

The Informal Economy in Central and Eastern Europe

by Sergejus Glovackas

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The informal economy (IE) is not an absolutely new phenomenon in Central and Eastern Europe (CEE). It existed also before the communist system had collapsed but of course not at the present scale. It was persecuted by the State repressive methods and it was quite easy to be imprisoned for informal economic activities. Its peculiarity at that time was to fill up gaps in goods and services that the State economy failed to provide fully (consumer commodities and daily services). Though at that time there was the legal base for the individual working activities of home workers, disabled persons, creative workers (free professions). But it was impossible to be involved only in informal activities as, for example, according to the USSR laws if a person was not working officially over three months he/she was forced to be employed, otherwise he/she would have to face a criminal case for parasitism. The informal economy had been associated with freedom of economic activities in the conditions of a planned economy.

The ruination of the State regulated economy and the disappearance of many rather unprofitable branches of economy had freed huge mass of the active and qualified labour force. Freedom of economic activities appeared and there was a huge deficit of consumer goods and daily services. Therefore many people who were obligatorily employed started informal activities that were rather profitable at the very beginning. The liberalization of the labour market, the cancellation of the old legal base and the malfunction of the new one conditioned that. The huge inflation of that time was causing people to lose interest in being employed in State and formal work and to pay taxes. In the informal sector the accounts were mainly settled in foreign currency, most often in USD and DEM.

After the market reforms and privatization took place a new phenomena has appeared in the region – unemployment, and there were no prevention programs and no re-qualification of the labour force. The majority of the countries of the Soviet block had their own narrow economic specialization as a division of labour within that system. All these were ruined within very short period of time. For example, in 1989 Georgia collected 600 thousand tons of tea leaves, 120 thousand people were employed in the sector, and 30 thousand tons were collected and processed. In 2004 in Georgia 57% the GDP level of 1989 was achieved (similar statistics apply to the other NIS and the South East European states). In Lithuania in 1989 there were 5 million pigs raised, in 2005 (after economic growth) - 1million. One of the major sources of the IE in the former USSR was the transition from collective farming to the private farming. There are many objective economic, political

and social reasons for the spread of the IE phenomena. But also there are many subjective ones to solve for which there is just not enough political will. The myth is popular that this is the phenomenon of the transition period and it will disappear by itself as time passes. But in the majority of our countries there is full political democracy, the countries are acknowledged as having carried out market reforms, the privatization is finished, the growth of economy is visible all over the region. In some countries the legal base and economy is much more liberal than in the Western world. The planned economy in CEE had been introduced during 1-2 years and the return to the market lasts 15 years already.

A very big source of informal labour in the region is migrant labour, especially in Russia, the Czech Republic, Hungary and Poland. The seasonal migration influences the growth of the informal labour ratio and also on the economy of the sending country. People in the native country are living for the money earned abroad; they have casual work and are not interested to pay taxes. The scale of the internal migration in the CEE region is growing.

Another source of labour in the IE in some countries are the refugees from war and national conflicts – in the South Caucasus countries (Azerbaijan -0.5 million, Georgia - 300 thousand), Serbia, Bosnia, Croatia, Kosovo; the Russian speaking people from Central Asia and from the Caucasus in Russia.

The informal economy has deep roots in various sectors of the economy including the State one. There is a wide spread opinion that it is prevailing only in agriculture, in trade and in the service sectors. But that is far from the reality. For example, the informal economy in our region is most wide spread in the construction sector (in Lithuania 35 percent of all undocumented workers are employed in construction), in forestry, trade, services, tourism, transport, agriculture. Obviously, each country has its own specific features. For example, in the Ukraine coal mining accounts for a high percentage (there are 3,000 illegal mines in the Donets region alone), in Lithuania it is the wood processing industry, in Moldova the food industry; in Georgia agriculture (900 thousand are employed in agriculture and the official figure is 13 thousand).

