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Exploring Pathways to Decent Employment, Formality and Inclusion in Central Asia



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UNDP Kyrgyzstan

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List of Abbreviations

ALMP	Active Labour Market Programme
EU	European Union
FGD	Focus Group Discussion
GDP	Gross Domestic Product
ILO	International Labour Organization
ILOGC	International Labour Organization General Conference
L2CU	Listening to Citizens of Uzbekistan (survey)
LFS	Labour Force Survey
MSME	Micro, Small and Medium Enterprise
NGO	Non-Government Organization
PES	Public Employment Service
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USD	United States Dollar

Executive Summary

This paper looks at evidence on the nature of informality in rural employment in Kyrgyzstan, Tajikistan, and Uzbekistan, drawing on a literature review, and on the results of a specially commissioned survey of rural workers, employers and policy makers in these countries.

It highlights structural features of the national economies which contribute to shortfalls in the supply of formal sector jobs in both rural and urban areas, as well as gaps in social protection coverage associated with informality among rural workers. The results of the survey suggest that workers on the whole make the choice between formal and informal employment based on personal preferences and the options available to them, and that workers are quite well informed of the advantages and disadvantages of both.

Within agriculture, informality is mainly associated with seasonal work, and seasonal workers emerge as a particularly vulnerable group. The paper concludes that policy and programme work should focus on improving the quality of employment for those in both formal and informal employment, as well as broadening decent employment options in on- and off-farm employment and finishes with recommendations for future policy and programme work.



Greenhouses in Chordara village of Tajikistan are giving local farmers expanded opportunities for generating livelihoods. Photo: UNDP Tajikistan

1. Introduction¹

“

There is no stability, there is work today, and there is none tomorrow, so there is no guarantee. That's bad.

”

Informal worker, FGD in Issyk-Kul province, Kyrgyzstan

Labour markets in the countries of Central Asia have long been characterized by high levels of informality and shortages of decent jobs: a situation which has led to the establishment and co-existence of two parallel (or dual) but often inter-linked labour markets. On the one hand, there are those engaged in the informal economy, who have significantly less workplace and social protection rights than those in the formal economy, and as such are subject to more precarity and risks. However, they do not necessarily have lower earnings than their peers in the formal economy: on the contrary, in some cases earnings can be higher, in part due to the lower tax burden and/or non-payment of social security contributions. On the other hand, formal economy workers have higher levels of security and predictability, as well as better access to workplace and social protection rights, yet may suffer from other types of ‘decent job

¹ The following quote and those inserted throughout this report are extracted from MVector (2022). Survey for assessment of key drivers and barriers for informality and access to decent work in agriculture and agroindustry sectors in three countries of Central Asia (Kyrgyzstan, Tajikistan, Uzbekistan)

deficits'.² The latter may include for example low salary levels, meaning that they and their families are at risk of joining the 'working poor'; and may indeed be obliged to take on second additional jobs in the informal economy to boost their household income. Formal employment tends to be concentrated in the public sector, and in a small number of large, often state-owned, enterprises.

Over the last decades, the informal economies and informal employment in these countries have been tacitly recognized and tolerated as a 'buffer', offering a valuable source of livelihoods when the formal economy has not been capable of creating sufficient decent jobs;³ or to help absorb the large cohorts of new first-time entrants to the labour market. They have also offered a buffer for those affected by structural adjustments (whether planned or spontaneous), in particular transitions from the agricultural to other sectors, with the associated demographic flows from rural to urban areas: i.e. informal urban employment has been fed by internal migration from rural areas, where subsistence agriculture remained almost the only employment option. These internal migration flows have been supplemented by large scale labour migration abroad, again largely unprotected, through predominantly informal channels of migration.⁴ The informal sources of livelihoods offered by these migratory flows undoubtedly made a significant contribution to reducing poverty, particularly rural poverty, from the early 2000s onwards.⁵ However, they have created their own economic and social vulnerabilities. For example, the impacts of the COVID-19 pandemic in 2020-21 clearly revealed the the considerable risks and vulnerabilities faced by informal economy workers and informal migrant labour, and their lack of protection and access to formal channels of support in the case of shocks. This has in turn led to an increasing focus by both national and international actors on improving knowledge and understanding of the scale and nature of the informal economy; and to moves towards formulating comprehensive national strategies for transitions from informality to formality.⁶

Most studies of informality in recent years have tended to focus on urban areas, particularly in the context of COVID-19, when poverty rates in urban areas soared due to the impacts on the informal economy and jobs. This paper looks at evidence on the nature of informality in rural employment in three countries of Central Asia, namely Kyrgyzstan, Tajikistan, and Uzbekistan. It draws on a literature review, and on the results of a specially commissioned survey of rural workers, employers and policy makers in these countries. The survey sample is drawn from employers and workers (formal and informal) in the agricultural sector and agro-industry, with these sectors being used as a proxy for rural employment.

2 A 2018 ILO study shows that at the global level, poverty rates are higher among workers in informal employment, and that there is a strong correlation between poverty and informality. However, not all informal workers are poor while some in formal employment are poor, either because they earn lower incomes or because despite decent incomes, they share their income with a high number of economic dependents within the household. *Women and Men in the Informal Economy. A Statistical Picture.* ILO (2018)

3 See for example the opinion expressed by a survey respondent from Kyrgyzstan: 'There are positive aspects of the informal agricultural sector; in times of crisis, when there is no reliable protection against unemployment, this sector provides some social support for the potential unemployed. The informal sector of agriculture provides the population with jobs.' MVector (2022). Survey for assessment of key drivers and barriers for informality and access to decent work in agriculture and agroindustry sectors in three countries of Central Asia (Kyrgyzstan, Tajikistan, Uzbekistan)

4 Throughout this report informal channels of migration or informal migration are used to refer to migration which does not use official channels, is not officially registered, and where migrants work predominantly in the informal sector and as such have minimum guarantees of protection and ability to access work safety and social protection rights

5 Using the international poverty line of PPP\$2.15 per day, poverty declined in Kyrgyzstan from 38.2% in 2000 to 1.3% in 2020; and in Tajikistan from 36.7% in 2003 to 6.1% in 2015. Remittances represented an increasing share of GDP. In Kyrgyzstan remittances represented 0.2% of GDP in 2000 and 28% in 2022. In Tajikistan they represented 6.4% in 2002 and over 50% in 2022 (up from 27% in 2020). World Bank Data. <https://data.worldbank.org/country/kyrgyz-republic?view=chart>; <https://data.worldbank.org/country/tajikistan?view=chart>

6 Of the three countries included in this study, ILO-supported work on strategies is most advanced in Kyrgyzstan, where the 'National Strategy on transition from informal to formal economy 2023-3026' is being formulated.

The survey results are derived from both quantitative and qualitative methods of data collection. The quantitative survey is based on a sample of circa 100 employers and 250 workers in each country, working either formally or informally in the agriculture or agro-industry sectors. In practice, the vast majority of employers and workers in the sample are engaged in the agricultural sector. In Kyrgyzstan 60% of the interviewees were working informally; in Tajikistan 57%; and in Uzbekistan 59%; and of the informal interviewees the share working in agriculture was 81% in Kyrgyzstan, 78% in Tajikistan, and 77% in Uzbekistan. For further details on the survey design see Appendix 1, and the Survey Report.⁷

While the study attempts to keep the focus on the characteristics of informality in rural areas; in the course of writing the report it was found that given the particular national contexts, it is in practice difficult to completely separate out employment and informality in rural areas from urban areas. Although agricultural plots and subsistence agriculture are still used as a valuable safety net by rural residents, those who can, supplement income from this through informal employment of household members in urban areas and through informal migration abroad. Moreover, when formal sector work is available, it tends to be concentrated in the public sector, which spans both rural and urban areas. In fact, the survey respondents reported that circa 32% of their household income in Kyrgyzstan (43% in Tajikistan and 33% in Uzbekistan) came from non-agricultural employment or remittances. Moreover, since there is no national register of informal workers, the survey sample cannot be considered representative. It does however provide some valuable insights into the heterogeneous nature of informality in rural areas.

The premise of the paper is that improvements in the quality of employment can lead not just to income poverty reduction, but to broader improvements in the quality of lives. The aim of the analysis is to identify measures and processes which can help improve the quality of rural jobs, with a focus on the more disadvantaged. Transitions to formality may be part of this, and indeed may be the desired end goal, but the main purpose of this study is to inform future UNDP programming and policy support for improving the quality of jobs in rural areas, and to help ensure respect for the rights of workers whether they are in formal or informal employment.⁸

The rest of the paper is organized as follows. Section 2 provides an overview of the main features of the labour markets in Kyrgyzstan, Tajikistan and Uzbekistan, while section 3 summarises the available evidence on the scale of informality in the three countries included in this study. Section 4 looks at the extent and drivers of informality in the agricultural sector, drawing mainly on the survey results; section 5 looks at key policy dimensions of transitions to formality in the region, while section 6 sets out the policy and programmatic implications.

7 MVector (2022) Survey for assessment of key drivers and barriers for informality and access to decent work in agriculture and agroindustry sectors in three countries of Central Asia (Kyrgyzstan, Tajikistan, Uzbekistan)

8 See for example the concept note for UNDP's Informal Employment Facility (IEF) (unpublished): 'human well-being and rights should remain at the forefront of policy efforts dealing with economic informality, with a focus on securing sustainable livelihoods and decent working conditions for the men and women who rely on the informal economy, even if 'formalization' is not achieved.'



Women sew t-shirts at the Imron Textile Group in Namangan, Uzbekistan. The factory exports 80% of their products outside Uzbekistan. Photo: UNDP Eurasia / Karen Cirillo

2. Overview of Labour Markets in Kyrgyzstan, Tajikistan and Uzbekistan

This section highlights four key background elements to keep in mind when looking at employment and informality in the three countries, namely: demographic trends; patterns of economic growth and low elasticity of employment to growth; labour migration; and low youth and women's labour force participation rates. The first two can also be looked on as underlying causes which have contributed to the third and fourth elements, namely the considerable numbers of labour migrants working abroad, and the low participation rates among youth and women.

