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INFORMAL EMPLOYMENT IN UZBEKISTAN: CAUSES, CONSEQUENCES AND POLICY RESPONSES

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Abstract. The article examines the widespread informal employment in the world economy, the concept, methodological approach to its definition, the causes, consequences and foreign experience in reducing its level. Trends, factors of development of informal employment are analyzed and systemic measures are developed to reduce the level of informal employment in Uzbekistan.

Key words: informal employment, labor market, digital economy, unemployment, labor relations, social protection.

Informal employment is one of the most challenging features of labor markets today. While the reduction in informal employment is clearly recognized as part of the Sustainable Development Goals (Target 8.3). It is undisputed in the literature that development and informal employment are inversely related (see, e.g., La Porta and Shleifer 2008); so, the bulk of informal jobs is found in developing and transition countries¹. Atkinson (1998) distinguishes three characteristics of social exclusion: relativity, agency and dynamics. Informal employment is associated with all three of these characteristics².

The first author to explicitly mention informal economic activities is Keith Hart (1973), a social anthropologist. During the 1960s, Hart conducted fieldwork among the group of poor Ghanaian migrants who moved about from rural districts to Accra (Ghana's capital) in search of material opportunities. Hart wrote, "Does the 'reserve army of urban unemployed and underemployed' really constitute a passive, exploited majority in cities like Accra, or do their informal economic activities possess some autonomous capacity for generating growth in the incomes of the urban (and rural) poor?"³.

Various factors influence the formation of informal employment, and this phenomenon can be considered as an economic activity with economic, legal, social and cultural factors, the ultimate goal of which is to obtain economic benefits and in most cases with a forced manifestation. In the late 1980s, De Soto introduced a new dimension to the study of the informal sector. In his best selling book, 'The Other Path', on 'the informals' of Peru, de Soto highlights the role of excess regulation and the state bureaucracy in creating the informal economy⁴.

The informal sector consists of 'potential entrepreneurs' who are forced to operate illegally because of flaws in the tax system and in other laws and regulations. The neoclassical (structuralist) approach of the ILO considers government intervention in the economy to be necessary (Rakowski, 1994). The key reason for the growth of the informal sector is a combination of an excess of labor supply and low demand for this labor. At the same time, participants in informal activities are a passive object of help.

Informal employment exists even in the most developed countries and performs an important socio-economic function. First, it provides employment for those who cannot find

¹ La Porta, R. and Shleifer, A. 2008. The Unofficial Economy and Economic Development. Brookings Papers on Economic Activity, Vol. 2008/ pp. 275 – 352.

² A B Atkinson. 1998. "Social Exclusion, Poverty and Unemployment," in Exclusion, Employment and Opportunity. A B Atkinson and John Hills eds. London: CASE paper 4; Centre for Analysis of Social Exclusion, London School of Economics, pp. 1-20.

³ Hart, K. 1973. "Informal income opportunities and urban employment in Ghana". Journal of Modern African Studies, 11(1): 61-89.

⁴ Hernando de Soto. 1989. The Other Path: The Invisible Revolution in the Third World. New York: Harper and Row. P.11.

work in the formal sector and is a social safety net for the poor. It is much better to be employed at least in the informal sector of the economy than to be unemployed. Secondly, it is often a way to start a business and can be a step towards legalization. Its social costs, such as lost tax revenues, inefficiency and lack of social security, outweigh the above social benefits.

However, informal employment leads to serious violations of labor relations, such as non-compliance with labor laws by employers, lack of social guarantees and legal protection of workers, over-exploitation, non-compliance with labor protection requirements, etc. The high level of informal employment violates the rule of law, does not pay taxes, reduces citizens' confidence in the state, and a significant part of the population does not have formal social protection against economic risks. Therefore, public policy on informal employment usually needs to be balanced between preventive measures and sanctions.

In 2019, surveys were conducted on 19.5 thousand households and 105 thousand citizens in all cities and regions of Uzbekistan. Based on the method of development of a labor resources and employment balance the status employment is divided into three groups:

- formal employment;
- informal employment;
- those who went to work abroad.

According to this method the persons who have left for work abroad not included to the informal employment and in 2019 its level was 5368.8 thousand people or 39.6%.

