Schneider and al., 2010) or tax burden (Schneider and Enste, 2000; Ferraira-Tiryaki, 2008, Friedman and al, 2000, Frey and Torgler, 2007) but alternative explanation concerning the institutional factor include Portes (1994, 2005, 2010) and Burroni and al. (2008) concern the effect of institutional trust “Informality is curbed by institutional trust”.

The existing literature, has failed to generate a consensus about the effect of institutional factors on the size of informality, and studies still remain largely under-explored especially in the case of Arab countries. However, in the most previous empirical studies, the institutional factors are using at macro level. On the other hand, undoubtedly, youth are placed on the top among age groups who are the most affected by informal employment.

The purpose of this paper is to investigate the effect of institutional factor following microeconomic approach. We test the effect of trust in institutions on youth behavior in the decision to exercise in the informal sector in the case of Arab countries (Algeria, Egypt, Lebanon, Morocco and Tunisia). Also we plane to conduct a comparative analysis between countries under study to check if youth in the region have similar levels of trust in institutions.

Analyzing this effect is important in the Arab countries characterized by strong tensions in their labor market. Indeed, the latest social movements “Arab spring” supported by youth have shown the fragility of the labor market in these countries.

In this paper we try to answer the following questions:

- Are young people in the region having similar levels of trust in institutions?
- Does Trust in institutions influence decisions of youth to exercise in the informal sector in the case in Arab countries?

The measurement of the trust institutions remains complex, it's difficult to measure it directly by a single observed indicator. The most common way is measuring it by using several indicators such as trust in the parliament, in politicians, in political parties, legal system, the government,...(Daniele and Geys 2015, Oorschot, Roosma, & Gelissen 2014, Carlson 2016, Marien 2011).

The paper is organized as follows: in Section 2, we review the existing literature on determinant of informality. Section 3 describes the data sources and methods adopted in our analysis. Section 4 discusses the descriptive results to contextualize and motivate our analyses. Section 5 presents our empirical results, and finally Section 6 concludes.

2. Literature on determinant of informality

The existing literature has revealed different factors which influence decisions to undertake activities in the informal sector or otherwise. We can divide the literature according to the nature of the factors in two major parts: "socioeconomic and demographic factors" and "institutional factors"

It have all been proven that socioeconomic and demographic factors have an influence on people's propensity to engage in informal transactions such as level of education (Galloway and Bernasek, 2002), localities and regions of residence (Sassen-Koob, 1989, Kesteloot and Meert, 1999), income level (Williams, 2004), number of dependents (Schneider and al., 2001), skills acquired (Becker, 2004), marital status (Schneider and al., 2001), age and gender (Becker, 2004, Loayza, 1996, Leonard, 1994, 1998, Venkatesh, 2006, Williams, 2013).

Institutional factor is another drivers underpinning the decision to enter in informality such as tax burden, regulations and legislation and corruption.

Many papers dealing with informal sector put forward tax burden. Rising tax burden leads to higher sizes of informal sector (Giles and al., 2000; Sookram and Watson, 2008). But there is no consensus about the direction of the effect of tax on the size of informality, some studies (Frey and Pommerehne (1984), Schneider (1994,1997), Tanzi (1999), Davis and Henrekson (2004)) in where taxes are left out to play an exogenous role, found a positive correlation between taxes and informal sector size but several recent cross-section and panel data empirical studies, allowing for the possible endogeneity of taxes, associate higher taxes with a smaller size of the informal economy (Johnson. al. (1997), Johnson and. al. (1998), Friedman and al. (2000), and Torgler and Schneider (2007)).

Regulations and legislation such as labor market regulation and social security legislation have been found to have a significant influence on decisions to participate in the informal economy (Hart, 2012; Schneider and al., 2010). For example excessive regulation of the labor market, through minimum wages can increase the size of the informal economy (Schneider and Enste, 2000). Else, social security contributions increase the cost of labor in the formal economy, and hence increase the size of the informal economy (Schneider and al., 2010).

