

SUMMARY RECORD



**Informality and COVID-19 in
Eurasia: The Sudden Loss of a
Social Buffer**

Thursday 11 March 2021

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www.oecd.org/globalrelations/eurasia.htm

■ THE OECD AND INFORMALITIES IN EURASIA

The OECD has long worked on firm formalisation in OECD members and partners, particularly in Latin America and Southeast Asia. Building on its work on private sector development in the Eurasia region, the OECD Eurasia Division has analysed firm informality issues in the specific context of Afghanistan (report [here](#)) and has developed regional analysis of informality in the context of the COVID-19 pandemic in a new policy note. The OECD Eurasia Competitiveness Programme stands ready to further revise and apply its analysis and framework to other Eurasia countries and help them promote business formalisation.

<http://www.oecd.org/eurasia/informality-in-eurasia.htm>

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WEBINAR PROCEEDINGS

■ Overview

The webinar *Informality and COVID-19 in Eurasia* provided an opportunity to reflect on the multi-faceted and pervasive realities of informality in the region. The discussion was based on a draft OECD policy note on the topic, which summarises the main challenges facing the informal sectors in the region following the onset of the COVID-19 pandemic and presents priority actions and policy recommendations to ensure a more inclusive and sustainable recovery for all. Government representatives from the region, academics, and members of the development community contributed to the discussion. The draft note on *Informality and COVID-19 in Eurasia – The sudden loss of a social buffer* will be completed taking into account the webinar discussions, and will be released in April as basis for further work on informality in the region.

Following the opening remarks from the OECD and invited governments, the OECD Secretariat and the ILO provided an analytical framework for defining and tackling informality and introducing the situation and dynamics of informalities in Eurasia. In the first session, Eurasia country representatives and experts also discussed the main effects of COVID-19 on the informal sector in the region, particularly on local economies, vulnerable households and firms, and migrations. In the second session, panellists discussed the long-term effects on business formalisation and shared good practices put in place to support informal workers and firms weather the immediate effects of the crisis and actions to ensure a long-term approach to incentivise firms to move to the formal sector. The concluding remarks provided an overview options for addressing informality in Eurasia.

■ Key findings

- For both historical and structural reasons, informality is a pervasive reality in the Eastern Partner region and Central Asia. Weaknesses in the business environment, limited opportunities in the formal private sector and shortcomings in the delivery of public services have encouraged firms and workers to operate in the informal sector or migrate to find work and escape poverty.
- The informal sector has often acted as a social buffer when economies in the region were hit by external shocks, but COVID-19 is different, as efforts to contain the spread of the virus, such as lockdowns, have disrupted informal economic activities no less than formal ones. The most-affected sectors, such as catering, tourism and trade are crowded with informal firms.
- COVID-19 has also affected vulnerable populations, such as migrants and women. It has led to border closures, preventing informal trade across borders and movements of migrants. Women have been particularly affected, and gender gaps across the region have grown. In addition, informal sector workers very often struggle to afford quality healthcare.
- The immediate policy priorities should be to support informal workers and firms who have stopped working, or are forced to continue under strict sanitary measures, and to offer social protection.
- While, formalisation cannot be separated from broader economic development over the long-term, governments are encouraged to apply a set of policy measures to foster business formalisation. Incentivising firm formalisation can help make the recovery more sustainable and inclusive. Digitalisation brings vast opportunities by reducing formalisation costs and generating a conducive business environment.
- Ultimately, informal sector firms and workers need to be convinced of the benefits of formalisation, by seeing themselves as stakeholders who benefit from public services and should be involved in the policy-making.

■ Opening remarks

Opening remarks were delivered by **Mr Andreas Schaal**, Director of the OECD Global Relations Secretariat, who noted that countries in the Eastern Partner region and Central Asia have some of the highest rates of informality worldwide. He observed that the informal sector had often acted as a social buffer when economies in the region were hit by external shocks, providing subsistence revenues and work for those affected by dislocations in the formal economy. Mr Schaal then explained how COVID-19 was different, as efforts to contain the spread of the virus have disrupted informal activities no less than formal ones, as lockdowns and border closures were imposed. He thus highlighted the need to debate, share experiences and provide policy options to support those affected by the crisis, and to use this momentum to discuss new ideas for the longer term. Mr Schaal stressed that incentivising firm formalisation would be essential to ensuring a sustainable and inclusive recovery, and help Eurasia countries build back better from COVID-19.