The analysis of the labor market' dynamics in Uzbekistan over the past 5 years shows that wage growth, investment and GDP per capita did not contribute to the decrease of informal employment (Fig-1).

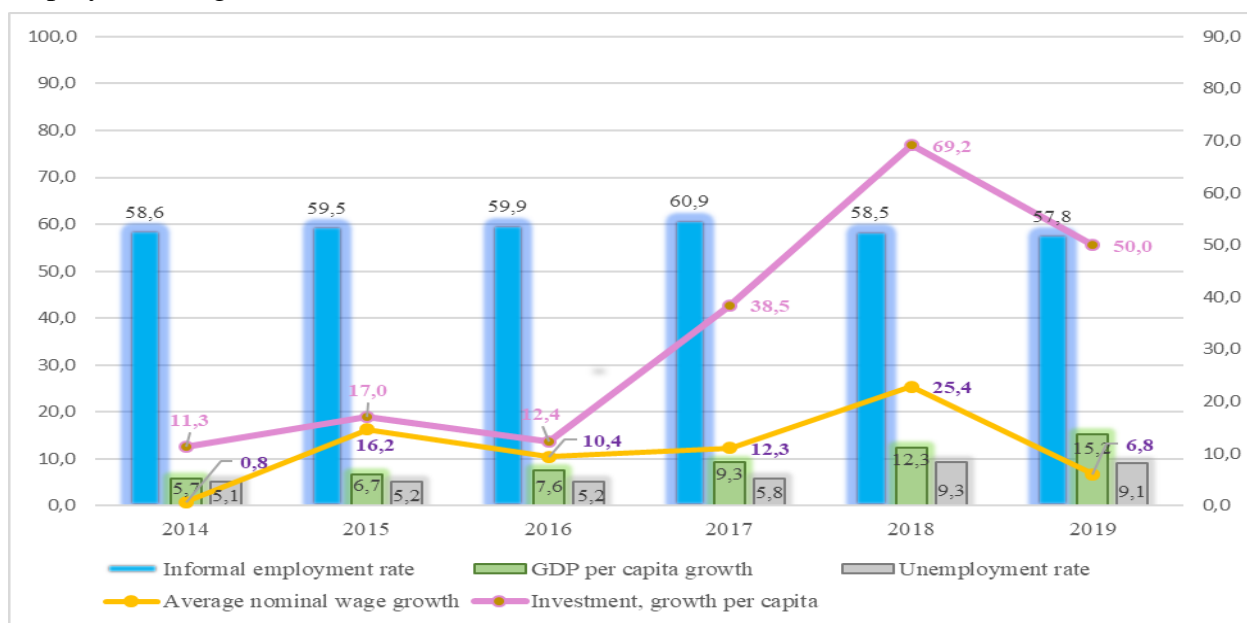


Figure 1. Interaction of informal employment* with various factors.

* with those who went abroad to work

Note: compiled by the author based on the data of the State Committee on Statistics.

In 2019, the largest share of informal employment in the sectors of the economy was in agriculture, forestry and fisheries - 39.2%, trade - 13.1%, industry - 8.4%, construction - 4.6%.

Practical interest are numerous studies (Bernabè⁵, 2002; Lehmann⁶, 2014; Frédéric Lapeyre and Colin C Williams⁷, 2020 investigated the role of education in informal employment.

For example, Uzbekistan case clearly supports the ILO's assertion that educational attainment affects the scale informal employment. Because who is engaged in informal

⁵ Sabine Bernabè. Informal Employment in Countries in Transition: A conceptual framework. (2002).

⁶ Hartmut Lehmann. Informal Employment in Transition Countries: Empirical Evidence and Research Challenges. (2014).

⁷ Transition to Formality and Structural Transformation. Challenges and Policy options. Edited by Iyanatul Islam and Frédéric Lapeyre with the assistance of Mahamadou Sidibé. (2020).

employment - 61,1% with secondary specialized education, 32,1% with general secondary education and only 6,8% with higher education. Also, the results of the study showed that often **a population group without legal literacy and legal culture** is the object of informal employment.