Some studies have observed that the size of a country's informal economy increases with corruption. Corruption makes agents flee into the informal economy (Schneider and Enste, 2000; Ferraira-Tiryaki, 2008, Friedman and al., 2000). Conversely, other studies (Dobson and Ramlogan-Dobson, 2012) consider corruption beneficial to economies with a large informal sector and weak institutions.

However, the literature that emphasizes institutional determinants also implicitly suggests that trust in institutions should have an effect on people behavior in the decision to undertake activities in the informal sector. Portes (1994, 2005, 2010) postulates that trust in formal institutions inhibits people's tendency to engage in informal activities. Burroni and al. (2008) explained that the emergence and rise of the informal sector cannot be simply explained by economic pressures, it is strongly influenced by others factors such as the absence of institutional trust.

3. Data and Methodology

We use the SAHWA Youth Survey data which concern young people between 15 and 29 years-old in Algeria, Egypt, Lebanon, Morocco, and Tunisia conducted amongst 10,000 young (2000 per country) between 2015 and 2016. The main topics under study in the SAHWA project are education, employment and social inclusion, political mobilization and participation, culture and values, international migration and mobility, gender, comparative experiences in other transitional contexts and public policies, and international cooperation. The survey contains items which measure respondents' trust in institutions such as parliament, political parties, the legal system, and government.

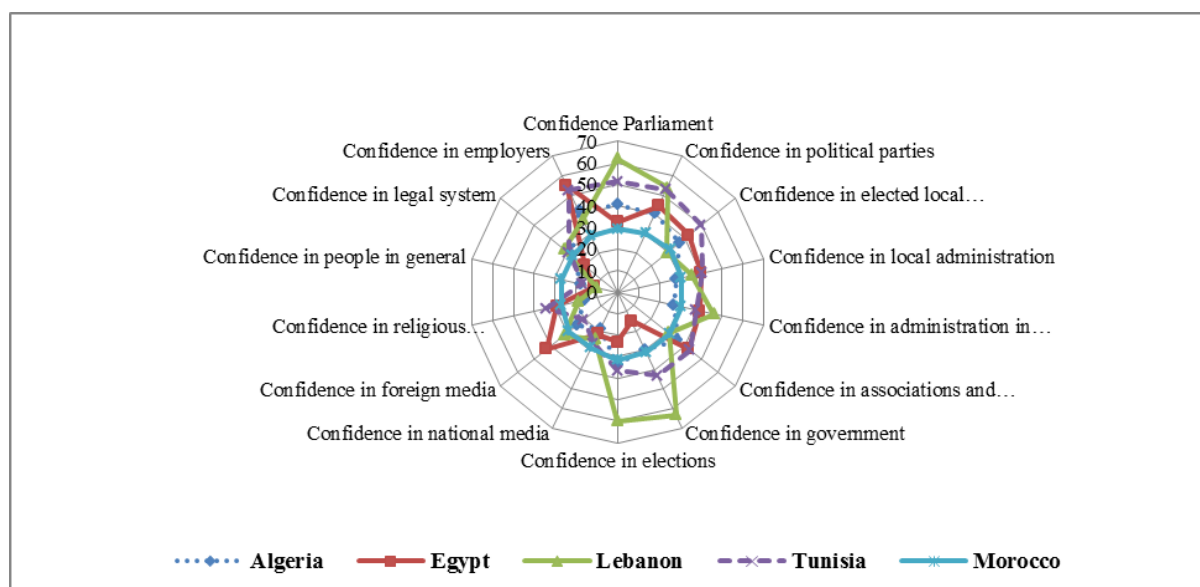
First, we start with descriptive analysis of used variables of SAHWA data survey and then we use the Chi-Square test of independence to determine if there is a significant relationship between our two principals variables "being or not in informality" and different institutional trust variables considered in our analysis.

Second, we use empirical methods to analyze the determinant of informality among youth including institutional trust variables. The main analysis consists of estimating a logit model which allows us to estimate the impact of institutional trust variables on the likelihood of being in informality measuring by not being insured by social security. We control with others explanatory variables (socio-demographics, ...). Being in informality can be formalized by a discrete choice structure $Y_i = 1$ if individual “i” is in informality and $Y_i = 0$ if not.