During her introductory statement, **Ms Rūta Bilkštytė**, Vice Minister of Finance of Lithuania, noted that tackling informality requires finding the right balance between enforcement and incentive measures which encourage the voluntary payment of taxes. Against the backdrop of COVID-19 and dwindling tax payments, it remains crucial for governments to find ways to better mobilise resources. Ms Bilkštytė stressed that no “silver bullet” exists, and that a complex set of measures is needed. She noted the opportunities that digitalisation can bring, for instance with e-government services for businesses, electronic tax payment systems, and innovative analytics. She noted that businesses are more willing to pay taxes if they perceive a fair tax system, as to which her government is currently reviewing all their tax initiatives and considering introducing preferential systems, and incentives. Ms Bilkštytė was clear that fighting informality is one of the top priorities of the Lithuanian government and underlined the government’s commits to adopting OECD standards to sustain economic growth and wealth, which in the long-term can best contribute to curbing informality.

Mr Badriddin Abidov, Deputy Minister of Investments and Foreign Trade of Uzbekistan, offered a perspective from the region. He described the effects of COVID-19 on Uzbekistan’s economy and the steps taken by the government to mitigate them, with timely measures for both firms and people. Mr Abidov underlined that these measures also aimed to establish favourable conditions and incentives for firm formalisation, such as monetary support measures and the streamlining of licensing procedures. In line with this, Uzbekistan introduced a *Presidential Decree to Reduce the Shadow Economy*¹ in November 2020, to offer selective support measures to sectors prone to informality, such as catering or construction, to further liberalise the tax regime and to simplify registration procedures. Mr Abidov added that the government’s support measures also focused on the self-employed, which are important contributors to Uzbekistan’s formal and informal economy. He thanked the OECD for its efforts to promote a sustainable and inclusive recovery from COVID-19, and noted that OECD best practices would play a key role in helping Eurasia countries recover.

■ Setting the scene: Informality in the Eurasia region and its specificities

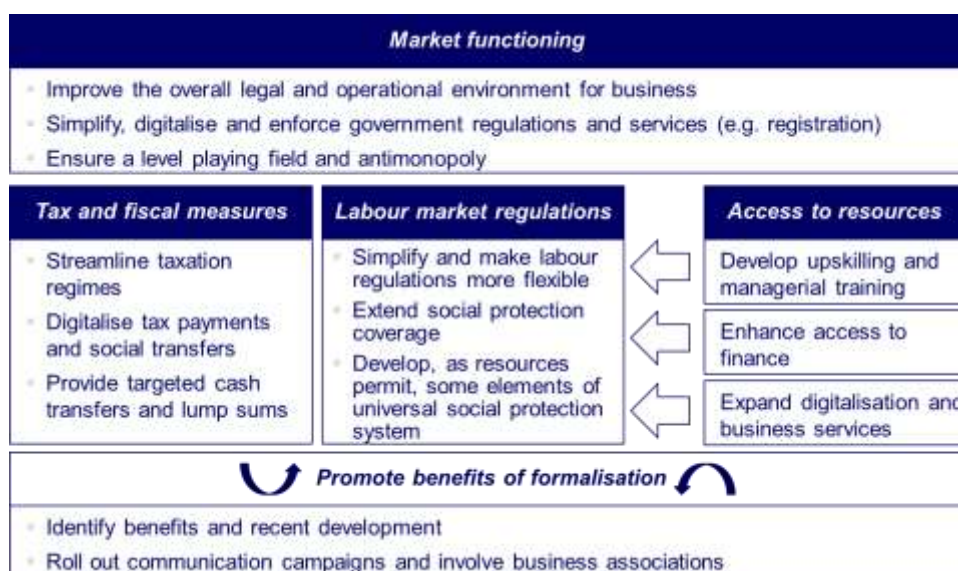
In order to provide background to the discussions, **Ms Judith van Doorn**, Specialist in the ILO’s Enabling Environment and Enterprise Formalisation team, offered definitions of informality and how they compare across countries and regions. She introduced the ILO Recommendation N° 204, which defines the informal economy as “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements”. Ms van Doorn emphasised the need to look at the extent to which economic units are registered with the relevant agencies and how they comply with the applicable regulations. Against this background, Ms van Doorn noted the difficulty in comparing data across countries, as regulations and definitions differ. Despite these measurement hurdles, she pointed out that informality remains a global phenomenon: on the relatively broad definition used by the ILO, 8 out of 10 economic units/firms are informal, and 6 out of 10 individuals are employed in informal employment. She highlighted factors which can trigger informality, be it the overall economic situation of the country, enterprise characteristics and the legal and regulatory environment. Governments are encouraged to simplify procedures

