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UNDERSTANDING THE INFORMAL ECONOMY: INSIGHTS FROM AZERBAIJAN AND ITS NEIGHBORS

Topicality. Informal employment, a critical facet of global labor markets, is characterized by jobs lacking legal or social protection and is often synonymous with precarious working conditions and inadequate earnings.

Aim and tasks: The primary aim of this study is to explore and better understand the dynamics of informal employment in various economies. The focus is to gain a comprehensive understanding of its causes, impacts, and the socio-economic conditions of workers engaged in informal employment. This understanding is pivotal in formulating effective and inclusive labor policies that can contribute towards reducing informality and promoting decent work conditions.

Materials and methods. Literature review, data collection, qualitative and quantitative method, comparative analysis, theoretical approach were used in the study. Studied scientific articles, books, reports and studies that address this issue. This will help to understand current views and research related to the informal economy in the region.
Various data sources such as statistical reports, surveys, interviews or observations are used to obtain information on the extent and characteristics of the informal economy in the region. Differences and similarities in the structure, characteristics and influence of the informal economy on socio-economic development in the region are compared.

Research results. The investigation into informal employment in Azerbaijan and surrounding nations unveiled its substantial presence in these economies, highlighting the sector's importance in the regional labor markets. Key factors contributing to this prevalence include insufficient formal job opportunities and inadequate labor protections. The research suggests that comprehensive policy interventions, such as bolstering labor laws and social protection measures, could aid in reducing informality and fostering more formalized and decent working conditions.

Conclusion. The substantial role of informal employment in Azerbaijan and its neighboring countries underscores a significant economic challenge. Addressing this issue effectively calls for comprehensive policy measures that promote the transition towards formal employment, enhance workers' rights, and provide adequate social protection.

Key words: employment, work, GDP, informal economy, Azerbaijan

Problem statement and its connection with important scientific and practical tasks. The informal sector, in its own right, holds significant value in terms of its measurable aspects as well as its contribution to comprehensive calculations of GDP. This sector is a vital component of the economic structure, especially in many labor markets of developing nations, where it plays a significant role in generating employment, production, and income. In countries experiencing high population growth or rapid urbanization, the informal sector often becomes the main employment hub in urban regions. Employment in the informal sector is a critical survival tactic in nations lacking social safety nets like unemployment insurance, or where earnings and pensions do not meet living costs. In some nations, industrial restructuring in the formal sector leads to more decentralized production, often achieved through outsourcing to smaller businesses, many of which operate within the informal sector.

Informality covers a wide range of situations within and across countries, and it arises for a number of reasons. In some instances, entities and individuals may opt to operate within the informal economy to evade taxes, social contributions, and compliance with established standards and regulations. This perspective is often linked to the misleading notion that informality primarily arises from firms and individuals deliberately avoiding tax obligations. Conversely, for some people, informal activities serve as a fallback mechanism. They might not possess the necessary education and skills for formal employment or may be too impoverished to utilize public and financial services.

In certain nations, a significant percentage of businesses in the informal sector are, in fact, registered in some form or pay taxes, despite potentially being unable to fully adhere to all legal and administrative regulations. Furthermore, it's worth mentioning that a considerable amount of covert production stems from businesses that are part of the formal sector. Examples of this include "under the table" production of goods and services, undisclosed financial dealings or income from property, exaggerated tax-deductible expenses, employment of undisclosed workers, and unreported wages and overtime work by official employees. To summarize, although the informal sector and underground activities may intersect, it is crucial to distinctly differentiate the concept of the informal sector from that of underground production.