2.1 Demographic Trends

The population in all three countries has grown significantly since 2000: in Kyrgyzstan by almost 2 million, from 4.9 to 6.8 million persons; and in Tajikistan by 2.7 million or almost one third, from 6.2 million to 9.9 million; and in Uzbekistan by a staggering 11 million, from 24.6 million to 35.6 million (2022 figures).⁹ Despite significant migration from rural areas, high birth rates have kept the shares of rural population in the total population relatively high: 63% for Kyrgyzstan, 72% for Tajikistan, and 50% for Uzbekistan.¹⁰ The average age of the population is young and dependency rates are low,¹¹

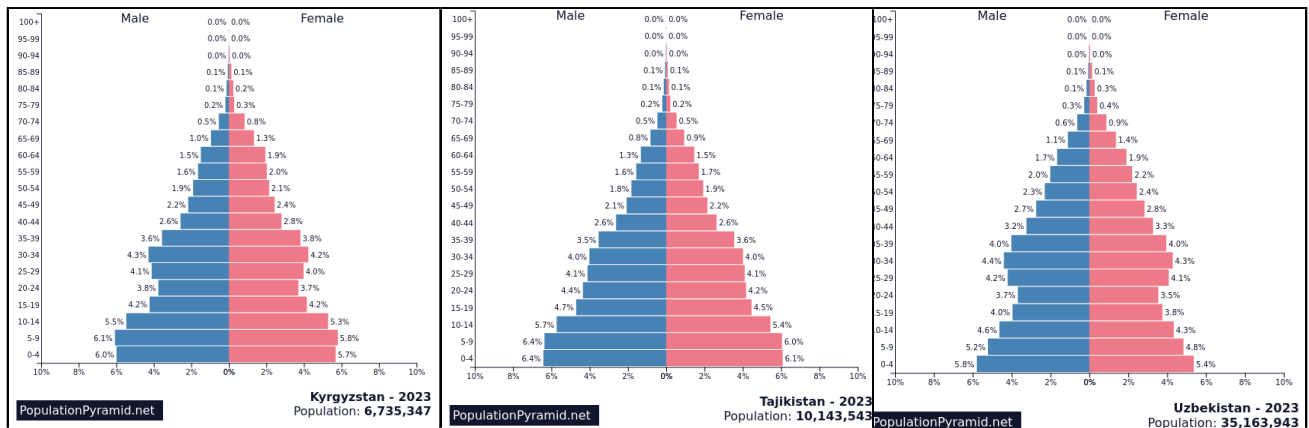
9 data.worldbank.org

10 data.worldbank.org

11 In Tajikistan, for example the average age was reported at 26.3 years in 2019, and the share of the working age population in the total population was 62.4%. Cited in *Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-sized Enterprises (MSMEs) in Tajikistan*. Shukrat Mirzoev and Nezhat Sedaghat, UNDP 2020.

although the latter are destined to grow gradually, due to the small but growing share of the pension-age population.

While not completely identical, the population pyramids below do show that the countries have in common the large bases, implying that in the coming years there will continue to be large shares of young people entering the labour market.



The supply-side pressure on local labour markets is thus not going to ease in coming years. In Kyrgyzstan it has been estimated that the need for new jobs will almost double in the next decade, due to the entry into the labour market of the large numbers born in 2000-2010. The number of people who leave the labour market by age will also increase, but to a lesser extent than the number of young people who start working.¹² In Uzbekistan, for example, the annual growth of the working age population is estimated at 1.9% per year for 2020-2030 (or 1.5 million people) and it is estimated that about 50% more jobs will have to be created than in 2010-2018.¹³

If there is no or limited success in engaging young workers in the formal economy, it will also be difficult to respond to the other emerging challenge, namely the growth of the population in retirement age. For example, the pension contributions of this generation are needed to finance pensions for the growing number of retirees.

2.2 The Character of Economic Growth and Low Employment Elasticity of Growth

In all three countries, larger firms account for a higher percentage of employment in the formal sector than smaller firms and these larger firms are also more likely to survive longer. Despite this, they create little employment. Small and medium-size firms, on the other hand, potentially provide many jobs in the private formal sector, but many such firms seem unable to grow and to expand employment. As a result, the elasticity of poverty reduction and employment to economic growth tends to be limited.

In Uzbekistan, the ILO has estimated that the employment elasticity was 0.2 % for 2010-2018, meaning

¹² See Alexandre Avdeev. Population Situation Analysis in Kyrgyzstan. Demographic Challenges for Kyrgyz Republic. (Policy Brief). UNFPA 2021. <https://shs.hal.science/halshs-04038448/file/en.pdf>

¹³ Uzbekistan Poverty Reduction Paper 2021-2030. Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, the United Nations Development Programme, the World Bank, the United Nations Children's Fund and the World Health Organization, 2022. Uzbekistan.

that economic growth of 5% resulted in a 1% growth of employment. In particular, manufacturing and industry saw a growth in their contribution to GDP, while their share of total employment remained more or less constant.¹⁴ The formal sector is also dominated by large corporations, where the state still has a large presence. According to official reports and fragmented statistics, there are over 3,500 State Owned Enterprises (SOEs) in Uzbekistan, including 27 large enterprises and holding companies, about 2,900 enterprises, and 486 joint stock companies. These SOEs employ about 1.5-1.7 million people, or about 13% of the employed population. They represented about 55% of GDP in 2019.¹⁵

Enterprise surveys show that small manufacturing firms in Uzbekistan are, on average, much more productive than the mostly state-owned or state-controlled enterprises large firms. However, the large firms employ relatively more employees than the small firms. The average labour productivity in five manufacturing subsectors of Uzbekistan was reported to be about twice as high in small firms. Moreover, there has been a decline in employment in labour-intensive sub-sectors of manufacturing such as food processing and light industry, where the country has a competitive advantage in international trade. Overall, a relatively small share of employment growth is concentrated in the formal private sector.¹⁶ The Government announced a Strategy for Privatization of SOEs for 2021-2025, but progress in implementation has reportedly been slow or stalled.¹⁷

Over the last decade there has been little change in the sectoral distribution of employment but in the growth of the non-corporate sector. There has been a considerable re-structuring of employment from the corporate sector, which still has a relatively large state presence, to the non-corporate sector, with the latter being dominated by the informal sector. This led to a further consolidation of a dual economy and labour market in Uzbekistan. On the one hand there is the corporate sector, which is capital intensive, inefficient, has formal employment, but creates few new jobs or is concentrated in limited locations. The non-corporate sector, on the other hand, has in the last decade been the main source of job creation, is mostly informal and is precarious.¹⁸

For Tajikistan, economic growth was 7% in 2015-2019, but employment rose by 4%.¹⁹ Large state-owned enterprises (SOEs) represent a large share of the economy and employment. In 2019 there were 1,100

14 Cited in Uzbekistan Poverty Reduction Paper 2021-2030. Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, the United Nations Development Programme, the World Bank, the United Nations Children's Fund and the World Health Organization, 2022. Background Analytical Reports (unpublished).

15 Background analytical report for Uzbekistan Poverty Reduction Paper 2021-2030. Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, the United Nations Development Programme, the World Bank, the United Nations Children's Fund and the World Health Organization, 2022. See also Umarova A. (2023) Challenges to Democratic Reforms in Uzbekistan and the Risk of State Capture from State-Owned Enterprises. <https://www.cipe.org/blog/2023/02/21/challenges-to-democratic-market-reforms-in-uzbekistan-and-the-risks-of-state-capture-from-state-owned-enterprises/#:~:text=During%20the%20reforms%2C%20a%20variety,115%20companies%20will%20be%20sold>. According to this article, SOEs account for just 6% of formal sector jobs.

16 Background analytical report for Uzbekistan Poverty Reduction Paper 2021-2030. Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, the United Nations Development Programme, the World Bank, the United Nations Children's Fund and the World Health Organization, 2022.

17 Umarova A. (2023) Challenges to Democratic Reforms in Uzbekistan and the Risk of State Capture from State-Owned Enterprises. <https://www.cipe.org/blog/2023/02/21/challenges-to-democratic-market-reforms-in-uzbekistan-and-the-risks-of-state-capture-from-state-owned-enterprises/#:~:text=During%20the%20reforms%2C%20a%20variety,115%20companies%20will%20be%20sold>.

18 Uzbekistan Poverty Reduction Paper 2021-2030. Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, the United Nations Development Programme, the World Bank, the United Nations Children's Fund and the World Health Organization, 2022. t

19 Cited in Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-sized Enterprises (MSMEs) in Tajikistan. Shukrat Mirzoev and Nezhat Sedaghat, UNDP 2020.

SOEs, of which the assets of the 24 largest ones accounted for circa 42% of GDP and 30% of total employment. In contrast MSMEs accounted for 30% of GDP and 35% of total employment.²⁰ As in Uzbekistan, the SOEs create unfair competition for state support and for credit.

In Kyrgyzstan, the picture is similar. It has only 800 medium-sized companies and 1,840 large companies, which are mainly state-owned. By contrast the number of small firms in 2017 was estimated at 15,000 and the number of individual entrepreneurs at 400,000.²¹ The World Bank's Jobs Diagnostics argues that these individual entrepreneurs represent the bulk of the large informal sector, characterized by low productivity and little scope for wages to rise.²² On the other hand, the formal private sector makes a significant contribution to the country's GDP but is small in terms of employment (accounting for just 11% of all employment).

Thus, in all three countries, it is the large formal sector firms which make a major contribution to economic growth and GDP, but which are capital rather than labour-intensive, and make no or little contribution to employment growth. The large share of state involvement in the economy represents a significant obstacle to the development of the private sector and the formation of a competitive environment, based on a level playing field for all enterprises. There are few incentives for small firms in the informal sector to grow or formalize, due to the fact that registration as a legal entity implies an increase in regulatory requirements, more formal and informal payments (due to corruption), higher taxes, and more risk of government interference. This represents a major impediment for achieving transitions to formal employment and offering viable alternatives to labour migration. If there is no dynamism and growth among small formal sector firms, which can create higher productivity and higher-wage jobs, then there is little chance of overcoming the current shortfalls in the demand for labour (or mismatch between demand and supply). This is highly relevant to the challenge of creating alternative non-agricultural employment options in rural areas.

2.3 Labour Migration Abroad

In all three countries, informal labour migration – meaning that labour migrants do not go through formal channels and work informally in the destination country, with no or limited guarantees of work safety and social protection rights - has been a common response to the lack of formal sector jobs in the national economy.²³ Migration has been both internal and external. There have been large flows from rural areas and small towns moving mainly towards the capital cities,²⁴ mainly to informal activities. These flows, however, could not absorb all the underemployed rural workforce. In some cases, state authorities have also maintained administrative controls to limit the growth of residents in big cities²⁵.

20 Cited in Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-sized Enterprises (MSMEs) in Tajikistan. Shukrat Mirzoev and Nezhat Sedaghat, UNDP 2020.