¹ Uzbekistan (2020), *Presidential Decree to Reduce the Shadow Economy*, November 2020, <https://lex.uz/docs/5073461>.

and requirement for doing business for instance by creating one-stop shops, streamlining and reducing licensing procedures and putting in place tangible incentives, and to focus on productivity improvement.

Mr Arnault Prêtet, Deputy Head of the Central Asia Unit in the OECD Eurasia Division, offered the regional background to the informality debate. He noted that many Eurasia countries have a long and rich tradition of informal exchanges, trade and agriculture. Since independence, economies in the region have failed to create a sufficient volume of formal jobs to absorb the sizeable number of new entrants every year. COVID-19 has had dire effects on the large informal sectors in the region, by reducing incomes and mobility, and increasing poverty. Mr Prêtet noted that containment measures have interrupted business activities, with the closure of small shops, markets and public places. The most-affected sectors, such as catering, tourism are crowded with informal firms. COVID-19 also led to temporary border closures, preventing informal trade across borders and movements of migrants. These effects added to traditional barriers to formality in the region, be it weaknesses in the business environment and the low trust in governments. Yet, Mr Prêtet highlighted that support measures in the Eurasia region mostly targeted the formal sector, often leaving the informal sector behind. Mr Prêtet thus encouraged governments to focus on improving market conditions, put in place conducive tax measures and labour market regulations, offer incentives (financial, upskilling, business services) and promote the benefits of formalisation (Figure 1).

Figure 1. A suggested framework to foster business formalisation



■ Session 1: The socio-economic costs of COVID-19 for the informal sector

The first panel discussion focused on the impact of the COVID-19 crisis on the informal sectors in Eurasia. **Mr Antti Rauhala**, Policy Analyst in the OECD Eurasia Division, presented the report's key findings, stressing the disproportionate impact of the pandemic on informal workers and firms. Mr Rauhala cited ILO estimates, which show that nearly 70% of informal sector workers worldwide faced loss of income in 2020. Structural inequalities exacerbate the situation, Mr Rauhala noted. Informal sector workers often belong to vulnerable groups: those suffering from gender inequalities, urban-rural divides, youth unemployment, and migrant workers. Furthermore, informal sector workers struggle to afford quality healthcare.

Mr Abdul Karim Malekyar, Deputy Minister of Industry and Commerce of Afghanistan, reminded the audience that Afghanistan has one of the region's largest informal sectors, which employs up to 80% of all workers. The spread of the COVID-19 pandemic and the effect of containment measures have been uneven and centred on major population centres. Mr Malekyar noted that the pandemic has had a significantly smaller effect on agricultural workers, most of whom work informally. In response to the crisis, He also highlighted his government's limited financial capacity to support the informal sector through direct cash transfers. Nevertheless, the Afghan government put in place *Distkhan*, a food distribution programme for the entire

population that benefited informal workers, and it is working on further measures to support SMEs, including tax holidays and exemptions on utility payments.

Mr Oleksandr Romanyshyn, Deputy Minister for Development of Economy, Trade and Agriculture of Ukraine, detailed the efforts of the Ukrainian government to support the economy in 2020 to mitigate the economic effects of the pandemic. Out of 146 measures, 67 have been implemented, and 57 are currently in place. In total, the support programmes are worth UAH 70 billion. Most recent support measures include financial guarantees and debt obligations on creditors. Many of the support measures are specifically aimed at SMEs, and the government has sought to provide targeted support for innovative start-ups. Mr Romanyshyn pointed out that specific support measures targeted people from Donbas and Crimea, for whom the total assistance during the pandemic has amounted to UAH 15.8 billion and reached 600,000 people.