It is rather difficult to present the statistical view of the IE in CEE but on the basis of the information provided by the trade unions in the region and other sources (that differ greatly from the official statistics) the figures will be the following: Estonia 15%, Lithuania 25%, Croatia 27%, Bulgaria 30%, Serbia 40%, Ukraine 50%, Moldova 60%, Georgia, Armenia, Azerbaijan 65- 70%, Kosovo 80% of the workers are working in the informal economy. As we see the scissors are very wide -from 15 up to 80 percent. The EU average is 9%, in the new EU member states 20%, in the NIS 48%. These figures include people working illegally, self-employed, and home based, free licensed, and other forms of atypical work. It would be useful to count the employed in the informal economy but not necessarily working illegally, as the figures differ greatly, for example, in Lithuania those working illegally account for 10% of the labour force and those employed in the informal economy for 25%. Other figures that can help estimate the extent of the IE are those that show how much of the GDP is created in the IE. For example, in Georgia the IE

accounts for 52% of the GDP (although in some countries the statistics include the shadow economy, including smuggling and other criminal activities).

Eurostat

Size of undeclared work in selected CEE countries

Country	Year	Estimate (% GDP)
Bulgaria	2002/03	22-30
Czech Republic	1998	9-10
Estonia	2001	8-9
Hungary	1998	18
Latvia	2000	18
Lithuania	2003	15-19
Poland	2003	14
Romania	2001	21
Slovak Republic	2000	13-15
Slovenia	2003	17

Also we can state that over a half of those employed in the IE are women. One of the reasons of the importance of the IE in CEE countries is that those employed in it earn a higher income (in Serbia 33%, in Lithuania 25%) comparing with those working under a formal labour contract. One of the examples is the biggest security company in Lithuania "Group4Falck Lietuva", which pays the highest wages in the sector but faces a shortage of employees, who often go to work with the competitors and the reason is undeclared wages.

Very often estimates of trade union density in CEE countries are based on the statistics of those officially working but if all factually employed in the labour market are counted the figures can change considerably. For example, in Moldova 80% of those officially working are trade union members, but if all employed are counted, the figure will be about 40%; in Georgia there are 600 thousand officially working and 80% belong to trade unions, and if all those working are counted there will be only about 25% trade union members. It is very difficult to have such statistics because of lack of information about those who went to work abroad, or to work there as seasonal workers (in Georgia 1million -1,3 million, in Moldova 800 thousand -1 million, in Ukraine 5-8 million, in Lithuania 300 - 400 thousand, in Azerbaijan - 2 million). It is possible to estimate on the basis of the existing data that in total 40 - 50 million people are employed in the IE in the CEE region (excluding Central

Asia) and that the IE is further growing in NIS and some countries of South-East Europe. There are approximately 350 million inhabitants in CEE. The ICFTU member organizations unite about 42 million members (this is excluding FPU Ukraine (11 million members) and FPB Belarus (4 million members)). Trade unions unite about 20 thousand working informally, but about several millions are united in various NGOs, professional associations, guilds, mostly of farmers, free professions, home based workers. Thus, the potential is huge. I would like to stress that this information is very approximate. But even so it gives a general understanding of the situation and forces us to think about the organizing problem.

The Informal Economy in CEE has its own specific features and problems:

Seasonal migration.

Undefined social counterparts.

Association of trade unions with the State institutions (among those regularly employed).

Vague boundary between informal and illegal economies.

High level of education of employees in the IE.

Corporate internal organization.

Part-time employment both in formal and informal economies.

Trade union structures that are not adapted and do not have experience on how to work with the IE.

Refugees

Not all organizations are fully aware of the IE phenomenon. Unions are not sure if IE has to be fought against or considered as an area to work with.

Most governments do not co-operate with unions in this area.

The employers' position varies a lot – in some countries (Lithuania) steps are taken to decrease the IE, in some (Moldova, Georgia) they are passive and skeptical.

Stricter and clearer ILO recommendations are needed focusing on the CEE situation.

There is some experience in this work in the region but it is rather chaotic and not systematized. There is no agreement and solidarity among different sectors (i.e. public and services).

There is no co-operation with NGOs and their international networks.