21 Sahovic, T. (2019) What's holding back the Kyrgyz Republic private sector. Brookings Institution. <https://www.brookings.edu/blog/future-development/2019/07/25/whats-holding-back-the-kyrgyz-republic-private-sector/>

22 World Bank Group 2018, Jobs in the Kyrgyz Republic. Mohamed Insah Ajwad, Sarah Berger Gonzalez.

23 See for example the discussion in OECD 1021. Informality and COVID-19 in Eurasia: The Sudden Loss of a Social Buffer.

24 For the example of Kyrgyzstan see Alexandre Avdeev. Population Situation Analysis in Kyrgyzstan. Demographic Challenges for Kyrgyz Republic. (Policy Brief). UNFPA 2021. <https://shs.hal.science/halshs-04038448/file/en.pdf>. For the period 2015-2020 the author notes a positive migration balance only for the urban centres of Bishkek and Osh, as well as in the Alamudun, Sokoluk, Moscow and Jayilk districts of the Chui region adjacent to Bishkek.

25 See for example International Migration and Household Well-Being. Evidence from Uzbekistan. William Seitz. WB Policy Research Working Paper 8910. 2019.

External migration to other countries grew exponentially from the early 2000s onwards, peaking at around 2013, with Russia being by far the preferred destination country. This migration has been both an urban and rural phenomenon, but given the large shares of rural populations, and the higher incidence of poverty in rural areas, rural residents have made up the bulk of the low-skilled migrant labour force. (In Kyrgyzstan, internal migration from rural to urban areas is reported to be much more common among women who are most likely to engage in informal small-scale and low-paid jobs in the services sector²⁶. On the other hand, young persons, usually male, tend to move out of the country.)

Thus, migration, together with informal employment (often associated with internal migration to big cities), have acted to take pressure of the mismatch between labour supply and availability/offer of formal sector jobs.²⁷ Due to the informal nature of most international migration, it is difficult to provide estimates of the number of labour migrants and the share of the workforce which they represent.²⁸ However, data on the share of remittances in GDP provide a proxy indicator for the scale of labour migration. In Kyrgyzstan remittances represented 0.2% of GDP in 2000, rising to over 31% in 2013, and falling slightly to 28% in 2022. In Tajikistan they represented 6.4% in 2002, rising to over 44% in 2008, and after a declining trend rising again to peak at over 50% in 2022 (a striking increase from 27% in 2020), and a sign that migration continues to offer the main coping mechanism in times of economic stress.²⁹ In 2022, Tajikistan ranked 4th and Kyrgyzstan 5th globally for remittances as share of GDP.³⁰

There is a patchwork of estimates on the numbers involved in external labour migration. A 2020 assessment calculated that some 800,000-1,000,000 Kyrgyz Republic citizens (up to 40% of the labour force) could be working outside the country.³¹ In some parts of the country, it is normal for every household to have at least one working age member who is working abroad.³²

In Tajikistan, a survey of households carried out by UNDP to look at impact of COVID-19 found that 40% of all households had at least one migrant labourer. The average time spent abroad was circa 9 months.³³ The amount remitted per labour migrant as a ratio of the domestic average wage was about 1.9 in 2018.³⁴

For Uzbekistan, circa 2,500,000 (18% of the workforce) were estimated to be labour migrants working temporarily abroad in 2019, with the number fluctuating throughout the year due to the seasonal nature

26 Tilekeyev Kanat, 2021, Understanding the Informal Economy in Kyrgyzstan

27 In Kyrgyzstan, internal migration from rural to urban areas is reported to be much more common among women who are most likely to engage in small-scale and low-paid jobs in the services sector. Young persons, usually male, tend to move out of the country. Tilekeyev Kanat, 2021, Understanding the Informal Economy in Kyrgyzstan

28 One-off estimates are available from one-off surveys or studies. Since joining the Eurasian Economic Union, migrants from Kyrgyzstan in theory have a stronger legal footing.

29 World Bank data. <https://data.worldbank.org/country/kyrgyz-republic?view=chart>; <https://data.worldbank.org/country/tajikistan?view=chart>

30 <https://www.visualcapitalist.com/cp/remittance-flows-gdp-impact-by-country/>

31 ADB-UNDP 2020, COVID-19 in the Kyrgyz Republic: Socio-Economic Impact Assessment and Policy Response

32 See for example the results of field work in Batken region, conducted for UNDP, consultancy report by Jamila Ismailova and Sheila Marnie, 2021.

33 Cited in Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-sized Enterprises (MSMEs) in Tajikistan. Shukrat Mirzoev and Nezhat Sedaghat, UNDP 2020.

34 ILO 2021, Towards a Tajikistan National Employment Strategy for the Future: A Background Study of the Present

of migration patterns.³⁵ Thus in 2019 informal sector workers plus labour migrants represented just under 60% of the employed population, or circa 7.9 million persons. Migration rates are particularly high among men (more than 80% of migrants are men, according to the results of UzbekiL2CU survey and it is estimated that one in three men aged 20 to 24 years is a migrant, with the average age of migrants being 33 years.³⁶

There is also considerable evidence that migration and remittances played a key role in bringing down poverty rates, especially in rural areas, over the last 20 years. Data from the Listening to Citizens of Uzbekistan (L2CU) survey (conducted in 2018-2019) showed that in the absence of remittances, the poverty rate (using the international poverty rate of PPP \$3.2 per day) would rise from 9.6% to 16.8%.³⁷ Using the international poverty line of PPP \$2.15 per day, poverty declined in Kyrgyzstan from 38.2% in 2000 to 1.3% in 2020; and in Tajikistan from 36.7% in 2003 to 6.1% in 2015. National poverty estimates for Tajikistan, based on the national poverty line, suggest that poverty rates declined from 80% in 2000 to 45% in 2010 and 27.5% in 2019.³⁸

While labour migration has undoubtedly had positive social and economic impacts, there is some evidence that over the longer term it is acting as a barrier to the development of the formal economy and to job creation within the formal economy. Firstly because the scale of remittances has meant that they are having a ‘Dutch disease’ type of impact: they lead to rises in the real exchange rate and make other tradable sectors of the economy less competitive on international markets. Secondly, since remittances are primarily spent on non-tradable services, food (much of which is imported) and construction, these sectors are strengthened, while there is little impulse for the creation of productive jobs in the manufacturing sector.

The results of the 2022 UNDP survey confirm that the most common reasons for labour migration in Kyrgyzstan, Uzbekistan, and Tajikistan are the need to provide for the family (53%) and the prospect of earning more (49%), i.e. to help families with basic spending needs. These are followed by the desire to earn money to buy/build a house (34%) and the lack of work at home (29%). Other factors of migration, according to respondents, are the need to earn money for a wedding (17%) and the availability of additional prospects (11%). In less frequent cases, respondents left for labour migration in order to start their own business (6%) and to earn money for their studies (5%).³⁹

35 Uzbekistan Poverty Reduction Paper 2021-2030. Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, the United Nations Development Programme, the World Bank, the United Nations Children’s Fund and the World Health Organization, 2022.

36 International Migration and Household Well-Being. Evidence from Uzbekistan. William Seitz, WB Policy Research Working Paper 8910. 2019.

37 International Migration and Household Well-Being. Evidence from Uzbekistan. William Seitz. WB Policy Research Working Paper 8910. 2019.

38 Cited in Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-sized Enterprises (MSMEs) in Tajikistan. Shukrat Mirzoev and Nezhat Sedaghat, UNDP 2020.

39 MVector (2022) Survey for assessment of key drivers and barriers for informality and access to decent work in agriculture and agroindustry sectors in three countries of Central Asia (Kyrgyzstan, Tajikistan, Uzbekistan)

“ People leave because there are no jobs in Kyrgyzstan. Nobody will work for 5-6 thousand (soms). You need to feed your family, pay rent and electricity. What will 5-6 thousand (soms) cover? And there, even if you work as a janitor, you can earn 35-40 thousand soms.

”

Formal worker, FGD in Osh province, Kyrgyzstan

Much of the labour migration to Russia is circular and/or seasonal. Some survey respondents had been migrants more than 10 times. Over the years, migration has become more regulated and protected, but the majority of respondents still reported that had been employed informally the last time that they migrated: in Tajikistan 71%, in Kyrgyzstan 65%, and in Uzbekistan circa 50%. Lack of documents and citizenship are the main reasons cited by migrants from Kyrgyzstan and Tajikistan for working informally as migrants: informal employment is simpler, faster, and cheaper (as there is no need to pay for registration, medical examinations etc.).⁴⁰

A 2021 UNDP study of the Batken region in Kyrgyzstan showed that migration was affecting labour supply,⁴¹ as it has led to a rise in the reservation wage⁴² for local jobseekers; i.e. jobseekers preferred to withdraw from the labour force rather than accept jobs at wages below a certain level, as they could rely on remittances from family members. This is one of the factors contributing to the declining labour market participation rates for women family members. Alternatively, they are prepared to work for only a limited period of time for such wages, in order to finance their trip abroad to countries abroad where they can earn more and accumulate savings.

The 2021 Batken study also suggested that migration is contributing to unmet demand for certain low or unskilled jobs in the service sector, for example, for waiters, hairdressers; but also for low-skill labour in construction, welding, food production, tailoring. Young people in particular perceive few attractive opportunities in the local labour market (in terms of work conditions and wages) and are orientated towards migration. Again, this unmet demand is in many cases due to the fact that remittances have driven up the reservation wage. For example, one migrant who returned from Russia and opened his own café complained that it was impossible to hire and retain waiters even at a wage which was higher than the average salary, and more than twice the subsistence minimum. Another returning migrant complained of the difficulty in finding construction workers to work – at a wage which he was disposed to pay - on the building site where he is building his home. Turnover is high, with workers typically staying engaged just long enough to earn enough to cover the cost of an air ticket to Russia.⁴³ In Uzbekistan, survey data confirm that the majority of labour migrants are low-skill: 60% have completed

40 MVector (2022) Survey for assessment of key drivers and barriers for informality and access to decent work in agriculture and agroindustry sectors in three countries of Central Asia (Kyrgyzstan, Tajikistan, Uzbekistan)

41 Results of field work in Batken region, conducted for UNDP, consultancy report by Jamila Ismailova and Sheila Marnie, 2021.

42 The reservation wage refers to the lowest wage rate at which a worker would be willing to accept a particular type of job.