In the past, in Uzbekistan, the coverage of graduates of higher and secondary specialized educational institutions with higher education was at the level of 9-10%. Thanks to measures taken over the past two years, this figure has been increased by more than 15%. Realizing the role of higher education in the development of the country and in order to create a knowledge-based economy, Uzbekistan has planned to increase the coverage of graduates of schools with higher education to 25% in 2020 and to 50-60% in the future.

There is a strong interrelationship between human resource development and economic development. Therefore, **economic resources are needed for investing in education** for sustainable economic development.

Summarizing the results of the study, we can say that in order to reduce the level of informal employment, the state needs to create a favorable business environment and incentives for the transition to the formal sector of the economy, improve institutional norms and rules, improve the justice system, widespread introduction of ICT and digitalization of the economy (Figure 2).

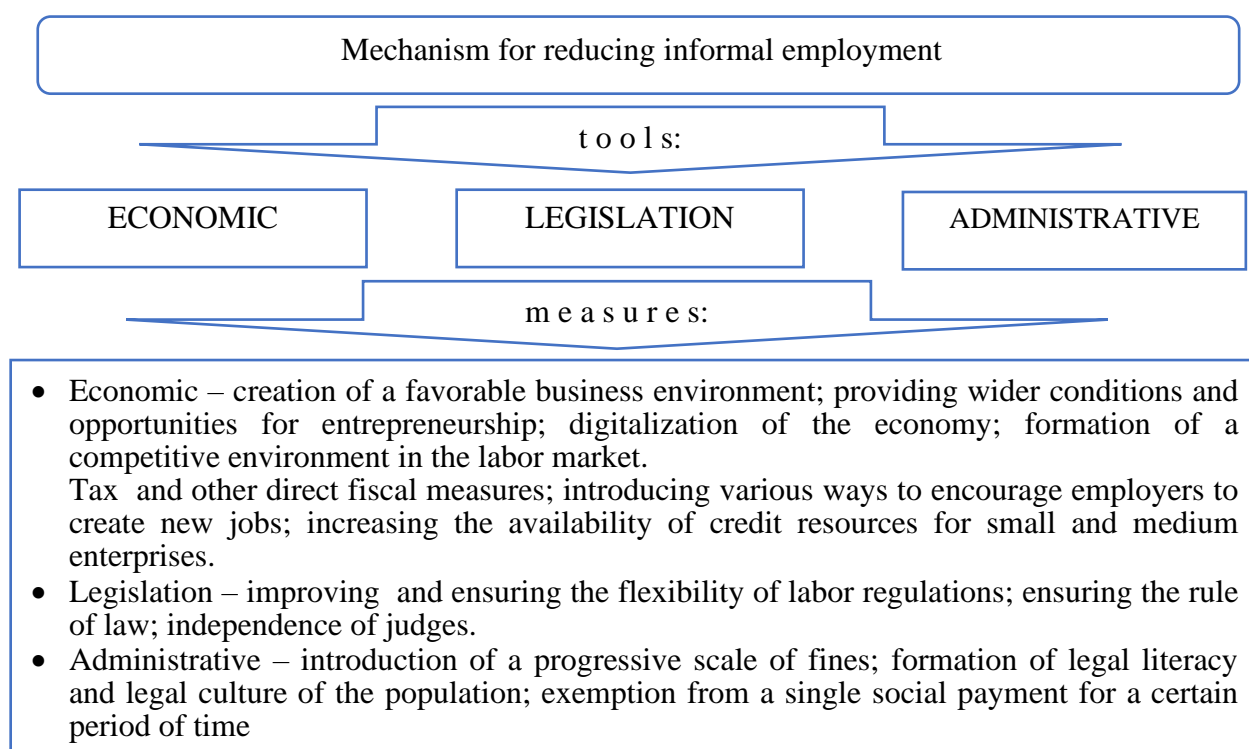


Figure 2. Mechanism for reducing informal employment
Note: compiled by the author

A significant factor in the formation of informality is the weakness of the institutional framework, which leads to misunderstanding and deviation from state goals and civic morality. In this regard, it is required to carry out a comprehensive transformation of all institutions of power based on building a civil society. Therefore, only deep and consistent structural reforms of the economy and institutional reforms will solve the urgent problem of informal employment.

It is necessary to accelerate the transition to a digital economy, which should ensure the efficiency, effectiveness and transparency of state bodies, increase their responsibility and discipline of execution, exchange information with the public and business.