4. Descriptive Statistics

The analysis of the data suggests that the general level of young people’s trust in different institutions is low. It seems to differ in relation to which political institutions are considered more or less trustworthy.

Figure 1: Frequencies of youth having no confidence at all in the different institutions by country

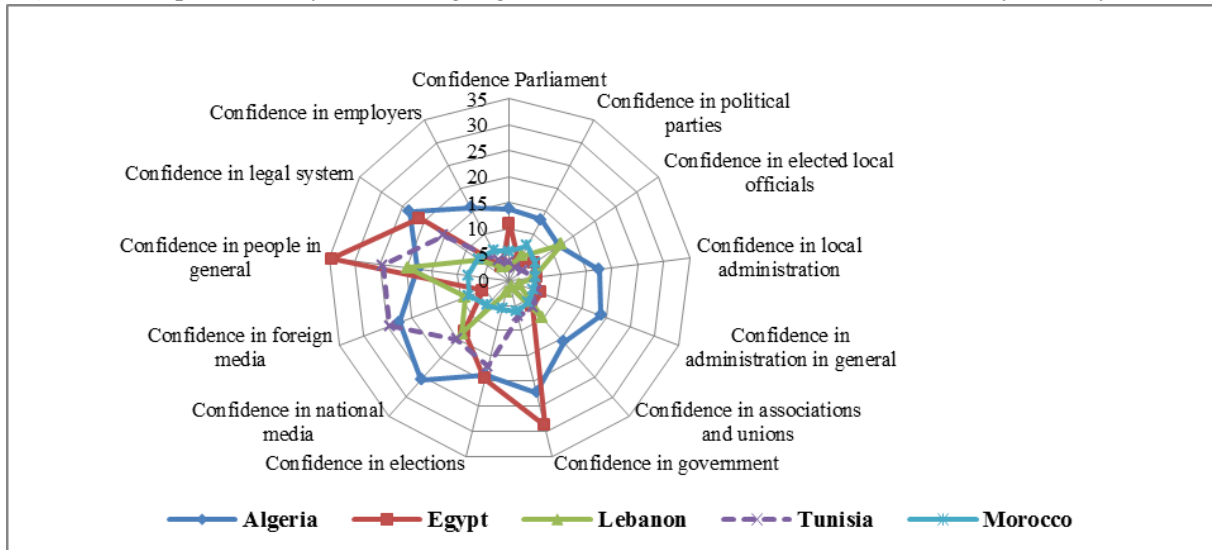


Source: Constructed by authors using Sahwa Data survey.

Lebanon presents higher levels of no confidence at all in parliament, administration in general, government and elections. Higher levels of no confidence at all in foreign media and employers are observed in Egypt. Tunisia observes higher levels of no confidence at all in elected local officials and religious associations. Morocco observes higher levels of no confidence at all in people in general and national media. We note that in Algeria the frequency of youth who have no confidence at all in the different institutions still not the highest compared to the other four countries.

Egypt observes higher frequencies of higher confidence in government and people in general. Algeria observes this trend in confidence in legal system, parliament, political parties, employers, national media, associations and unions, local administration and administration in general.

Figure 2: Frequencies of youth having high confidence in the different institutions by country



Source: Constructed by authors using Sahwa Data survey.

We used the Chi-Square of independence to determine if there is a significant relationship between our two principle variables “being or not in informality” and different institutional trust variables considered in our analysis.

The null hypothesis for this test is that there is no relationship between two variables X and Y. The alternative hypothesis is that there is a relationship between X and Y. The table below display the frequency of each variable is compared across the second variable and the associated probability of Chi-Square test.