43 Results of field work in Batken region conducted for UNDP, consultancy report by Jamila Ismailova and Sheila Marnie, 2021.

vocational secondary education, and only 4% have higher education.⁴⁴

Another impact is the negative signals which remittances create regarding perceptions of young people on the returns to education. In the case of Tajikistan it has been found that most labour migrants engaged in low-skill jobs in Russia earn much higher wages than those for even high-skilled jobs in Tajikistan. This creates little incentive for youth to pursue higher or vocational education.⁴⁵

Thus migration – predominantly informal - has played an important poverty reduction role, and relieved supply pressure on national labour markets. However, further reliance on it is now representing a brake on the creation of formal sector productive jobs in the national economies. It is also arguably eroding human capital.⁴⁶

Notably, despite the short term benefits of remittances on household income, the results from the 2022 UNDP survey show that 93% of migrating family members in Uzbekistan, 87% in Kyrgyzstan, and 79% in Tajikistan would prefer to work officially in their own country; while 82%, 79% and 61% respectively would prefer to work informally in their own country;⁴⁷ i.e. in reply to two separate questions the vast majority of migrants were clear that they would prefer to work in their own home country either formally or informally, with a slightly larger share expressing a preference for formal work.

2.4 Youth Labour Force Participation

As outlined above, the three countries are currently in a position where they could benefit from a ‘demographic dividend’, in that they have large numbers of young people entering the labour market annually and will do for some years ahead. However, due to the low supply of jobs, or the lack of capacity of the national economies to create jobs, they are unable to reap this benefit.

This is reflected in decreasing trends in youth labour force participation rates.⁴⁸ This drop is not the result of leaving work to continue education, as the share of working age youth not in education, employment or training (NEET) has been increasing over the same period. The main hypothesis for the declining participation rates is that young people have been withdrawing from the domestic labour market in search of jobs overseas.

The results of the 2016 LFS in Tajikistan showed that 29% of young people aged 15-24 years were not in employment, education or training (NEET). A survey carried out in 2020 to look at impact of COVID 19 on households and micro, small and medium enterprises (MSMEs) found that 46.6% of 15-24 years

44 International Migration and Household Well-Being. Evidence from Uzbekistan. William Seitz. WB Policy Research Working Paper 8910. 2019

45 See discussion in Towards a Tajikistan National Employment Strategy for the Future: A Background Study of the Present. Duncan Campbell and Per Ronnas, ILO 2021.

46 See discussion in A. Grebeniyk, I. Aleshkovski and A. Maksimova, (2022) The Impact of Labor Migration on Human Capital Development. https://www.scielo.org.mx/scielo.php?script=sci_arttext&pid=S1665-89062021000100113

47 MVector (2022) Survey for assessment of key drivers and barriers for informality and access to decent work in agriculture and agroindustry sectors in three countries of Central Asia (Kyrgyzstan, Tajikistan, Uzbekistan).

48 In Kyrgyzstan, a 2018 World Bank Report reports that youth participation rates decreased between 2009 and 2013 by about 6 percentage points from 51 percent to 45 percent. World Bank Group 2018, Jobs in the Kyrgyz Republic. Mohamed Insah Ajwad, Sarah Berger Gonzalez.

who had jobs were informally employed, compared to 36.7% of all working age adults.⁴⁹

Table 1: Tajikistan, Young people aged 15-24 years in education or employment (%)

	Total	Men	Women
In education	45.4	57.9	36.6
Working	32.8	46.0	20.8
Of whom in domestic economy	23.2	28.8	20.4
Labour migrant	8.4	17.2	0.4
NEET	29.3	7.2	49.3

Source: Towards a Tajikistan National Employment Strategy for the Future: A Background Study of the Present. Duncan Campbell and Per Ronnas, ILO 2021

According to a study by UNICEF in Uzbekistan, out of the country's 8.5 million young people aged 15-29 years, an estimated 42 per cent (3.6 million) were not in employment, education or training in 2018. Nationwide, the female NEET rate was 66 percent, compared to 34 percent for young males. (However, the male NEET rate varied considerably from 11% in the capital city of Tashkent to 63% in the northern region of Khorezm).⁵⁰ Estimates based on the results of the Listening to the Citizens of Uzbekistan (LCU) survey, put the NEET rate among youth aged 14-30 years old at 37% (3.2 million people); 53% for women, and 18% for men.⁵¹

Apart from a low number of openings in the formal sector for young entrants to the labour force, there is also evidence of a mismatch between skills and labour demand, in that those with skills cannot find jobs, while formal sector firms in need of higher skilled workers experience difficulties in filling vacancies for certain skill profiles.⁵²

“

And here is my diploma in the trunk. There are no factories. I graduated from the textile institute, the textile factory doesn't work, not a single workshop.

”

Informal employee representative, FGD in Osh province, Kyrgyzstan

“

There is no education to work officially. Even for those who have an education, there is no job. For example, many young people in our area have received pedagogical education, but there are no jobs.

”

Informal employee representative, FGD in Khatlon province, Tajikistan

49 Cited in Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-sized Enterprises (MSMEs) in Tajikistan. Shukrat Mirzoev and Nezhat Sedaghat, UNDP 2020.

50 UNICEF, 2019. Building a National Social Protection System for Uzbekistan's Children and Youth.

51 International Migration and Household Well-Being. Evidence from Uzbekistan. William Seitz. WB Policy Research Working Paper 8910. 2019

52 See for example World Bank Group 2018, Jobs in the Kyrgyz Republic. Mohamed Insah Ajwad, Sarah Berger Gonzalez

Although there have been ongoing attempts to upgrade and modernize vocational training facilities, young people have few incentives to invest in their further education and skills-building, mainly because the wages which local firms can offer even for higher skilled jobs are less attractive than those which can be earned abroad doing low-skilled jobs. In the face of limited job opportunities in the formal private sector, young entrants to the labour market have few options outside of informal self-employment or migration (sometimes referred to as ‘stress self-employment’ and ‘stress migration’).

2.5 Women’s Labour Force Participation

In all three countries, women’s labour force participation rates (employed and unemployed seeking employment), are lower than those of men, and show stagnant (Tajikistan, Uzbekistan) or declining (Kyrgyzstan) trends.

Table 2: Labour Force Participation Rates, 15-64 year-olds, men and women. (%)

	2016		2021	
	Male	Female	Male	Female
Kyrgyzstan	78.6	51.4	77.3	48.2
Tajikistan	53.8	33	52.5	32.5
Uzbekistan	76.7	44	77.7	43.2

Source: ILOstat

The reasons for women’s declining participation rates are due to the low supply of jobs, mismatch of skills and available jobs, but also to the influence of traditional social norms. A study carried out in Kyrgyzstan in 2016 found that around 81 per cent of men and women agree with the statement that “the woman should take care of the house and children, and the man should earn.”⁵³

In Kyrgyzstan, it has been estimated that in 2010, women performed 73.3% of all unpaid work. Men spent an average of 3.6 hours in paid work per day and 2.43 hours in unpaid work; while women spent an average of 2.02 hours in paid work, and 4.12 hours in unpaid work. Data for 2017 shows that 38% of economically active women quit their jobs due to personal family reasons, with care being one of the main reasons (the corresponding value for men was 11%).⁵⁴ Moreover, women are reported to be 1.7 times more likely than men to close a business due to lack of time to manage the business (24 percent) and the need to deal with family matters and childcare (14 per cent).⁵⁵ In Tajikistan, women spend an average of 3 hours per day on paid work and 4.6 on unpaid work. In Uzbekistan women spend an average 5.27 hours per day on unpaid housework, and men 2.15 hours.⁵⁶ Women in rural areas in all three countries are reported to spend more time on unpaid work activities than those in urban areas, due to lower access to piped water, electricity, and other elements of socio-economic infrastructure.⁵⁷

53 Quoted in Childcare, Women’s Employment and the COVID-19 Impact and Response: The Case of the Kyrgyz Republic. UNECE UN Women 2021

54 Childcare, Women’s Employment and the COVID-19 Impact and Response: The Case of the Kyrgyz Republic. UNECE UN Women 2021

55 Cited in Childcare, Women’s Employment and the COVID-19 Impact and Response: The Case of the Kyrgyz Republic. UNECE UN Women 2021

56 Valuing and Investing in Unpaid Care and Domestic Work. Country Case Study. Uzbekistan. UNESCAP 2022.

57 Empowering Women through Reducing Unpaid Work: A Regional Analysis of Europe and Central Asia. UNECE and UN Women 2021

Thus, participation rates are constrained by social norms and the assumption that women will take on most domestic and care duties. However, as noted above, in some cases falling participation rates are also a side-effect of the increasing reliance on labour migration and remittances to compensate for a lack of jobs in the national labour markets. Women's labour force participation rates become even more constrained by the rise in domestic responsibilities when other members of the household are working abroad;⁵⁸ and women in households with members working abroad may be less willing to engage in low-paid work available on the local labour markets, i.e. their 'reservation wage' may rise.

The results of the Uzbek L2CU survey confirmed that those left behind in households with migrant members tend to work slightly less than those who do not have migrant members.⁵⁹ Similar phenomena have been noted for Tajikistan: decisions to participate in the labour market, especially for women, are influenced by the presence of an alternative income. Women do not engage in a job search not only because there are no jobs, but also because there are no jobs above a certain wage threshold, and the size of this wage threshold tends to rise if the household has access to income from remittances.⁶⁰ Women trying to combine care duties with employment tend to look for work closer to home with shorter or more flexible hours, and these tend to be more available in the informal economy.

Women trying to combine care duties with employment tend to look for work closer to home with shorter or more flexible hours, and these tend to be more available in the informal economy. Women are most likely to find informal employment in agriculture, i.e. in the sale of agricultural produce grown on their own plots, seasonal agricultural work, or in non-agricultural informal activities, such as garment production, shuttle trade or local market trade. In Uzbekistan, it has been found that 70-80% of bazaar vendors and 50% of bazaar-based shuttle traders are women.⁶¹ Overall, Uzbek women entrepreneurs are mostly involved in low-return entrepreneurship (retail trade of food and non-food items, bakery and cooking and sewing and tailoring) and many work from home.⁶²

58 Over 60% of women participating in a survey in Tajikistan cited domestic responsibilities as the primary reason for not being active in the labour market. Cited in Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-sized Enterprises (MSMEs) in Tajikistan. Shukrat Mirzoev and Nezhat Sedaghat, UNDP 2020.

59 International Migration and Household Well-Being. Evidence from Uzbekistan. William Seitz. WB Policy Research Working Paper 8910. 2019

60 ILO 2021, Towards a Tajikistan National Employment Strategy for the Future: A Background Study of the Present

61 Quoted in OECD 1021. Informality and COVID-19 in Eurasia: The Sudden Loss of a Social Buffer.

62 Uzbekistan Poverty Reduction Paper 2021-2030. Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, the United Nations Development Programme, the World Bank, the United Nations Children's Fund and the World Health Organization, 2022.