CEE trade unions are weak in co-operating and exchanging experiences with other countries in other regions (Africa, Asia, Latin America).

There is a mistaken prevailing opinion that IE is a phenomenon for the transition period.

Popular opinion is that the best way to decrease and formalize the IE is via strict legislation and penalties, repressive tools and by the prohibition of different activities.

Bearing in mind these specific features and problems trade union activities should be organized in the informal economy using the experience of other continents and the recommendations of the ILO and other international organizations.

The ICFTU together with the ILO has been actively working in this area for several years. As far as back as 2001 the World Informal economy task force group has been set up that includes the CEE representatives from Moldova, Serbia and Lithuania. The CEETUC Gdansk meeting took place in 2003 and confirmed the recommendations to work with the IE. In 2004 together with the ILO a special program was launched for the CEE organizations the main directions of which are raising awareness, organizing and social dialogue in informal economy. With this aim three pilot campaigns are being carried out in Bulgaria, Moldova and Lithuania. With ICFTU support this topic is being included into the agenda of the social tripartite dialogue in six more states. For the implementation of this work it is necessary to refer to the recommendations adopted at the 90th International Labour Conference that was held in 2002 on the informal economy where several paragraphs refer to trade unions and their social counterparts, namely:

31. *An important objective for both employers' and workers' organizations is to extend representation throughout the informal economy. Workers and employers in informal activities may wish to join existing trade unions and employers' organizations, or they may want to form their own. Employers' and workers' organizations play a critical role in either strategy: extending membership and services to employers and workers in the informal economy, and encouraging and supporting the creation and development of new member based, accessible, transparent, accountable and democratically managed representative organizations, including bringing them into social dialogue processes.*

32. *Both employers' and workers' organizations can play an important advocacy role to draw attention to the underlying causes of informality and to galvanize action on the part of all tripartite partners to address them, and to remove the barriers to entry into mainstream economic and social activities. They can also lobby the public authorities for the creation of transparent institutions and the establishment of mechanisms for delivering and linking services to the informal economy. The innovative and effective strategies and good practices that employers' organizations and trade unions in different parts of the world have used to reach out to, recruit, organize or assist workers and enterprises in the informal economy should be more widely publicized and shared.*

34. *Trade unions can sensitize workers in the informal economy to the importance of having collective representation through education and outreach programs. They can also make efforts to include workers in the*

informal economy in collective agreements. With women accounting for a majority in the informal economy, trade unions should create or adapt internal structures to promote the participation and representation of women and also to accommodate their specific needs. Trade unions can provide special services to workers in the informal economy, including information on their legal rights, educational and advocacy projects, legal aid, provision of medical insurance, credit and loan schemes and the establishment of cooperatives. These services should not, however, be regarded as a substitute for collective bargaining or as a way to absolve governments from their responsibilities. There is also a need to develop and promote positive strategies to combat discrimination of all forms, to which workers in the informal economy are particularly vulnerable.

The CEE organizations are just starting work in this area. Only in several organizations is this area of activities acknowledged as the priority at the trade union political level and consecutive activities conducted. There is some rather good experience of organizing those employed in the IE into trade unions. In Moldova, on the initiative of the CSRМ, the whole transport branch has been organized from the minibus drivers; in Lithuania, with assistance from UNI, unions for hairdressers and beauticians, pharmacists and taxi drivers were organized; in Bulgaria there is a parking employees trade union.

In many countries market and street sellers are actively organizing but mostly spontaneously, although in some countries there are specific branches, for example, in Moldova, Ukraine, Russia there are small business trade unions. There are rather specific experiences, for example, in Latvia several years ago sexworkers started to unite. In many places private security and domestic employees started to organize in mass, and in almost all countries there are trade unions of workers in personal transport (taxi and minibus drivers).

The reasons to set up trade unions vary greatly: for example, one of the impetus for hairdressers is that being the members of the trade union that belongs to the Uni Hair and Beauty sector they can receive the European hairdressing certificate and this is a professional recognition valid all over Europe. Pharmacists need the organization representing them in negotiations with the institutions providing certificates; the individual taxi drivers must unite to be able to compete with the big companies in negotiations with the city administrations on distribution of the taxi stops, on requirements for the cars, etc. Trade unions help the market and street vendors oppose the corruption of officials and market administrations and fight for market places. These struggles lead to the establishment of loan-societies or small credit unions.