Analysis of recent publications on the problem. Hernando de Soto Peruvian economist known for his research on the informal economy and the impact of property rights on economic development. Martha Alter Chen is a researcher at the International Labor Office who specializes in the informal economy, especially in the context of developing countries. British anthropologist Keith Hart has done research on the informal economy and has made significant contributions to understanding the role of the informal sector in developing countries (Hart, 2013). American sociologist Alejandro Portes studies the social structure and impact of migration on the economy, including an analysis of the informal sector. Martha Alter Chen specializes in the informal economy, microfinance and social entrepreneurship. The ILO (International Labor Organization) produces publications and conducts research on the topic of the informal economy, providing important data and recommendations for policy and practice. The OECD (Organization for Economic Co-operation and Development) also conducts research and analysis on the informal economy, including its relationship to economic development and social policy. The International Development Research Center (IDRC) funds and supports research on the informal economy, focusing on developing countries and strategies to promote economic growth and poverty. The World Bank conducts research and provides funding for projects related to the informal economy to promote development and fight poverty.

Allocation of previously unsolved parts of the
general problem. The informal economy is a complex and multifaceted problem that still raises many questions and challenges for researchers and politicians. Some of the previously unresolved parts of the general "informal economy" problem include:

1. Size and scale of the informal economy: One of the key difficulties is to determine the size and scope of the informal economy. Since it is carried out outside official structures and is not recorded, an accurate assessment of its volume remains a difficult task.

2. Causes and determinants of the informal economy: It is important to understand the factors that contribute to the development of the informal economy. This may include factors such as limited employment opportunities in the formal sector, high tax burdens, lack of access to financial services, etc.

3. Impact of the informal economy on economic development and social well-being: Understanding the role of the informal economy in economic development and social well-being remains a challenge. Further research is needed to determine how the informal economy affects poverty reduction, job creation and support for sustainable development.

4. Policies and measures to manage the informal economy: Designing effective policies and measures to manage the informal economy is a complex task. Various strategies need to be explored, including creating opportunities for the formalization of informal enterprises, providing access to financial services and social protection for workers in the informal sector.

5. Interaction between the informal and formal economy: Understanding the interaction between the informal and formal economy is an important aspect of research. It is necessary to investigate what factors contribute to the transition from the informal to the formal economy.

Analysis and solution of these unresolved parts of the "informal economy" problem requires further research and joint efforts of researchers, politicians and practitioners. Some possible approaches and directions for continuing work in this area could include:

- Quantitative and Qualitative Research: Conduct more in-depth research to determine the scope and characteristics of the informal economy. This may include the use of various methods such as surveys, interviews, data analysis and other methodologies.

- Benchmarking: Conduct comparative studies of the informal economy across countries and regions. This will identify common trends, differences and factors influencing the development of the informal sector.

- Social and Economic Impact Study: A study of the impact of the informal economy on poverty, equity, social well-being and economic development. This may include an analysis of the effects of policies and measures to manage the informal economy.

- Support for Formalization: Research on effective strategies and measures to support the process of formalization of informal enterprises. This may include the development of policies, educational programs, access to financial services and other supportive mechanisms.

- Interaction with other areas: Expanding research on the interaction of the informal economy with other areas such as social policy, labor relations, taxation and regulation. This will help to understand the broader aspects of the informal economy and the challenges associated with it.

- Interdisciplinary approach: Collaboration of interdisciplinary teams and research networks to share knowledge, experience and best practices in the informal economy. This will help create a more complete picture and make complex decisions.

- Development of tools and methodologies: Development of new tools and methodologies for measuring and analyzing the informal economy. This may include the development of standard indicators, scoring models and tools for monitoring and evaluating the informal economy.

- Stakeholder Engagement: Involvement of stakeholders such as government bodies, international organizations, academia, informal sector representatives and civil society organizations in the process of research and policy development in the field of the informal economy.

- Research on new trends and challenges: Analysis of new trends and challenges associated with the informal economy, such as technological innovation, globalization, changes in labor relations and other factors that may influence its development and dynamics.

- Dissemination of research results: Active dissemination of research results on the problem of the informal economy through publications, conferences, seminars and other forms of communication. This will help to share knowledge, discuss ideas and draw attention to this topical issue.

Further research and analysis of these aspects of the informal economy will allow a better understanding of its nature, impact and management opportunities in this area of the economy. This will contribute to the development
of effective policies, programs and measures to promote the development of the formal sector, reduce poverty and create a more equitable and sustainable economic system.