Mevai Tilloi LLC, a fruit-processing business in Isfara founded in 2015, provides decent jobs for local women.
Photo: UNDP Tajikistan

3. Scale of Informal Employment

3.1 Defining Decent Jobs and Informality

Over the past twenty years, the ILO has taken the lead in attempting to standardize definitions and measurements of the informal economy and informal employment, and the need to produce comparable statistics to monitor progress under SDG 8 has further fuelled these efforts.⁶³

Regarding decent work, the ILO identifies 10 different dimensions through which employment can be judged as “decent,”⁶⁴ and these can be grouped under three main headings, namely:

1. productive work delivering a fair income;
2. safety in the workplace; and
3. access to social protection for workers and their families.

Decent work also implies access to formal ‘social dialogue’ mechanisms, which are important to ensure respect for and compliance with legal rights. ‘Decent job deficits’ occur when jobs fall short of meeting all of these conditions. There is however not any one standard set of

⁶³ SDG 8: Decent Work and Economic Growth. Promote sustained inclusive and sustainable economic growth, full and productive employment and decent work for all. Indicator 8.31: Share of informal employment in non-agricultural employment by sex. The IMF has also been making efforts to streamline measurement of the share of informality in GDP. Measuring the Informal Economy, IMF Policy Paper, February 2021. In the past, the IMF has used a definition, which focuses on the taxation of economic activity: “The shadow economy includes all economic activities, which are hidden from official authorities for monetary, regulatory, and institutional reasons”.

⁶⁴ ILO, 2012, Decent Work Indicators: Concepts and Definitions. ILO Manual.

indicators for measuring access to decent work in any one country.

Informal employment is, by its nature, unable to guarantee the requirements of two categories of decent work, (safety at the workplace and access to national systems of social protection, at least access to contributory social insurance); nor can it guarantee participation in social dialogue mechanisms. It is therefore a priori characterized by ‘decent job deficits’. The 2015 ILO Resolution on transition from the informal to the formal economy (n.204) refers to decent work deficits as ‘the denial of rights at work, the absence of sufficient opportunities for quality employment, inadequate social protection and the absence of social dialogue’. All of these tend to be more pronounced in the informal economy. Moreover, informality increases the challenge of reducing decent work deficits as it is performed mainly outside the scope or application of a country’s legal and institutional frameworks.

Both the 2002 and the later 2015 ILOGC Resolutions state clearly that there is an important distinction to be made between the informal economy and criminal illegal activities. Although in some countries informal activities have become synonymous with grey, shadow or underground economy - the fact that informal economy activities are not - or are incompletely - governed by legal frameworks, should not be taken to mean that they are criminal.⁶⁵

‘The Informal economy refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; (the informal economy)... does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties.’ (ILO Resolution 204, 2015.)

Throughout the world, high levels of informal employment are not unusual: it is estimated that worldwide approximately 58% of the working population is engaged in informal economies (60% of male employment and 55% of female; and more than 90% in agriculture). Informal employment tends to be most prevalent in agricultural self-employment; and also among younger (15-24 years) and older (over 65 years) workers.⁶⁶

65 Details on the nature of decent work deficits and the informal economy, and the links between them, are set out in two key international documents, namely: International Labour General Conference Resolution and Conclusions on Decent Work and Informal Economy (2002); and International Labour General Conference Recommendation concerning the transition from the informal to the formal economy (no. 204) (2015). <https://www.ilo.org/global/topics/dw4sd/themes/informal-economy/lang-en/index.htm>. The 2018 report *Women and Men in the Informal Economy: A Statistical Picture*. (ILO 2018) standardizes and compiles data from over 100 countries. See also *Women and Men in the Informal Economy. A Statistical Update*. ILO 2023. https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_869188.pdf

66 ILOstat. https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_627189/lang-en/index.htm; see also *Women and Men in the Informal Economy. A Statistical Update*. ILO 2023. https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_869188.pdf

Box 1: Defining the Informal Economy and Informal Economy

The informal economy refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. It thus covers:

- Informal jobs;
- Informal economic units;
- Informal productive activities.

Even when – as in the case of this report - the focus is on informal jobs, the other two dimensions are inevitably touched on indirectly.

Informal jobs comprise:

- Informal jobs in the formal sector, i.e. casualized labour working in formal enterprises
- Informal jobs in the informal sector, including employers, own-account workers, employees, contributing family workers
- Informal jobs in households, i.e. domestic workers without social protection and work safety guarantees

Three groups of workers can be in informal employment:

- Employees: if their employer does not contribute to social security on their behalf or if they do not benefit from paid annual leave or sick leave.
- Employers (with hired workers) and own-account workers (without hired workers): if they run an economic unit in the informal sector (a non-incorporated private enterprise without a formal bookkeeping system or not registered with relevant national authorities); or if there is no fixed place of work or it employs five employees or fewer. (This threshold can vary, depending on the country.)
- Contributing family members: are informally employed by definition, regardless of whether they work in formal or informal sector enterprises.

Self-employed workers include four sub-categories:

- Employers
- Members of producers' cooperatives
- Own-account workers
- Contributing family workers.

Globally there is a high concentration of informality among 'own account' workers.

Those engaged in subsistence agriculture are classified as 'own account' if the production makes an 'important contribution' to household consumption.

Vulnerable employment refers to: contributing family workers and own-account workers as a percentage of total employment. Since contributing family workers are always categorized as informal, and own-account workers (globally) are more likely to be informal, the category of 'vulnerable employment' is sometimes used as a proxy indicator to measure the extent of informal employment.

The various categories listed in the box above reflect the high level of diversity within the informal economy and informal employment. The informal economy covers many sectors, but also many types of work activities (for example those engaged in waste re-cycling, small traders, as well as those working for online platforms or the gig economy), workers with different levels of income, education, etc. This complicates the task of formulating strategies to promote transitions to formality. Moreover, not all workers are in informal employment for the same reason, as some are informal by choice and others by necessity. As the ILO points out (see quote below), the majority of people work in the informal economy, not because of a choice to remain outside of formal structures and arrangements, but because most of them are unable to find other jobs or start businesses in the formal economy, i.e. it is shortfalls in the supply of decent formal sector jobs; and/or mismatches in skill demand and supply; and/or the costs and bureaucracy involved in registering as a formal unit which make the informal economy the only option for many workers.

‘Most people enter the informal economy not by choice but out of a need to survive. Especially in circumstances of high unemployment, underemployment and poverty, the informal economy has significant job and income generation potential because of the relative ease of entry and low requirements for education, skills, technology and capital, but the jobs thus created often fail to meet the criteria of decent work. The informal economy also helps to meet the needs of poor consumers by providing accessible and low-priced goods and services.’ (ILOGC resolution 202)

Box 2: Taxonomy of Informality

Subsistence Informality	Subsistence informality consists of workers who would like to work in the formal sector (or do not have preferences for informality) but find themselves segmented from the labour market because of their low-productivity levels, understood as a combination of education and experience, and place of production. These workers' productivity is well below the level at which a decrease in payroll taxes or adjustments in the legal minimum wage would make any significant difference in their hiring.	Voluntary Informality
Induced Informality	Induced informality comprises workers who are willing to work formally and have the level of productivity needed to be employed widely in this sector but are found relegated to informal jobs because barriers to the formal market can take the form of payroll taxes and other mechanisms of “excessive” protection to the worker. The great limitation at this point is to determine what excessive protection is	Mixed Informality
Source: Fernandez C, Villar L. 2017. Taxonomia de la Informalidad en America Latina		

On the other hand, there are some who are higher up the employment spectrum, often higher skilled workers, who may be able to choose between formal and informal employment on the basis of individual preferences, and perceived advantages of one over the other. The taxonomy provided above has been developed by authors studying informality in the Latin American context, but it is relevant also to the study of informality in Central Asia.

Studying and addressing informal employment is complicated by the fact that it is often difficult to clearly separate the informal economy from the formal one. There are usually ‘linkages, grey areas and interdependencies between the two’. This can include, for instance, when formal workers are provided with undeclared remuneration; when public sector employees with low wages engage in extra informal work activities to supplement their household income; when there are groups of workers in formal enterprises whose wages and working conditions are typical of those existing in informality; or when businesses in the formal sector come to informal arrangements with inspectors and other representatives of public authorities, to ensure that infringements of labour, fiscal or other regulations go unrecorded. Use of the terms formal and informal as a sort of dichotomy can thus be misleading.

“ *Well, I do not know, if you look at legal entities, it is quite possible that they draw up some contracts, and then in those companies, where, so to speak, the management, accounting, they, respectively, take all the procedures of the labour code. But, keep in mind that there, too, half work on a gray account, on a black account, and only half on a white account.* ”

Representative of the Ministry of Agriculture of the Kyrgyz Republic

3.2 Estimating the scale of informal employment in Kyrgyzstan, Tajikistan and Uzbekistan

The scale of informal employment and informal economic activity – although universally acknowledged to be large in the three countries - is in practice difficult to establish and compare. The 2022 survey commissioned by UNDP (see Appendix 1) notes for example that in Kyrgyzstan ‘there is no detailed information and reasonable idea of how long citizens work in the informal sector’; and that in Uzbekistan there are no regular and proper statistics on the number of informal workers’.⁶⁷

Of the three countries included in this study, Kyrgyzstan is the only one for which official estimates of the scale of informal employment (derived from the annual national labour force survey (LFS)) are available and included in ILO international databases. One-off estimates are available for the other two countries, but the methodologies and definitions of informality are not the same – or not even totally clear - thus preventing both comparison with estimates for previous years within the same country, and comparisons between countries.

⁶⁷ Over 50% of surveyed employers in Kyrgyzstan, over 27% in Tajikistan, and over 60% in Uzbekistan had informal workers, of whom most were women. The average age of informal workers in Kyrgyzstan was below 35 years, and in Tajikistan and Uzbekistan below 45 years. The majority had secondary or specialized secondary education.

3.2.1 Kyrgyzstan

In 2021, the National Statistical Committee included the following definition on its website: ‘those who are employed at least in one of the production units of the informal sector no matter what their employment status or whether the work is the main one or additional activity. The criteria for defining whether someone is in the informal sector is the absence of state registration as a legal entity’. Use of this definition will tend on the one hand to inflate the numbers, as it includes those in the formal sector working in the informal sector as a second job. It will include those working as casual labour or inconsistently in the informal economy. However, it will also tend to deflate numbers, as it does not include those working for production units in the formal sector, but with no formal contract. The fact that ILO standard definitions of employment include those who have worked even one hour in the previous week, may also serve to put these estimates on informality from the LFS at the upper end of the scale.