Ms Jane Barrett, Director at Women in Informal Employment: Globalizing and Organizing (WIEGO), urged policy-makers to engage more directly with the informal sector. For example, waste pickers are largely invisible to the wider society, but their work is vital, not least for recycling, in many countries. In 2020, WIEGO surveyed 2,300 urban informal sector workers in twelve cities of mostly developing countries to learn about the impact of the crisis.² The first wave of the pandemic and the containment measures were particularly disruptive: Some 75% of informal sector workers did not work at all in April 2020, and their earnings dropped to 21% of the pre-pandemic level. By mid-2020, 36% of informal sector workers had still not returned to work. Both the initial shock and the prolonged unemployment affected women disproportionately: 41% of women remained out of work in mid-2020, compared to 25% of men. Worryingly, most informal sector workers did not receive government support during the first half of 2020. According to WIEGO's survey, only 41% of informal sector workers reported receiving some form of cash support, and a similar share had received food aid. Ms Barrett concluded by encouraging governments to further involve informal worker in policy-making and consultations.

Mr Rustamjon Urinboyev, Associate Professor at Lund University and Senior Researcher at the University of Helsinki, reflected on the impact of the crisis on Central Asian migrant workers in Russia – which in their vast majority are informal. The lockdown measures and restrictive border controls, some of which still remain in place, put migrant workers in a precarious situation. A large number of them faced job loss, forced unpaid leave, even abusive measures by the police. Many migrant workers were unable to leave Russia for their home countries, and many seasonal workers were not able to travel to Russia. Data on remittances suggests that the most severe impact of the crisis have faded relatively quickly. However, the increased use of formal payment channels, especially online payment platforms) rather than informal cash transfers can explain part of the rebound, masking the overall fall in remittance incomes, Mr Urinboyev explained.

During the **open discussion**, participants talked about how governments could reduce informality and support the informal sectors weather the effects of the crisis. **Mr Urinboyev** requested less interference in doing business to allow formal firms to thrive and encourage informal ones to operate in the formal economy. **Ms Barrett** underlined the importance of valuing the contribution of informal sector workers, as “they are too often seen and treated as a nuisance”. She highlighted the guidelines set in the *ILO Recommendation No. 204 “Concerning the Transition from the Informal to the Formal Economy”*³ as a cornerstone of the efforts to encourage the formalisation of informal firms. Mrs Barrett urged the governments in the region to ensure the representation of informal sector workers in decision-making processes by enabling the formation of self-representative organisations. Ultimately, informal sector workers need to be convinced of the benefits of formalisation. For example, to encourage the payment of taxes, informal sector workers need to see themselves as stakeholders who benefit from public services. Finally, participants raised the poor availability of data on informal workers, thus urging governments to co-operate with administrative units on the ground and make use of digital methods to access information on the informal sectors.