**Formulation of research objectives (problem statement).** Analysis of the understanding of the informal economy in Azerbaijan and its neighbors and its impact on the country.

**Materials and methods.** Literature review, data collection, qualitative and quantitative method, comparative analysis, theoretical approach methods were used in the study. Studied scientific articles, books, reports and studies that address this issue. This will help to understand current views and research related to the informal economy in the region. Various data sources such as statistical reports, surveys, interviews or observations are used to obtain information on the extent and characteristics of the informal economy in the region. Differences and similarities in the structure, characteristics and influence of the informal economy on socio-economic development in the region are compared.

**An outline of the main results and their justification.** The informal economy, which includes activities that carry market value and would contribute to tax revenues and GDP if documented, is a ubiquitous occurrence worldwide. As per the International Labour Organization, approximately 2 billion workers, which constitutes 60% of the global employed population aged 15 and above, engage at least partially in the informal sector. As economies develop, the scale of the informal sector gradually diminishes, albeit with substantial regional and national disparities. Presently, the informal sector still represents roughly one-third of the economic activity in low- and middle-income nations— and 15% in advanced economies.

Tackling poverty has emerged as a global priority. Literature indicates that a staggering 86% of the world's poor reside in developing economies, as reported by the World Bank in 2018. In low-income nations, approximately 77% of the working-age population earns less than $2 per day (World Bank, 2021). In the developing world, especially sub-Saharan Africa, the primary objective of development interventions has become poverty alleviation (United Nations Development Programme, 2018). Over the last ten years, the importance of women's empowerment as a catalyst for social and economic development has been explicitly recognized (Organisation for Economic Co-operation and Development, 2011). This aligns with the poverty and gender-specific objectives embedded in the first and fifth Sustainable Development Goals (SDGs) of the 2030 Agenda, which aim to eliminate poverty in all its forms everywhere and achieve gender equality, empowering all women regardless of their geographical location.

Women are estimated to account for 70% of the world's poor (Golla et al., 2011), which has led to recent poverty alleviation efforts placing a significant focus on vulnerable groups, with women being the primary target. These programs are designed to foster poverty reduction, women's empowerment, and socio-economic advancement. In Ghana, for example, women's access to production resources like land, labor, and capital is severely limited, exacerbating their poverty situation (Abu-Salia et al., 2015). Such barriers also dictate the types of jobs deemed suitable for them, further restricting their income potential in the job market. On average, women in Ghana earn only 57% of the income that men earn per hour (Osei-Asibey, 2014). These societal hurdles place women in an even more precarious position, increasing their likelihood of poverty and risk of hunger.

Due to their inferior status and restricted entry into the formal labor market, many women resort to the informal sector (Kishor & Gupta, 2009; Osei-Asibey, 2014). The informal sector employs approximately two-thirds of the worldwide active labor force, playing a significant role in poverty alleviation (Chen, 2008; World Bank, 2021; United Nations Development Programme, 2018). Globally, most workers in the informal economy are women (Tinuke, 2012). In sub-Saharan Africa, the informal economy has been instrumental in mitigating extreme poverty. Here, 84% of women involved in non-agricultural work are informally employed, compared to 63% of their male counterparts (International Labour Organisation, 2002), indicating the indispensable role women play in the informal economy. In Ghana, about 90% of the informal economy's labor force is constituted by women (Ghana Statistical Service, 2013). Women are typically more prevalent in informal employment, hence aiding them is a crucial strategy for curbing women's poverty and gender inequality.