Table 1: Results of Chi-Square test

	Formal	Informal	Chi2
Confidence in parliament	51.04	50.58	NS
Confidence in political parties	53.69	48.09	***
Confidence in elected local officials	64.17	57.84	***
Confidence in local administration	67.82	60.17	***
Confidence in administration in general	63.82	58.83	**
Confidence in associations and unions	68.20	57.98	***
Confidence in government	58.99	61.45	NS
Confidence in elections	60.48	59.68	NS
Confidence in national media	82.03	74.20	***
Confidence in foreign media	74.31	64.18	***
Confidence in religious associations	79.61	71.71	***
Confidence in people in general	89.63	84.40	***
Confidence in the legal system	77.76	70.13	***
Confidence in employers	60.32	49.42	***
Corruption taking place in country	93.28	90.50	**
Encountered nepotism	43.43	29.29	***
Political system allows people to have a say on the government's actions	75.18	70.72	NS

*** p<0.01, ** p<0.05, * p<0.1

The results show that there is a significant relationship between the majority of our institutional trust variables and the variable “being or not in informality”.

5. Results and Analysis

The table below displays the odds ratio of the logit model that explains the determinant of informality (not being insured by social security) by country (Algeria, Egypt, Lebanon, Tunisia and Morocco).

Table 2: Determinants of being in the informality - odds ratio

	Algeria	Egypt	Lebanon	Tunisia	Morocco
Socio-demographic					
Gender Female (ref)					
Male	0.838 (0.253)	1.312 (0.430)	0.756 (0.171)	1.160 (0.293)	0.394** (0.180)
Marital status (Ever Married –Ref)					
Never Married	1.106 (0.435)	3.129*** (0.795)	1.529* (0.336)	2.413*** (0.795)	1.722 (0.618)
Age of the first job	0.774*** (0.0333)	0.941* (0.0313)	0.930* (0.0347)	0.925** (0.0334)	0.853*** (0.0410)
Urban	0.870 (0.220)	1.071 (0.281)	0.461*** (0.108)	0.814 (0.226)	0.818 (0.288)
Human capital					
Level of education (primary and less (ref))					
Middle	0.416* (0.214)	1.326 (0.799)	1.010 (0.442)	1.211 (0.536)	1.894 (0.811)
Secondary	0.330** (0.181)	0.530 (0.237)	0.691 (0.311)	0.680 (0.295)	1.518 (0.627)
Higher	0.0617*** (0.0398)	0.201*** (0.110)	0.338** (0.166)	0.404* (0.196)	0.669 (0.377)
Have you had professional training No (Ref)	0.674 (0.172)	5.036 (6.700)	1.356 (0.457)	1.023 (0.278)	0.547 (0.360)

Household characteristics

Father level instruction Below Secondary (Ref)					
Secondary and Higher	0.897 (0.298)	0.572* (0.183)	0.583* (0.169)	0.629 (0.194)	1.922 (1.015)
Mother level instruction Below Secondary (Ref)					
Secondary and Higher	0.600 (0.234)	1.091 (0.440)	1.502 (0.437)	0.945 (0.364)	0.292** (0.166)
Father insured by the social security system No (Ref)	0.522 (0.374)	0.510** (0.136)	1.098 (1.060)	0.772 (0.198)	0.635 (0.252)
Mother insured by the social security system No (Ref)	1.186 (0.810)	0.408* (0.197)	0.225 (0.218)	1.087 (0.309)	0.183*** (0.0933)