“

The share of informal employment in the informal sector in agriculture is 60.7%. Of course, this is a very large part. A big part of that is because they are employed from the very definition. According to the definition of the National Statistical Committee, if a person worked 1 hour per week, he or she is also among the employed people.

”

Representative of the Social Fund of the Kyrgyz Republic

According to the estimates for 2021, based on data from the Kyrgyz National Labour Force Survey, informal employment was estimated to represent 63-64%, (about two-thirds) of all employment. 62% of employees (hired) are estimated to be in the informal sector; 46% of own account workers; and 13.2% of employers.⁶⁸ (Interestingly, workers hired by individual entrepreneurs, i.e. own account workers, and self-employed persons now make up 76% of the whole informal labour market.)

Using again ILO figures, the share of informal employment in the agricultural sector is estimated to be over 80%. The share of informality for total male employment is slightly higher than for total female employment; however, the share of informal employment in agriculture is higher for women (93.1 per cent compared to 69.1% for men). This may be due to the fact that women are more likely to be contributing family members (a category which is always defined as informal, see Box above), given that land plots are more likely to be registered in the man’s name.

⁶⁸ Transition from informal to formal employment: Extension of social protection schemes (maternity and unemployment) in Kyrgyzstan, ILO 2023

Table 3: Share of Informal Employment in Total Employment (in total male employment, in total female employment), Kyrgyzstan, (%), 2021, data from LFS)

	Total	Men	Women
Whole Economy	63.2	64.6	61.3
Agriculture	82.5	69.1	93.1
Industry	78.8	79.3	76.7
Services	46	52.6	37.6

Source: ILOSTAT. Statistics on the Informal Economy. <https://ilostat ilo.org/topics/informality/#>

3.2.2 Tajikistan

In Tajikistan, the last labour force surveys (LFS) conducted in 2009 and 2016 have been used by ILO experts to estimate shares of, and trends in, informal employment. These point to a remarkable decline in informal employment between 2009 and 2016; from 54 to 29% in 2016. (Figures refer to those aged 15-75 years.) Informality is reported to have decreased among self-employed people and small businesses, but at the same time there was an increase in informal hiring in formal enterprises. The latter is reported to have risen from 5% of total employment in 2009 to almost 14% in 2016.⁶⁹ By 2016 some 71 per cent of all non-agricultural employment had become formal. The informal employment (29 per cent) was almost equally divided between the formal and informal enterprises. It was found to be particularly widespread in the construction sector, but also common in manufacturing, trade and in hotels and restaurants.

According to the 2016 LFS only 53 per cent of the working age population (aged 15-75 years) are in the labour force and less than 40 per cent are employed in the domestic economy. An additional 20 per cent of the working age population was engaged in production of goods mainly for own consumption, i.e. in subsistence agriculture. These people are not considered to be employed.

The apparent decrease in informality among the self-employed may however be due to changes used in the national definitions of employment status, leading to an underestimation, particularly of informal employment (and indeed overall employment) in agriculture. From 2013 agricultural subsistence farmers have no longer been included in national employment data in Tajikistan. Since this category includes a large share of own account workers and contributing family members, their exclusion from the data could lead to a considerable underestimation of informality among the self-employed.

3.2.3 Uzbekistan

Estimates of informality were provided by the Ministry of Employment and Poverty Reduction (formerly Ministry of Employment and Labour Relations) for 2019. Among the employed population, 5,700,000 persons (42%) were in the formal sector; and 5,370,000 (just under 40%) were in the informal sector. The labour force participation rate (LFPR) was estimated at 78%; the employment rate was circa 71%. According to State Statistical Agency data for 2018, those employed in the informal sector of the

economy were distributed as follows: trade (17.8%), construction (17.3%), industry (14.2%), agriculture (10.9%), and 28.2% in other services. Over 30% of those employed in the agricultural sector were in the informal sector.⁷⁰ (Note that one-off ILO estimates of informality appear to be significantly higher: approximately 60% of the workforce (over 6 million people) was estimated to be in informal employment in 2023.)⁷¹

According to the Law on Employment, informally employed workers are those that are not registered with the tax authorities. The law states that individual entrepreneurs, contributing members of dehqan farms and self-employed workers paying social security contributions are considered to be formally employed. Informal Employment was defined in 2017 as: members of dehqan farms who do not pay state social insurance contributions; self-employed with unregistered business activities, providing home-based services such as those of nannies, babysitters, cleaners, drivers etc; persons employed by entrepreneurs without paying state social insurance contributions.

3.2.4 Cross-country comparisons

“ I can say presumably. I do not know, maybe a report on the official staff is provided. Especially in agriculture, the number of informal workers is higher than in other sectors, probably about 60-70%.

”

**Representative of the Ministry of Labor,
Migration and Employment of the Republic of Tajikistan**

Due to the difficulties in finding data and standardized methodologies for cross-country comparisons, some analysts choose to use international data on the share of ‘vulnerable employment’ in total employment (i.e. the sum of own-account workers and contributing family members, see definitions above) as a proxy indicator for the share of informal employment.

These two employment status categories are assumed to include the largest share of the informally employed, particularly when the share of agriculture in total employment is large. Estimates of the share of vulnerable employment in total male and female employment are provided below.

Table 4: Self-employment, and vulnerable employment in total employment (male and female), 2021. (ILO modelled estimates; %)

	Self-Employed			Vulnerable Employment		
	Total	Male	Female	Total	Male	Female
Kyrgyzstan	33.4	37.1	27.2	31.6	34.6	26.4
Tajikistan	26.4	25.0	28.7	23.2	21.2	26.4
Uzbekistan	46.4	54.9	30.8	34.1	40.4	22.4

Source: ILOstat

⁷⁰ Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, the United Nations Development Programme, the World Bank, the United Nations Children’s Fund and the World Health Organization (2022). Uzbekistan Poverty Reduction Paper 2021-2030.

⁷¹ https://www.ilo.org/moscow/projects/WCMS_826842/lang--en/index.htm#:~:text=Informal%20employment%20in%20Uzbekistan%20is,of%20workers%20is%20under%20Employed

The share of vulnerable employment is not far below the share of self-employment in total employment, in Kyrgyzstan and Tajikistan implying that the vast majority of the self-employed are own-account workers and contributing family members. The lower shares in Tajikistan may be due to the fact that subsistence agricultural workers are no longer included as category of the employed). In Uzbekistan, the share of vulnerable employment is significantly higher (almost double) for men (40%) than for women (22%). Overall, if vulnerable employment is used as a proxy measure for informal employment, then approximately one third of the workforce in all three countries can be estimated to be informal.

Looking at the flip side of the coin, a large share of formal employment in all three countries is concentrated in the public sector, which represents circa 20% of all employment.⁷² In Kyrgyzstan, public sector employment has been estimated to account for circa 20 percent of overall employment, but for 60 percent of formal employment.⁷³ Results from UNDP's 2022 survey (see Appendix 1) also suggest that respondents associate formality with the public sector. The fact that wages in the public sector are low or declining means that formal sector employment is perceived as secure but low-wage employment. In Kyrgyzstan, for example, data from the National Statistics Committee for September 2023 state that the average wage for the country was 32,473 soms (circa USD 363), while that for agriculture was 23,184 (circa USD 260), and for the two big public sector employers, education and health, it was 24,993 (circa USD 280) and 20,719 (circa USD 232) respectively. In comparison the average wage in the mining sector was 52,354 (circa USD 586); in the information and communications sectors 58,643 (circa USD 634) and in the financial sector 61,542 (circa USD 689).⁷⁴

“ *For example, at this year's rates, we earned twice as much. Now civil servants make an average of 500, and we make at least 1,000. It's gotten good now. When you work in a job like this, you don't want to go to work for the state, you don't want to be dependent.* ”

Informal worker, FGD in Issyk-Kul province, Kyrgyzstan

⁷² This figure is cited for 2018 in Tajikistan, in Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-sized Enterprises (MSMEs) in Tajikistan. Shukrat Mirzoev and Nezhat Sedaghat, UNDP 2020.

⁷³ World Bank Group 2018, Jobs in the Kyrgyz Republic. Mohamed Insah Ajwad, Sarah Berger Gonzalez

⁷⁴ <http://www.stat.kg/en/statistics/>. Accessed December 2023.



A man works by hand to make a leather shoe at Dambog Pyabzali Savdo in Uzbekistan.
Photo: UNDP Eurasia / Karen Cirillo

4. Extent and Drivers of informality in the Agricultural Sector

Globally the problems of informality tend to be exacerbated in the rural economy, and the share of the informal economy is higher in rural areas and especially among agricultural workers. According to ILO estimates, in the rural areas of Central and South-eastern Europe (non-EU) and the Commonwealth of Independent States (CIS) informal employment constitutes 82.1% of total rural employment and 98.6% of agricultural employment⁷⁵. Rural areas are often characterized by insecure property rights, weak contract enforcement, poor access to financial services, weak labour market institutions and social security systems. As indicated above, a large share (circa one third) of the rural workforce is in vulnerable employment. Protection by labour and social protection legislation may exclude agricultural workers and home-based workers; or this legislation may be more difficult to enforce in rural areas due inter alia to a weak labour inspectorate system, and the limited ‘voice’ of farmers’ unions and organizations.

The share of agricultural employment in total employment in Kyrgyzstan has decreased considerably over the last two decades (by 37%), from 53% in 2000 to 32% in 2010, and 16.6% in 2021. In Tajikistan it started at a higher share but has declined by almost 20% to 43% in 2021. (As noted above, this may be due to changes in the definitions of employment and agricultural employment in Tajikistan.) The share in total female employment declined from a very high 79% to a (still relatively) high 59%. In Uzbekistan

⁷⁵ Transitioning to Formality in the Rural Informal Economy. ILO 2019. https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/publication/wcms_437189.pdf

it started at almost 40% and has declined to 24% with the differences between male and female levels being small. (The year 2000 is chosen as the baseline, as the large increases in those participating in labour migration abroad started in the early 2000s.)