The informal economy, particularly in the realm of employment, is notably prevalent in Azerbaijan and its surrounding nations. As of the close of 2021, the employed populace in Azerbaijan is estimated at around 5 million. Comparable figures are 1.5 million in Georgia and 1 million in Armenia. (Statistical committee of Azerbaijan, 2023)
The graph displays the percentage of total employment represented by employers in Azerbaijan, Georgia, Armenia, and Turkey across six years from 2016 to 2021. In Azerbaijan, the percentage of total employment represented by employers decreased from 13.14% in 2016 to 11.82% in 2021. Similarly, Georgia experienced a decline from 1.33% to 1.99% between 2016 and 2017, followed by a steady increase to 1.99% in 2021. Armenia's data shows a fluctuation in the percentage of total employment represented by employers, with a dip from 1.04% in 2016 to 0.88% in 2018, followed by a sharp increase to 1.56% in 2019 before decreasing to 1.50% in 2021. Turkey's data shows a consistent percentage of total employment represented by employers, with a slight dip from 4.55% in 2016 to 4.45% in 2021. Overall, the data suggests varying trends in the percentage of total employment represented by employers across the four countries over the six-year period.

The chart above shows the unemployment rate among youth in four countries - Azerbaijan, Georgia, Armenia, and Turkey - from 2016 to 2021. The data is presented in the form of percentages of the total labor force ages 15-24, and is based on modeled ILO estimates. In Azerbaijan, the youth unemployment rate decreased from 13.22% in 2016 to 12.92% in 2017 and further to 12.72% in 2018. However, there was a sharp increase in 2020, with the rate reaching 17.40%, which then decreased to 14.28% in 2021. In Georgia, the youth unemployment rate was the highest among the four countries in 2016, at 35.67%. However, the rate decreased steadily over the years, reaching 29.00% in 2017 and 29.64% in 2018. In 2019 and 2020, the rate increased slightly to 30.01% and 30.78% respectively, and remained almost the same in 2021 at 30.86%. In Armenia, the youth unemployment rate was also high in 2016, at 38.59%. The rate decreased to 37.76% in 2017 and further to 33.58% in 2018. However, the rate increased in 2019 and 2020, reaching 36.59% and 36.09% respectively in those years. In Turkey, the youth unemployment rate was the lowest among the four countries in 2016, at...
19.13%. However, the rate increased steadily over the years, reaching 20.11% in 2017 and 19.80% in 2018. There was a sharp increase in 2019, with the rate reaching 24.80%, and remained almost the same in 2020 at 24.69%. The rate decreased slightly in 2021, to 22.38%.

Overall, the data suggests that youth unemployment rates have been generally high in the four countries from 2016 to 2021, with some fluctuations. Azerbaijan and Turkey have experienced fluctuating rates, with Azerbaijan experiencing a sharp increase in 2020, while Georgia has managed to bring down its rate, although it remains the highest among the four countries. Armenia’s rate has also been high and has shown an increasing trend in recent years.

Vulnerable employment refers to a category of employment that is characterized by inadequate earnings, low productivity, and difficult conditions of work that undermine workers’ fundamental rights. It typically includes two employment statuses: own-account workers and contributing family workers. These individuals generally have fewer social protections and face higher risks of economic vulnerability. They often lack formal work arrangements, access to benefits or social protection programs, and representation by labor unions. The concept of vulnerable employment is often used in the context of labor market analysis, particularly in developing countries where informal labor arrangements are common. High levels of vulnerable employment can indicate a lack of decent job opportunities and widespread poverty. It's important to note that the specifics of what constitutes vulnerable employment can vary depending on the country and the context. For example, in some countries, casual wage workers or workers in informal employment might also be considered as in vulnerable employment.

The chart above shows the percentage of vulnerable employment in four countries over six years from 2016 to 2021. Vulnerable employment refers to employment that is poorly paid, lacks job security, and offers no social protection.

As per the data in the table, Azerbaijan has the highest percentage of vulnerable employment, with the estimate increasing from 55.05% in 2016 to 55.13% in 2020, except for 2019 when it was slightly lower at 54.34%.

Georgia has the second-highest percentage of vulnerable employment, but it has been decreasing since 2016. In 2016, it was 51.74%, which decreased to 46.18% in 2021.

In contrast, Armenia had the lowest percentage of vulnerable employment in 2016 at 40.91%, which has been decreasing year on year and was 29.07% in 2021.