Institution trust

Confidence on Parliament No (Ref)	0.501 (0.222)	1.420 (0.630)	1.364 (0.434)	0.819 (0.290)	0.794* (0.0948)
Confidence on Political parties No (Ref)	2.384* (1.126)	0.441** (0.173)	0.551* (0.170)	1.764 (0.622)	1.136 (0.180)
Confidence on elected local officials No (Ref)	0.810 (0.328)	1.289 (0.614)	0.911 (0.311)	1.956* (0.730)	0.970 (0.142)
Confidence on local administration No (Ref)	1.862 (1.222)	1.439 (0.738)	0.920 (0.330)	1.166 (0.484)	1.320 (0.257)
Confidence on administration in general No (Ref)	0.581 (0.377)	1.098 (0.489)	1.228 (0.429)	2.263* (0.987)	0.723* (0.136)
Confidence in associations and unions No (Ref)	2.186** (0.803)	0.877 (0.313)	0.961 (0.321)	0.237*** (0.0928)	1.087 (0.204)
Confidence in government No (Ref)	0.509* (0.206)	1.393 (0.721)	1.246 (0.440)	0.927 (0.353)	1.158 (0.193)
Confidence in elections No (Ref)	0.994 (0.386)	1.454 (0.605)	1.057 (0.340)	0.637 (0.228)	0.971 (0.146)
Confidence in national Media No (Ref)	1.069 (0.446)	0.776 (0.307)	0.961 (0.350)	0.944 (0.352)	1.189 (0.197)
Confidence in foreign Media No (Ref)	1.495 (0.470)	1.701* (0.487)	0.678 (0.220)	0.910 (0.345)	0.676*** (0.0941)
Confidence in people in general No (Ref)	0.859 (0.343)	0.829 (0.379)	0.608* (0.177)	0.435** (0.152)	1.056 (0.169)
Confidence in legal system No (Ref)	0.652 (0.254)	0.432 (0.246)	1.348 (0.488)	1.007 (0.361)	1.028 (0.118)
Confidence in Employers No (Ref)	0.952 (0.299)	0.865 (0.261)	0.733 (0.203)	1.941** (0.570)	1.314 (0.221)
Corruption currently takes place in your country No (Ref)	0.726 (0.440)	0.488 (0.233)	1.689 (1.307)	6.497* (6.504)	2.027** (0.720)
Encountered to nepotism No (Ref)	0.528*** (0.126)	0.414** (0.152)	0.489*** (0.0985)	0.711 (0.179)	1.025 (0.344)
Political system in your country allow people No (Ref)					
Yes	1.366 (0.357)	2.125 (1.849)	0.664 (0.815)	2.969 (2.556)	1.982 (0.920)
Constant	3,278*** (4,238)	25.08** (32.12)	66.22** (110.9)	0.953 (1.462)	33.40*** (34.03)

Observations	493	616	667	492	414
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Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

The results of the estimations of our models show that institutional trust has a significant impact on the probability of being in informality. However, it seems to differ according to which institutions are considered and between countries.

For Socio-demographic variables, we find that:

Gender has significant effect on the probability of being in the informality only for the case of Morocco. Male is less likely to be insured comparatively to female. It is probably due to the nature of the predominant activity in Morocco which is Agriculture.

The stratum of residence has only a significant effect on informality for the case of Lebanon. Youth living in urban areas are less likely to be in informality than those living in rural areas.

However, for all the countries considered, the results show that education has a significant negative impact on informality. In the case for Algeria, we find that the likelihood to be in informality decrease with the education level. Youth with middle education level have 2.4 less risk to be in the informal sector comparatively to youth with primary and less education level and youth with secondary education level have 3 less risk to be in the informal sector comparatively to youth with primary and less education level. Youth with higher education level have 16.20 less risk to be in the informal sector comparatively to youth with primary and less education level.

The age at the first job have a significant negative effect on informality in the case of all countries considered. The result show that more we start working youngest more we are in the informality.

Focusing on institutional trust variables, we find:

Confidence on political parties is significant for three countries. However, the effect differs between countries, we find a positive effect for Algeria and a negative effect for Egypt and Lebanon.

It appears that Algerian youth who have a confidence on political parties are more likely to be in the informality (youth who have a confidence on political parties have 2,38 more risk to be in the informal sector comparatively to who don't have it). In the other side, Egyptians and Lebanon youth who have a confidence on political parties are less likely to be in the informality (Egyptians youth who have a confidence on political parties have 2.27 less risk to be in the informal sector comparatively to who don't have it (respectively 1.81 for Lebanon youth).

Confidence on elected local officials is significant only for Tunisia. It appear that youth who have a confidence on elected local officials are more likely to be in the informal sector (youth who have a confidence on elected local officials have 1,96 more risk to be in the informal sector comparatively to who don't have it).