Table 5: Share of agricultural employment in total employment, 2000, 2010 and 2021

	2000			2010			2021		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Kyrgyzstan	53	52	54	32	32	32	17	15	18
Tajikistan	60	49	79	52	43	69	43	32	59
Uzbekistan	38	39	36	27	28	25	24	25	22

Source: World Bank Gender Statistics Data Base

It is worth noting the changing role and position of women in the agricultural sector over this period. With the transition (since the early 1990s) from collective farms to small private farms, women's positions in the workforce have steadily shifted away from paid formal work toward roles as contributing family members or casual wage workers. Closure of public day care and other facilities has led to a higher burden of care duties. There is also evidence of a resurgence of traditional norms emphasizing women's roles as caretakers, which has constrained their mobility and economic opportunities. Agricultural work is however generally considered compatible with child-rearing. As migration took off, particularly among young and middle-aged men from rural areas, women's role in the agricultural workforce has in many cases increased.⁷⁶

As in other parts of the world, there is considerable heterogeneity in agricultural units with the main categories being large farmers, commercial smallholders (dekhan farmers) and subsistence farmers. Among agricultural workers, there are those employed on regular basis with a full set of protection, those who are undeclared, and those who work on a more precarious basis as casual or day labourers. There are also considerable numbers of (unpaid) contributing family members.

Overall, for all three countries it is difficult to find clear definitions of informal employment in general and in particular in agriculture. The status of smallholder or 'dekhan' farmers is somewhat ambiguous. In Uzbekistan, dekhan farms are those with plots of land in the range of 0.06 ha to 1 ha. These farms can be registered as a legal unit or not, and the farmer can use the labour of contributing family members and also employ seasonal labour, and – according to the law – assumes responsibility for the health and safety of these workers. For the head of the farm, it is obligatory to make social security contributions. For other contributing family members this is voluntary.⁷⁷ Similar regulations exist in the other two countries. The fact that dekhan farms are registered as a legal unit seems to make them part of the formal economy. However, it is not clear the extent to which obligations to pay social security contributions – and indeed to assume responsibility for the health and safety of casual labourers – are enforced.

⁷⁶ See for example discussion on the case of Tajikistan: <https://www.ifpri.org/blog/tajikistan-women-contribute-significantly-agriculture-does-agricultural-work-contribute>

⁷⁷ <https://www.lex.uz/acts/5351640>

The 2022 survey commissioned by UNDP (see Appendix 1) covers a sample of hired workers, both those who are hired formally and informally. The sample of employers is drawn mainly from agricultural producers or livestock farmers (76% of the sample in Kyrgyzstan, 79% in Tajikistan and 81% in Uzbekistan), the vast majority of whom are in rural areas. 63-64% of them have 0-10 employees, and most of them are formal. Informal contracts were found to be more common among those with 11-100 employees. As in official statistics, the treatment of smallholders (dekhan farmers) and own account workers in the survey is not clear. However, it emerges that most households are either obliged or choose to diversify their sources of income, with some combining work on their own farm (the survey results refer to 'own business' and this presumably includes both own farm or own non-agricultural business), with seasonal casual jobs or seasonal migration, and full- or part-time employment in the non-agricultural sector. Among the hired workers, 27- 31% in Kyrgyzstan and Tajikistan report that the main source of the household income is their own farm. In Uzbekistan, they are more likely to report income earned in agriculture as hired workers.

The survey results show that - as in other parts of the world (see Box 2 above) - some hired workers have no choice but to engage in informal activities, but some choose it – in the given circumstances – as their preferred option. Respondents listed clear pluses and minuses associated with both informal and formal employment. Workers opt for employment in one or the other on the basis of the opportunities available to them, but also on the basis of individual preferences (for example more flexible work hours). There are quite clearly articulated trade-offs between working in the formal and informal sector, and the lists of advantages and disadvantages provided by survey respondents mirror each other perfectly. It should be noted that respondents tended to associate formal employment with public sector employment.

Table 6: Formal and informal employment: advantages and disadvantages from the perspective of workers/ employees

Formal Employment	Advantages	Stability, predictability
		(Usually) Regular wages
		Social security rights (sick pay, paid holiday leave, maternity); pension rights, workbook and accumulation of years of contribution history
		Can apply for loans/ credit
	Disadvantages	Lack of flexibility: strict hiring and firing rules
		Lack of flexibility in working hours; less leisure/ personal time
		Taxes; lower wages (usually, but not always)
		Bribes to get job (most explicitly expressed in Kyrgyzstan)
Informal Employment	Advantages	Flexibility: Easy to quit
		Flexibility (work time);
		No tax, higher wages (usually)
		Flexibility: fewer demands, no obligations/ accountability, no need to pay bribes
		Flexibility in terms of shock responsiveness, coping mechanism
	Disadvantages	No security or predictability in work tasks (sometimes work harder)
		No guarantees: wages may not be paid at all or not on time
		Lack of social security and workplace rights 'contribution history not accumulated'

From: MVector (2022) Survey for assessment of key drivers and barriers for informality and access to decent work in agriculture and agroindustry sectors in three countries of Central Asia (Kyrgyzstan, Tajikistan, Uzbekistan).

While the most frequently cited advantages of formal sector work (from the point of view of employees) are stability and predictability, regular wage payments etc.; the main advantage of informality is seen as flexibility, in terms of quitting (or hiring/firing from the point of view of employers) and also in work hours. The greater flexibility to organize one's own time, and to have more leisure/free time for outside-of-work activities are particularly valued. These outside-of-work activities include leisure activities, but also care duties or taking care of household tasks. Each individual makes the choice on the basis of trade-offs given the opportunities and characteristics of his/her given context.

“ *I would move to a formal job if there was a high salary, flexible schedule. I have a grandson, so I need a convenient schedule and, of course, I need a high salary.*

”

Informal worker, FGD in Namangan province, Uzbekistan

“ *It's a permanent job, you work 15 days, you get paid. And in the unofficial one, sometimes there is work, and sometimes not.*

”

Formal worker, FGD in Issyk-Kul province, Kyrgyzstan

“ *You work at will, that is, whenever you want.*

”

Formal worker, FGD in Issyk-Kul province, Kyrgyzstan

“ *There is an opportunity to choose a job, that is, if someone offered more money for doing this work, then you go to him.*

”

Informal worker, FGD in Khatlon province, Tajikistan

“ *You can adjust your working time, combine it with other things.*

”

Informal worker, FGD in Namangan province, Uzbekistan

Employers associate formal employment with a more predictable, efficient and 'disciplined' workforce, and with clear advantages for work planning. But they also appreciate informal arrangements, not only because of savings on the cost of labour, but due to the flexibility in hiring and firing and the possibility to avoid interactions with a cumbersome state bureaucracy, including that associated with social security contributions.

On the other hand, for some employees it is not a matter of preference: they have no choice but informal work.

“ *Everyone knows that there are no jobs all over Kyrgyzstan. Since there is no work to provide for my family, I have to work anywhere. That’s why I work a seasonal job.* ”

”

Informal employee representative, FGD in Osh province, Kyrgyzstan

There are also some groups which face more disadvantages than others in accessing formal employment. Employers tend not to take on women in formal employment, because they are eligible for maternity rights/benefits, and there is the perceived probability that they will leave for childcare duties. On the other hand – at least in Kyrgyzstan and Tajikistan - women are preferred as informal employees in the agro-industry as they are considered ‘better’ workers.

“ *For example, my sister wanted to get a job, she is 50 years old, the office managers said that it is better for her to stay at home, look after her grandchildren. That’s not right. But it happens.* ”

”

Informal employee representative, FGD in Osh province, Kyrgyzstan

“ *On the contrary, they do not hire young girls because they will get married and go on maternity leave.* ”

”

Informal employee representative, FGD in Osh province, Kyrgyzstan

Older age job seekers (over 40 years) also face more disadvantages in finding formal sector work, as they are considered less flexible in terms of learning new tasks, or employers do not consider it worth investing in training the older workers if they are close to retirement age.

“ *They are trying to recruit more young employees. It will be difficult for senior employees to learn yet. Secondly, pension payments are taken into account. Often young women are not hired because they are told: “You will go on maternity leave tomorrow.” The elders are told: “You will retire tomorrow,” so there will be some difficulties.* ”

”

Informal employee representative, FGD in Samarkand province, Uzbekistan

Finally, the small number of formal sector jobs available are associated with higher skill qualifications. The vast majority of persons in the informal workforce have completed secondary school, but do not have specialized or higher education.

“ *If I had a diploma, if I had a profession, I would get an official job.*

”

Informal worker, FGD in Osh province, Kyrgyzstan

Overall, the word ‘flexibility’ occurs frequently when defining the nature of informality, both from the point of view of employers and employees, suggesting the need for a review of labour market regulations to identify where rigidities exist and how they could be reduced. Another theme which occurs frequently is the independence, ability to organize work, and not to be subject to management control. This points to elements of stifling work environments in the formal sector, possibly associated with traditional elements of the work culture in the public sector.

Overall respondents associate informality in agriculture with seasonal work. Employers in all three countries named seasonal work and the fact that workers are needed for a short period of time as the main reason for hiring workers informally; i.e. flexibility was seen as the main advantage of informal contracting, also from the point of view of the employer. This need for flexibility was referred to more frequently than the desire to avoid paying social security contributions. Employers and representatives of government agencies referred to the complexities of the process of registering temporary workers. Temporary workers are necessary for agricultural producers, but the process of registering them can take longer than the period for which their labour is required. For some representatives of government bodies in Tajikistan, informality in agriculture is normal and not seen as a problem.

Another interesting result relates to social protection: despite their current prospect of low levels of pensions, respondents clearly see access to social security rights, particularly pension rights, as an advantage or even the main advantage of formal employment. The three most notable disadvantages of informal work cited by respondents, regardless of gender or whether they are currently in the formal or informal employment, relate to pension rights. This is quite often expressed indirectly, in that workers see a key advantage of formal employment as having a ‘work book’ or ‘work experience’, both of which are associated with accumulation of the minimum number of work years needed to qualify for old age pensions.