Turkey has the lowest percentage of vulnerable employment among the four countries, with a slight decrease from 11.23% in 2016 to 8.89% in 2021.

Overall, the data shows that vulnerable employment is a significant issue in these countries, with Azerbaijan having the highest percentage of vulnerable employment and Armenia showing a considerable decrease over the years.
Contributing family workers, also known as unpaid family workers, are individuals who are part of the labor force in a family-owned business but are not formally paid for their work. Instead, they share in the income or other benefits of the family business. These workers often assist in a family business, such as a farm or a shop, and their work contributes to the overall family income. They are considered employed, even though they do not receive a traditional wage or salary. The term is commonly used in labor statistics and economic studies. This category of workers is more prevalent in countries with significant agricultural sectors or in small-scale family-owned businesses.

The chart above shows the percentage of total employment represented by contributing family workers for the years 2016 to 2021. The data is a modeled ILO estimate. Overall, the percentage of contributing family workers has remained relatively stable over the years, with a slight increase from 33.40% in 2016 to 33.56% in 2021.

However, there are some noticeable fluctuations in the subcategories. The percentage of contributing family workers in the agricultural sector has decreased significantly from 33.48% in 2016 to 17.63% in 2021. On the other hand, the percentage of contributing family workers in the service sector has remained relatively stable, with a slight increase from 19.96% in 2017 to 18.10% in 2020.

The percentage of contributing family workers in the industrial sector has remained consistently low, with only a slight decrease from 11.23% in 2016 to 8.89% in 2021.

Overall, these figures suggest that while the percentage of contributing family workers in total employment has remained stable, there have been significant shifts in the composition of these workers across sectors.

"Own-account workers" are individuals who are self-employed and do not engage any employees to work for them in their business. They work on their own account, meaning they operate their own economic enterprise or engage independently in a profession or trade. They assume all the risks...
associated with their enterprise and reap all the profits. Own-account workers can be found in various industries, such as retail trade, agriculture, or various service industries. They could be shop owners, independent consultants, freelancers, or small-scale farmers, for example. It's important to note that conditions and regulations for own-account workers can vary widely from country to country.

The given chart represents the percentage of own-account workers in male employment for four different countries, namely Azerbaijan, Georgia, Armenia, and Turkey for the years 2016 to 2021.

It can be observed that Azerbaijan had the highest percentage of own-account workers among male employment, with 15.70% in 2016, which increased slightly to 15.88% in 2020 before decreasing to 15.77% in 2021. Georgia had the second-highest percentage of own-account workers among male employment, with 9.77% in 2016, which decreased gradually to 8.28% in 2021.

In contrast, Armenia had the lowest percentage of own-account workers among male employment, with 2.82% in 2016, which decreased sharply to 0.36% in 2020 and remained constant in 2021. Turkey had a moderate percentage of own-account workers among male employment, with 5.28% in 2016, which decreased gradually to 4.18% in 2021.

Overall, the data indicates that Azerbaijan has consistently had the highest percentage of own-account workers among male employment, while Armenia has consistently had the lowest percentage. Georgia and Turkey have had moderate percentages, with Georgia gradually decreasing over the years while Turkey's percentage has been relatively stable.

![Chart showing percentage of own-account workers in male employment for Azerbaijan, Georgia, Armenia, and Turkey from 2016 to 2021](chart.png)

**Fig. 6. Self-employed, total (% of total employment)**

Source: Prepared by the author using information from the World Bank website

Self-employment refers to a state where an individual works for themselves instead of an employer. They run their own business and are responsible for its success or failure. Self-employed individuals often have a higher degree of control and flexibility in their work than employees. They have the freedom to make decisions on their own, set their work hours, and decide on their approach to performing their work. Some common examples of self-employment include freelancers, consultants, small business owners, contractors, and tradespeople. Self-employed people work in a variety of industries and professions. However, self-employment also comes with additional responsibilities, such as securing their own health insurance, planning for retirement, paying self-employment taxes, and managing their own business-related expenses. The income of self-employed individuals may also be more variable compared to those who are traditionally employed.