It should be noted that in many places people start to organize after the authorities are trying to regulate their activities by introducing cash registers, patents, certificates, to bring some order into the sector. In many cases the small sellers are employers themselves and hire several people, but the majority of them are self-employed, the interests of these people are rather specific, having no classical economic demand as increase of wages or working time.

And here we have the main issues for trade unions: is it our job to organize them? Or do we only need to represent them? Or must we fight against informality, try to formalize and then go on to organize and to represent? There is no clear answer to this question. There are many examples of when trade unions refused to organize small traders the place was occupied by populist political organizations. We must be aware that it is a rather active and educated part of society that works in small business, trade and services; these people were not waiting for the State to take care of them but took care of themselves. So, if we do not do the job, others will. This is a long-term and complex work. And the following recommendations can be presented:

1. Formalization and legalization of labour relations.

According to the possibilities it is necessary to try to formalize those who work informally and also to fight against illegal work especially in industry, construction, wood, light and processing industries, in the private security sector, where all the conditions for declared official work exist and where one of the goals of trade unions has to be to avoid wages dumping due to unfair competition. Here trade unions must actively collaborate with the employers and the state institutions. One of the ways to formalize is trade union membership. Much attention should be paid to informational and educational activities, to influence legislation.

2. Organizing.

Mostly it should take place in the small and medium enterprises in the services, trade, transport, tourism sectors and that must be done by trade unions bearing in mind the whole range of specific nuances. The small businessmen who hire employees should be united in their associations; there must be an identifiable social counterpart with whom it is possible to negotiate. A flexible model of the individual-regional membership should be prepared, these organizations should join the branch acting in the corresponding sphere of economy, the branches should adopt statutory changes allowing for direct individual membership and not only through the primary organization. Organizations should prepare a scheme of collecting membership fees in cash, linking fees to minimum wages, and here the role of the national confederations is of crucial importance.

It is important to organize also due to the reason that in some sectors informal workers are the critical mass of potential membership and in the context of a general decrease of membership this is the only way for some branches and national confederations to survive. Having more such members it will be good to employ special organizers from their ranks. The interests and needs of these people are very specific and not always understandable from the classical trade union positions.

3. Representation.

Trade union must help the people employed in informal economy set up their specific organizations especially in agriculture, for home workers and the free professions. Also it is necessary to collaborate with the co-operative movement uniting them into co-operatives. Such organizations exist in many countries - farmers' unions, professional guilds, organizations of home workers, of handicraft workers, sportsmen associations, small business associations and co-operative unions, but there is no communication with trade unions or it is just starting. The national trade union confederations need to sign collaboration agreements with such organizations and also to introduce the status of associated membership or observer (it is done already in some organizations, for example, Podkrepa in Bulgaria, "Solidarumas" in Lithuania).

The national trade union confederations can then represent their partners in the IE tripartite councils, to include their issues into agendas (thus securing more representation weight in these bodies). Also it will help to avoid misunderstandings in the tripartite councils about the consultation partners: the mandate to represent all employees should be given to trade unions. Similar work should also be done at the branch or sectoral level, during bipartite negotiations. In this case the branch can represent the employees of informal economy in the negotiations with the corresponding ministries responsible for a certain sphere and its regulation – for example transport, finance, health care, economy, agriculture. Associated membership and representation rights are also necessary on the regional level because many questions need to be solved with the institutions of local government. The partner organizations (associated members or observer members) should pay special membership fees and receive premises in the confederations or branch unions.

4.Social dialogue.

