

# Informal Employment in the Caucasus and Central Asia Region: Determinants of Informal Employment at Micro Level

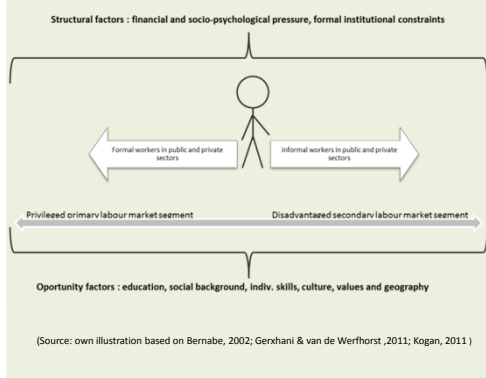
## Introduction

Informal employment, employment exercised outside the framework of formal labour legislation, comprises more than half of the global labour force worldwide. In the **Caucasus and Central Asian (CCA)** region the share of it is highest among post-communist states .



The informal employment provides a considerable source of income in countries where formal employment is scarce and state social assistance is almost non-existent. But, informal employment also contributes to growing inequality, increase of poverty, underemployment and social exclusion.

In CCA region, **labour markets are widely segmented** in terms of different working conditions, highly unequal career opportunities. According to few studies on informal sector in the post-soviet region, segmentation of the labour market follows patters of **primary and secondary labour market**. While the employment in the **formal sector follows the structure of the primary labour market**, the employment in the **informal sector is seen as a prototype of the employment in the secondary labour market** accordingly. The decision of individuals to be involved in one of the segments based on the following factors:



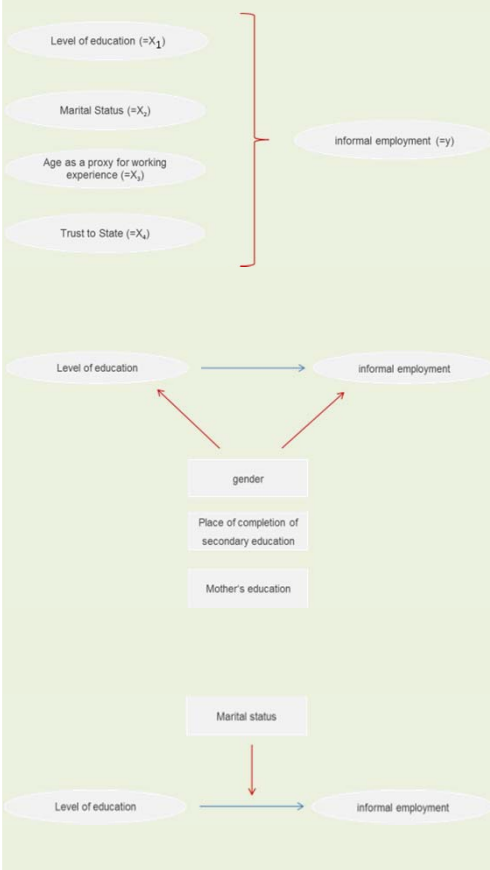
## Methodology

**Study population:** All workers /employees, who work in non-agricultural sector, segregated by availability or non-availability of labour book and contract. All self-employed in non-agricultural sector, differentiated by registration or non-registration of their economic activities according to state regulations (formal vs. informal employment).

**Statistical analysis:** Life in Transition Survey (LITS, 2014), conducted by European Bank for Reconstruction and Development (EBRD). The CCA region includes Armenia, Azerbaijan and Georgia in the Caucasus as well as Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan in Central Asia. Turkmenistan does not participate in the survey. Thus, Turkmenistan is excluded from the analysis.

N= 3270 individuals.  
The following results are based on binary logistic regression analysis.

### Modelling of determinants of informal employment at micro-level



## Results

A considerable academic literature shows that the economic reforms and the costs triggered by formal employment regulations i.e. income tax or social security contributions are the main causes of informal employment at the macro level.

However the determinants of informal employment at the micro (individual) level, i.e. **allocation of workforce into formal vs. informal labour markets** is based predominantly on the basis of education level. Workforce with **higher education** has lower risk of being informally employed compare to workforce with lower education. Further the risk of informal employment is even higher for low educated persons who are **married**. With the gain of **working experience**, workforce has more chances of being formally employed. A particular feature of transition states – **low trust of population to state** – persons with lower trust to state institutions are more likely to be employed in the informal labour market.