The table above represents the percentage of self-employed individuals in Azerbaijan, Georgia, Armenia, and Turkey from 2016 to 2021, as estimated by the International Labour Organization.

From the data, it can be observed that the percentage of self-employed individuals in Azerbaijan has remained relatively constant, with a slight decrease from 68.19% in 2016 to 66.28% in 2021.

In Georgia, there has been a gradual decline in the percentage of self-employed individuals, from 53.07% in 2016 to 48.17% in 2021.

In Armenia, there has been a significant decline in self-employment, with the percentage dropping from 41.95% in 2016 to 30.57% in 2021.
Turkey, on the other hand, has seen a relatively stable rate of self-employment, with a slight decrease from 32.45% in 2016 to 29.38% in 2021 (ILOSTAT database, 2023).

Overall, the data suggests that self-employment rates have been declining in the region, with the exception of Azerbaijan, which has remained relatively stable.

Conclusions and perspectives of further research. In conclusion, the informal employment sector plays a significant role in the economy of Azerbaijan and its neighboring countries. This sector, characterized by the prevalence of own-account workers, contributing family workers, and other forms of vulnerable employment, represents a large portion of the total workforce. In Azerbaijan, there is a noted fluctuation in the proportion of contributing family workers, indicating the dynamic nature of the informal economy. Similar trends can also be observed in countries such as Georgia. Conversely, Armenia and Turkey have seen a decline in the rate of family-contributing workers over the years, suggesting a shift towards more formal employment structures. However, despite these trends, it's important to remember that these figures are estimates and may not wholly reflect the true situation on the ground. Furthermore, the data does not provide any context on the quality of these jobs or the working conditions. The persistence of informal employment at such levels signals ongoing economic challenges, including the lack of formal job opportunities, limited social protection, and a potential lack of labor rights for workers. Addressing these issues requires comprehensive policy measures that foster decent work opportunities, enhance social protection, and promote workers' rights.

Studies conducted on the informal economy in Azerbaijan and its neighbors show that the informal economy remains a significant phenomenon and has an important impact on the economy and society. The size and scope of the informal economy in the region remains significant, and its impact is being felt in various sectors, including trade, services, agriculture and other industries. Factors driving the development of the informal economy in the region include high unemployment, limited formal employment opportunities, difficult access to financial services and taxation. The informal economy has both positive and negative aspects. On the one hand, it can be a source of survival for many people and promote economic activity. On the other hand, it can lead to loss of public revenues, violations of workers' rights and inequality. Policies and measures to manage the informal economy should take into account the context and specific characteristics of each country in the region. This includes developing policies to formalize informal enterprises, improve access to financial services, promote the development of the formal sector, and provide social protection for workers in the informal sector.

The study of factors influencing the dynamics and development of the informal economy in Azerbaijan and its neighbors may include an analysis of the role of education, institutional factors, market conditions and other influencing factors. The study of the impact of the informal economy on economic development and social well-being in the region includes an analysis of the effects of the informal economy on poverty reduction, equality, labor.

The study of the effectiveness of policies and measures to manage the informal economy in the region includes an analysis of various approaches and strategies used to stimulate formalization and promote the development of the formal sector.

Examining new trends and challenges in the informal economy, such as technological innovation, globalization, changes in labor relations and changing economic structure, will help to understand what factors may influence the development of the informal economy in the future and how to adapt to changes.

Comparative studies of the informal economy in other regions and countries will allow comparison of experiences and approaches to managing the informal economy and learn from best practices.

Continued research on the social and economic impacts of the informal economy, such as inequality, social and economic exclusion, worker vulnerability, and other aspects, will help develop policies and programs to reduce the negative impacts and improve the well-being of informal sector workers.

The study of the role and influence of gender in the informal economy includes an analysis of the differences between men and women in the informal sector, the barriers faced by women entrepreneurs, and the development of policies and programs aimed at supporting equal opportunities in the informal economy.
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