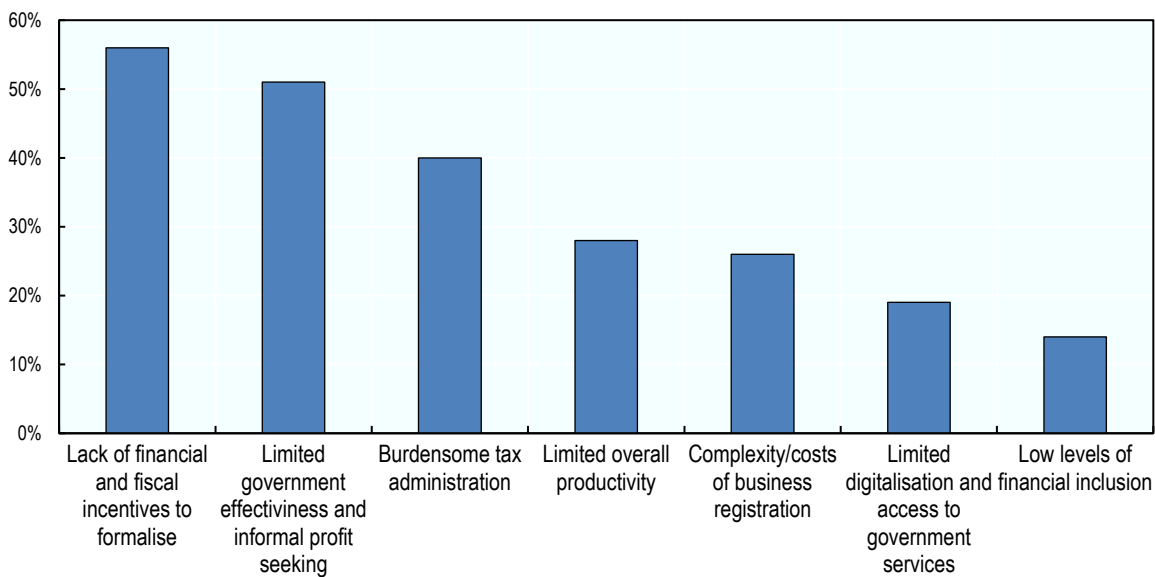
² The cities included in the WIEGO survey are: Accra (Ghana), Ahmedabad (Pakistan), Bangkok (Thailand), Dakar (Senegal), Dar-es-Salaam (Tanzania), Delhi (India), Durban (South Africa), Lima (Peru), Mexico City (Mexico), Pleven (Bulgaria), New York City (United States), Tiruppur (India).

³ ILO (2015) Recommendation No. 204 concerning the Transition from the Informal to the Formal Economy, available at https://www.ilo.org/ilc/ILCSessions/previous-sessions/104/texts-adopted/WCMS_377774/lang--en/index.htm

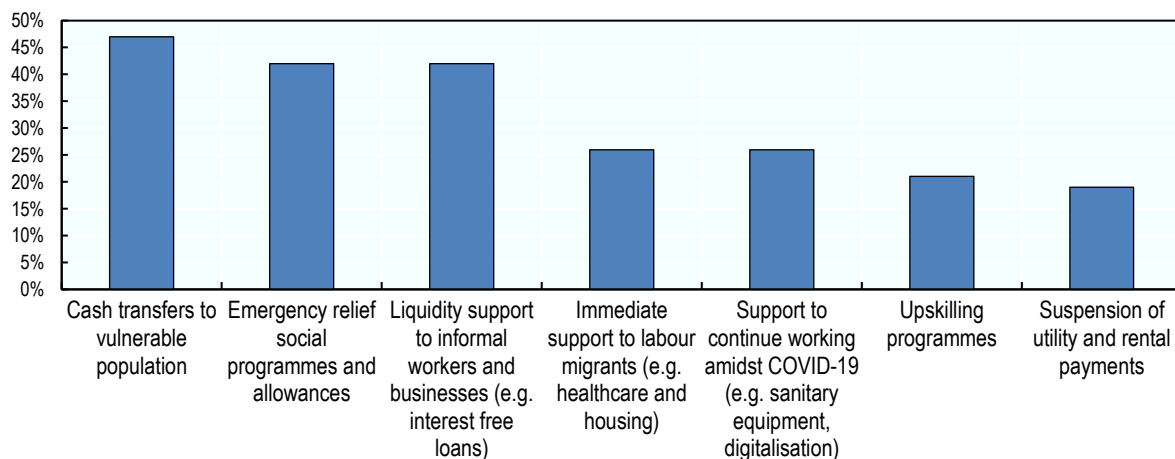
Instant poll

An instant poll with participants underlined the complexity when tackling business formalisation, with different views expressed on the causes of, and cures for, informality. Most of the participants considered the lack of financial and fiscal incentives to formalise and the limited government effectiveness and frequent informal profit-seeking as the main barriers to firm formalisation. Regarding short-term measures to cushion the pandemic's effect on informal sector workers, participants considered direct cash transfers to vulnerable groups, emergency social relief programmes and liquidity support to informal sector workers and businesses as the most useful support measures. Approximately half of the participants selected the simplification of tax administrations and strengthened efforts to curb corruption as the main measures to address informalities in the long-run, followed by digitalisation and streamlining of procedures and financial incentives.