Experience shows that the topic of undeclared work is of the same importance for all social counterparts. There are cases when this theme is included into the agenda on the employers' initiative or only the government is undertaking the solution by the political methods. There are no special contradictions on these issues. The opinions of all three parties often coincide and there is good will for co-operation. This is the situation in the tripartite councils (the governments need taxes, the employers are not interested in unfair competition, trade unions are trying to avoid wages dumping and they need members). More attention should be paid not so much to measures of insurance or fines but to economic and social measures. For example, in countries where the banks are giving cheap credit for housing and consumption goods we see the decrease of illegal work as the employees must prove official income in order to receive credit and therefore demand that the employers pay full wages officially.

Via the tripartite councils flexible forms of voluntary social insurance payment should be introduced. It is also necessary to restore or to introduce the

institution of trade union voluntary labor safety inspectors that would closely collaborate with the State labour inspectorate. Large-scale national information and education campaigns are needed to prevent illegal work that can be partly financed from the state budget. Amnesties of undocumented migrant workers will help legalization (here one can draw on the experience of Spain and Portugal).

It should be decided that the enterprises that have been found to use illegal work and also exploiting workers couldn't participate in the tendering for public works. When the State or municipalities will not provide them with orders, this can be an effective means of raising minimum wages where it is so decided at the tripartite councils or after the consultations with them. The experience of the national tripartite round tables on this topic reveals that all three parties are willing to collaborate on this issue: trade unions, employers and the governments are asking each other for support and actually often blame each other for being passive. Collaboration in this area (as here there are the least contradictions) could be the impetus to develop further joint work and dialogue in other areas. Since joint work on the IE helps a lot to overcome mutual mistrust and opposition, such positive experiences can also be extended to other areas.

Bipartite dialogue can be divided into three levels.

1. The national government: this level has been mentioned above and it involves negotiations with departments and ministries responsible for specific spheres of the economy where the self-employed are strongly represented and where the issues of taxation, permissions, organization activity, social protection, and not wages, could be solved.

2 The regional level dialogue with the local authority institutions with the same agenda as in the dialogue with the departments and ministries, bearing in mind the specific features of a city or region.

3. National dialogue between the sectoral branches and the employers' organizations in order to conclude bipartite agreements covering minimum wages in the sector and preventive measures against enterprises using non-declared work. Such agreements should also be valid for the subcontracting enterprises (this is especially important for the sectors of construction, wood, light and food industries).

Summarizing, the following recommendations can be presented to the CEE trade unions for work in informal economy:

1. This sphere of activities should be acknowledged as a top policy priority of the national centers. They should prepare together a concrete action plan, taking into account the complexity of the issues, developing a methodology and a long-term strategy including structural trade union changes. There should be an inventory and an analysis of the problems and needs of the IE workers.

2. The issue of the informal economy should be included into the agendas of tripartite and bipartite social dialogue, better on the initiative of trade unions.
3. Organizing should be done selectively in the areas where it is really possible to represent the interests of the workers and to defend them if it is not causing problems with the traditional members.
4. IE workers should be encouraged to unite in their specific organizations that would be trade union partners and allies.
5. Formalization and legalization of IE workers: information and education programs should be conducted in combination with campaigns propagating trade unions in society. This can be done in close collaboration with mass media since experience shows that such activities are interesting for mass media representatives and they are willing to cover it. Public money can be used for such activities.
6. Migrant workers should be dealt with as a separate issue. Special programs and networks are needed.
7. It would be useful to apply positive experience and achievements from some countries (i.e. Moldova) in other CEE countries.

The CEE trade unions should co-operate closer and exchange experiences with countries in other regions (Africa, Asia, Latin America) and with international IE workers' networks. The relevant ILO recommendations should be used effectively.

8. It is necessary to "break the ice", raising awareness among trade union on this issue, to stimulate sectoral solidarity. It is necessary to delegate or to employ a person responsible for this topic, with a possibility of having a "hot line" phone for the IE workers.
9. The ICFTU CEE Unit together with the ILO should continue the work of coordinating activities and should create an effective information and education network.
10. It is necessary to pay as much attention as possible to working with women in the IE (the CEE women network Rovini school was dedicated to it in 2003). Here collaboration is needed with the women's organizations and international networks (for ex. WIEGO), as well as State institutions promoting equal opportunities.