Confidence on administration in general is significant for Tunisia and Morocco but the effect differs. The effect is positive for Tunisia and negative for Morocco. In Tunisia, who have a confidence on administration in general are more likely to be in the informality (youth who have a confidence on

administration in general have 2.26 more risk to be in the informal sector comparatively to who don't have it). However, in Morocco, who have a confidence on administration in general have 1.38 less risk to be in the informal sector.

Confidence in associations and unions is significant with opposite effect between Algeria and Tunisia. Algerian youth who have a confidence in associations and unions have 2.18 more risk to be in the informal sector comparatively to who don't have it. However, in Tunisia who have a confidence in associations and unions have 4.22 less risk to be in the informal sector.

Confidence in government is only significant for the case of Algeria. Youth who have a confidence on government are less likely to be in the informal sector (youth who have a confidence on government have 1.96 less risk to be in the informal sector comparatively to who don't have it).

Confidence in foreign Media is significant for Egypt and Morocco but with opposite effect. The effect is positive for the case of Egypt in which youth who have a confidence on foreign Media have 1.70 more risk to be in the informal sector comparatively to who don't have it. Unlike Moroccans youth who trust on foreign Media have 1.48 less risk to be in the informal sector.

Confidence in people in general has a negative significant effect in Lebanon and Tunisia. Youth who have a confidence in people in general are less likely to be in the informal sector. In Lebanon, youth who have a confidence in people in general have 1.65 less risk to be in the informal sector comparatively to who don't have it (respectively 2.30 in Tunisia).

Confidence in Employers is only significant for the case of Lebanon. Youth who have a confidence in Employers have 1.94 more risk to be in the informal sector comparatively to who don't have it.

For both Tunisia and Morocco, youth who think that corruption currently takes place in their country are less likely to be in the informal sector. Tunisian youth who think that corruption currently takes place in their country have 6.50 more risk to be in the informal comparatively to who don't think it (respectively 2.03 in Morocco).

Encountered nepotism has a significant negative effect on being in the informality for three countries (Algeria, Egypt and Lebanon). Youth who ever have encountered nepotism have less risk to be in the informal sector comparatively to who never encountered it. Algerian Youth who ever have

encountered nepotism have 1.89 less risk to be in the informal sector comparatively to who never encountered it (respectively 2.41 in Egypt and 2.04 in Lebanon).

6. Conclusion

This research has shown that institutional trust has a significant impact on the probability of being in the informality. We find some important results, which can be summarized in the following points:

- 1) The general level of young people's trust in the different institutions is low. However, it seems to differ in relation to which political institutions are considered more or less trustworthy.
- 2) Youth people trust in institutions have a significant effect on the likelihood of being in informality. However, it seems to differ according to which institutions are considered and by countries.
- 3) Confidence on political parties is significant for three countries. However, the effect differs between countries. We find a positive effect for Algeria and a negative effect for Egypt and Lebanon.
- 4) Confidence on elected local officials is significant only for Tunisia.
- 5) Confidence on administration in general is significant for Tunisia and Morocco but the effect differs.
- 6) Confidence in foreign Media is significant for Egypt and Morocco but with opposite effect. The effect is positive for Tunisia and negative for Morocco.
- 7) Confidence in associations and unions is significant with opposite effect between Algeria and Tunisia.
- 8) Confidence in government is only significant for the case of Algeria.
- 9) Confidence in foreign Media is significant for Egypt and Morocco but with opposite effect.
- 10) Confidence in people in general has a negative significant effect in Lebanon and Tunisia.
- 11) For both Tunisia and Morocco, youth who think that corruption currently takes place in their country are less likely to be in the informal sector.
- 12) Encountered nepotism has a significant negative effect on being in the informality for three countries (Algeria, Egypt and Lebanon).

Our Findings suggest that enhancing the level of youth's trust in institutions can decrease the level of the informality and therefore improve the Government Performance. The government must create political stability, and improve the condition of law and order, to improve institutions quality in order to increase the level of trust among individuals and improve the confidence of people on political and public institutions.

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Annex