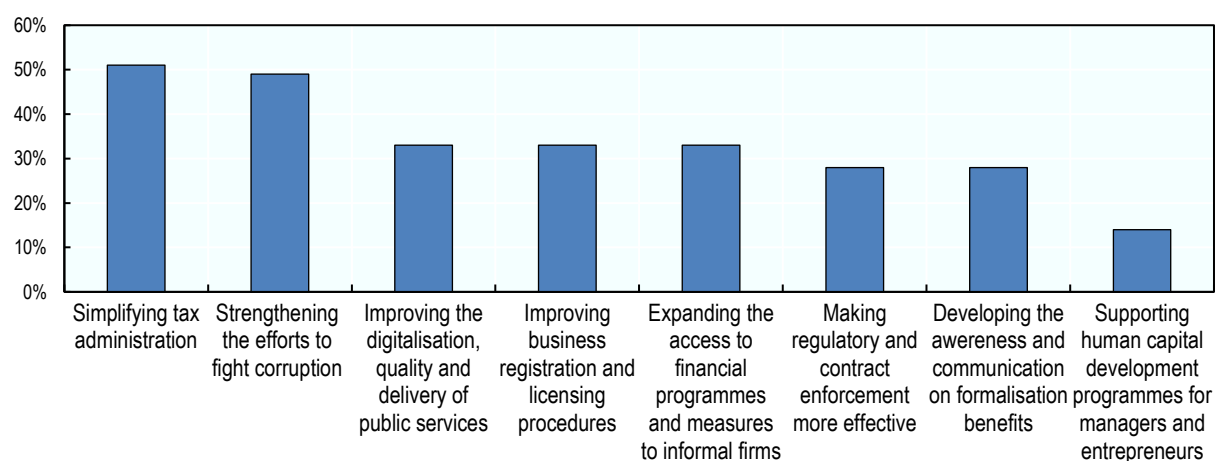
Question 1: What do you see as the main two barriers to firm formalisation?



Question 2: How can governments best help informal workers and businesses survive the pandemic? (Choose 2)



Question 3: How can governments best support business formalisation in the long-term? (Choose 2)



■ Session 2: Formalising firms for a more inclusive recovery

The session discussed ideas and policy measures to foster firm formalisation on the longer-term and began with a presentation from **Ms Talisa zur Hausen**, Policy Analyst in the OECD Eurasia Division. Ms zur Hausen noted that the COVID-19 crisis had stripped informal workers and firms from important sources of income – while government support across the region has remained limited. She highlighted that the immediate priority for governments should be to support informal workers and firms who have had to stop working or who are forced to continue working under strict sanitary measures, and to offer social protection. In particular, cash transfers could be offered as an immediate solution to support vulnerable workers. While such responses can serve to counter the immediate drastic rise in poverty and inequality, in the long-term, governments are encouraged to address the root barriers to firm formalisation. While recognising that there is no single recipe to address informalities, Ms zur Hausen referred back to the framework introduced in the first session, urging governments to (1) enhance the business and market conditions, including by improving the delivery of public services to businesses, (2) streamline and digitalise tax administration, (3) extend social protection coverage or even consider progressively transitioning to a universal social system coverage, (4) put in place incentives to move to the formal sector in areas such as financial, upskilling and business support services, and (5) conduct communications campaign and dialogue to persuade firms to formalise.

Mr Alessandro Goglio, Head of the Partner Countries Unit in the OECD Directorate for Employment, Labour and Social Affairs, noted that informality is common among very different groups of workers, including own-account workers, family workers, self-employed and unregistered wage employees in formal or informal firms. People from groups associated with a weaker labour market position are much more likely to work informally than others, such as low-skilled youth, women or older workers. Mr Goglio also highlighted that informality typically shrinks as the economy develops and associated high and persistent informal employment with low productivity, as informal firms are overrepresented in the bottom of the productivity distribution. Mr Goglio stressed that informality goes hand in hand with low labour market inclusiveness, not least because large portions of the workforce are left unprotected from statutory or collectively agreed labour standards as well as social insurance. He pointed out that the crisis has laid bare pre-existing gaps in the public provisions to address vulnerable and informal workers. Although some countries have extended coverage of contributory social insurance, such as health protection, pensions, maternity protection or unemployment support, one main lesson is that tackling labour informality requires an integrated policy strategy. For example, extending social protection should be complemented with measures to raise productivity, earnings and wages of informal workers, to improve working conditions and facilitate sustainable transitions to formality. Mr Goglio noted the opportunities digitalisation brings by reducing formalisation costs, generating a digital business environment and linking large pools of informal workers to government benefits and tax systems.

Ms Tamar Kitiashvili, Deputy Minister of Education, Science, Culture and Sport of Georgia highlighted recent reforms to economic and education policies and underlined that improvements in skills and managerial capacities are the backbone of Georgia's economy. The government, therefore, plans to further foster skills in its recovery plan from COVID-19, including offering more trainings, and establishing an agency for skills development – in which both public and private actors come together to better engage in skill matching. Ms Kitiashvili stressed that these measures are crucial also against the background of a growing informal sector to support firm growth, productivity and formalisation. Particularly, sectors such as IT and agriculture are prone to informality – with COVID-19 even more so – as to which the government has been offering social protection packages and increasing support to SMEs and the self-employed.

Mr Robin Ord-Smith, Business Ombudsman of Kyrgyzstan, stated that he receives a number of complaints from informal firms, in which they mention difficulties with the tax administration. He noted that firms lack trust in government bodies and are afraid to formalise further. Mr Ord-Smith thus urged the government to put in place better incentives for informal businesses to move to the formal sector and to make government services more customer-oriented. Particularly against the backdrop of COVID-19 and dwindling domestic resources, Mr Ord-Smith finds it important to convince businesses to pay taxes. He notes that digitalising public services could help reduce corruption and enhance trust in the government. Although the government drafted an Action Plan on informality in 2015, it is unclear whether it has had any real impact. Similarly, Mr Ord-Smith mentioned the patent system for entrepreneurs, which was introduced in 2006 to foster formalisation. Yet, the system has rather convinced businesses to remain under the threshold of the patent system instead of moving to a formal SME status and thus put limits on productivity and growth.

Dr Wimonkan Kosumas, Deputy Director General from the Office of SMEs Promotion in Thailand explained how her government aimed to capture the characteristics and challenges of SMEs and auto-entrepreneurs. The majority of informal firms in the country had stopped being informal by necessity, and continued by opportunity. Before the pandemic, the government made use of the sticks and carrot method, namely strong regulations and gradual formalisation benefits. Dr Kosumas argued that digitalisation is the best way to foster formalisation. By offering digital government services, such as simple bookkeeping software, digital payment methods and a government procurement platform, the government has started increasing business trust, which has raised the willingness to pay taxes. On top of improving services, the government has put in place support schemes that can reach informal workers, such as: a social welfare smart card with monthly subsidies that can be spent in small local shops, allowance schemes for temporary workers, contract employees and self-employed, freelancers, farmers, and informal workers, and a co-funding scheme to spend money in 1.3 million small shops and street vendors. These schemes collect data on the transfer and use of money of the beneficiaries in the informal economy, through government e-wallets, which can inform policy-making.

■ Concluding remarks and next steps

Mr William Tompson, Head of the OECD Eurasia Division, thanked the participants for their contributions. He reiterated that informality has been a key concern for policy-makers for several decades, with negative effects on innovation and productivity across Eurasia. Incentivising firm formalisation should thus be a priority for countries as they recover from COVID-19. He stressed that the OECD would finalise the draft policy note on informality with insights from the discussions, and would be published in English and Russian in April.

Ambassador Sven Olov Carlsson, Head of the Delegation of the European Union in Kazakhstan, emphasised the importance of focusing on informal sector workers in the wake of the pandemic. In Central Asia, he noted the severe effect of border closures on migrant workers. The pandemic exposed the vulnerability to external shocks and dependence of local economies on natural resources and remittances. He highlighted the need to improve the business and investment conditions in the region on the longer-term. In the context of the current crisis, Ambassador Carlsson encouraged the international community to help address vulnerabilities in health systems, and emphasised that the EU was ready and committed to support the recovery, focusing on regional and inter-regional cooperation, supporting SMEs and innovation, and helping vulnerable groups.