In Kyrgyzstan respondents noted the following disadvantages:

- Work experience is not accumulated (61%)
- Absence of contributions to the pension fund (52%)
- Lack of social protection (payment of sick leave, vacation pay, etc.) (44%)

In Tajikistan:

- Work experience is not accumulated (70%),
- Lack of job security. They can fire you at any time (48%)
- Lack of social protection (payment of sick leave, vacation pay, etc.) (40%)

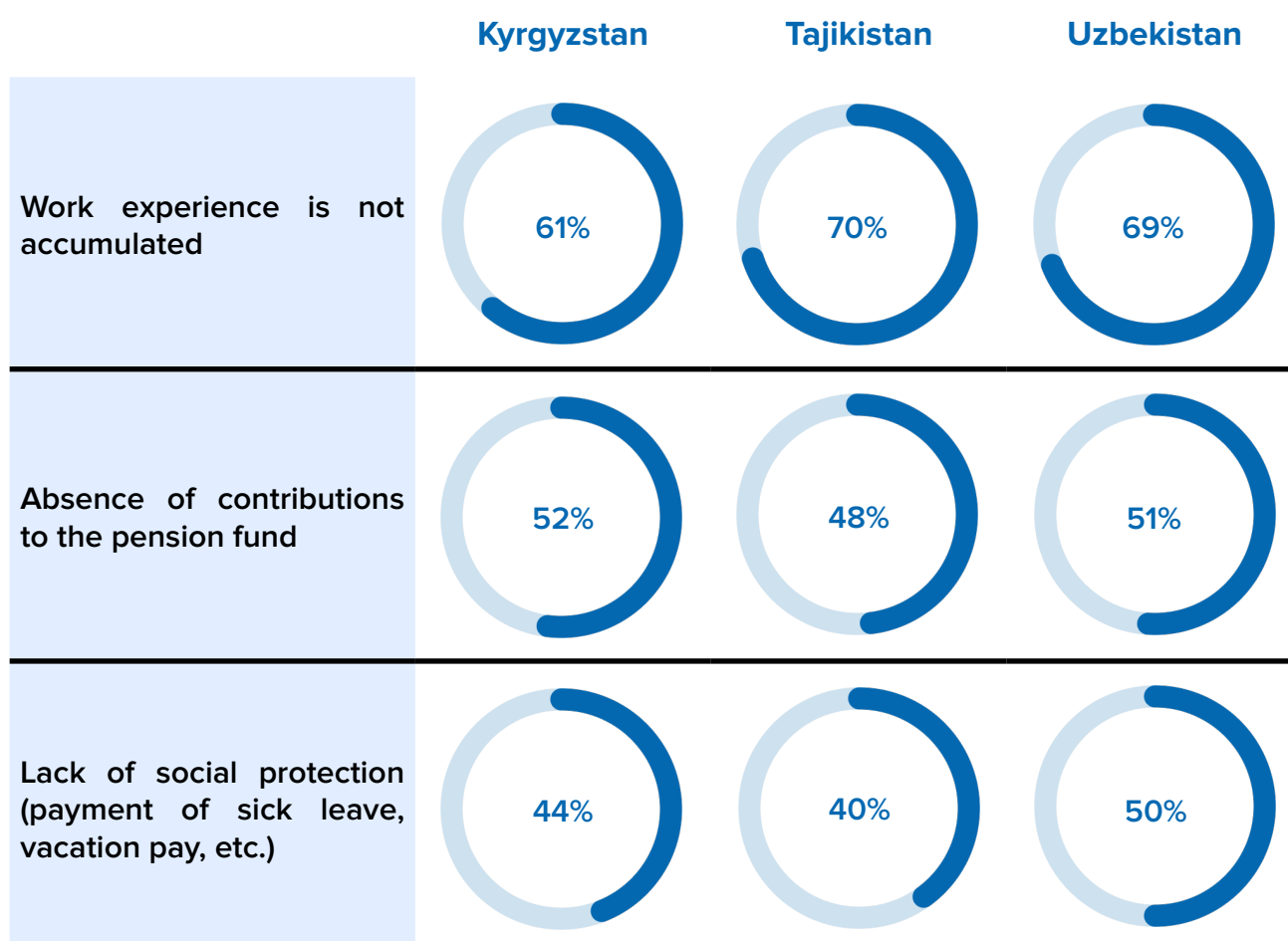
And in Uzbekistan:

- Work experience is not accumulated (69%),
- Absence of contributions to the pension fund (51%)
- Lack of job security (they can fire you at any time) (50%)

On the other side, employers do not cite payment of social security contributions as one of main reasons for hiring informal workers, suggesting they are not considered the major cost. (Reluctance to pay social contributions is the least cited reason in Tajikistan (4%), and only cited by 16% in Kyrgyzstan and 12% of employers in Uzbekistan).

These results suggest that pensions remain an important residual part of the unwritten social contract between state and citizens; despite overall limited trust in public institutions, pensions for those with regular contributions are still considered a security worth having in old-age. On the other hand, either contributory capacity or pension adequacy for those working on patent and similar systems would not appear to be sufficient to promote participation in the existing national old-age pension systems.

Figure 1: The disadvantages of informality in survey responses from each country





In Ferghana city, Garden House LLC has substantially improved its production capacity in fruit processing with UNDP support, creating 16 decent jobs - 10 for women. Photo: UNDP Uzbekistan

5. Decent Work and Transitions to Formality in the Region: Some Policy Dimensions

5.1 Pluses and Minuses of Transitions to Formality

There is a broad consensus within the global discussion that addressing informality over the medium to longer term leads to positive economic, social and human development outcomes. The potential benefits of promoting and achieving transitions from the informal to the formal economy include:

A reduction in social vulnerabilities for those engaged in the informal sector, through improving access to workplace rights and to social protection rights and reducing their exposure to risks. Although not everyone in the informal economy is poor, and the ‘working poor’ can be employed in the formal economy, empirical research has shown that (globally) workers in the informal economy face a higher risk of poverty than those in the formal economy.⁷⁸ Therefore, addressing informality can be/ should be part of broader poverty reduction strategies.

Informal workers are not covered by national regulations on safety at work. They may have no choice but to engage in hazardous work, while having no access to formal sick pay rights, or invalidity benefits in the case of injuries.

They also have no or limited rights to support from national social protection systems. Eligibility for unemployment and social assistance cash benefits for the low-income both usually require proof of previous or current employment and earnings in order to evaluate eligibility. Those working with no formal contractual agreements or who are in self-employment cannot supply these. Moreover, many informal workers migrate informally (within the country or abroad) and have informal housing arrangements. This again means that they cannot apply for benefits due to lack of official residence papers. Lack of access to these formal social protection rights can increase the likelihood of resorting to harmful coping strategies in the case of shocks, such as selling assets, or cutting back on nutrition, health and education and other human-development-related expenditure, and thus lessening capabilities to exit from poverty and/or increasing the risk of chronic poverty. In the case of informal agricultural workers, there is often a reliance on seasonal earnings, and if affected by sickness during the season, they risk losing earnings for the whole year.⁷⁹

Informal economy workers have less access to formal training opportunities which leads over the longer term to a reduction in their productive capacities, less options for professional growth, and less flexibility to respond to (and take advantage of) changing demand in the labour market. Moreover, informal workers are often less able to benefit from the job opportunities arising from the introduction of new technologies and ongoing processes linked to climate change/green transitions and digitalization. They risk entering a vicious circle whereby their current options are limited, and they also have less options to get the skills required to improve their future options.

It can be argued that informality represents a constraint on economic growth.⁸⁰ However, others have argued that informality is a symptom of structural problems in the economy and is in fact a result of low growth rather than the cause of it.⁸¹ At the firm level, informal businesses tend to end up in low productivity traps. Their low productivity makes it impossible for them to operate successfully in the formal sector, and few manage to transition in the absence of measures to help them be more productive. At the level of the economy, widespread informality acts as an impediment for higher productivity in SMEs which can lead to the creation of productive jobs. Formal firms are more able to recruit more high skilled workers, invest in training and raise productivity.⁸²

Informality is often linked to environmental vulnerabilities, due to reliance on natural resources for income-generation. Informal actors who depend on natural resources for their livelihoods are particularly exposed to the threats associated with climate change (storms, flooding, landslides, heat waves and water shortages etc.) as well as environmental degradation or depletion of natural resources, all of which can exacerbate their vulnerability and poverty risk.

High levels of informality in the economy also have governance implications, in that they limit the

79 See for example the discussion in Extending Social Protection to Rural Populations. FAO and ILO. (2021). <https://www.fao.org/policy-support/tools-and-publications/resources-details/en/c/1372659/>

80 See World Bank, 2021, The Long Shadow of Informality: Challenges and Policies, accessible at <https://www.worldbank.org/en/research/publication/informal-economy>

81 <https://theconversation.com/the-world-bank-and-imf-are-using-flawed-logic-in-their-quest-to-do-away-with-the-informal-sector-170325>

82 See discussion in OECD 1021. Informality and COVID-19 in Eurasia: The Sudden Loss of a Social Buffer.

government's scope of action and the potential impact of economic, social and environmental policies, the soundness of institutions, and fair competition on national markets. At the societal level it weakens existing social contracts or makes these more difficult to establish.

However, while there are multiple vulnerabilities, deficits and socioeconomic costs associated with informality, the contributions of the informal economy to inclusive growth and other dimensions of sustainable development should also be fully acknowledged and potentially leveraged. The 'pluses' or positive contributions of the informal economy and informal employment can thus be summarized as:

- Informality is often associated with self-employment, in particular own-account work, which provides a valuable coping mechanism for vulnerable households when decent jobs are in short supply.
- Informality often offers more flexibility in work schedules which can facilitate employment and broaden options for those unable to commit to regular work hours. Since women usually are allocated more care and domestic duties within the household, this can be particularly important in enabling them to engage in work activities outside of the home.
- Informality is increasingly recognized to be a valuable source of innovation in economies facing green and other transitions. This means that informality can also provide fertile ground for low-risk experimentation and entrepreneurship. Informal actors often have to improvise solutions to everyday challenges, prompting the search for innovative solutions.

Overall, there are ample arguments to justify the growing focus on measures to foster transitions from informality to formality. But there is also a clear recognition that the approach to achieving formalization has to be context-specific and sector-specific, nuanced and gradual, with a combination of complementary measures to incentivize and enforce transitions. The relative costs and benefits of formality and informality depend on contexts and sectors. If the focus is only or predominantly on campaigns to force formalization through increased compliance with legal requirements, small low-productivity economic units risk being forced not into formality but into bankruptcy. The least advantaged and more vulnerable in the labour market are likely to be penalized through the loss of their only sources of livelihoods.⁸³ Interventions centered on simplifying registration and likewise, enforcement and compliance with tax and regulations, are unlikely to incentivize formalization on a large scale, unless commensurate efforts are made to raise awareness and support informal enterprises as well as enhance perceptions and trust that there is a 'clear value' in switching to formality. This trust can be fostered for example by promoting improved access to finance, training and business support. Overall it may be better to provide government support to informal MSMEs in the short-medium term, while fostering gradual transitions to formality in the longer run.⁸⁴

In the case of women, informal employment is often associated with home-based work, which can

⁸³ UNDP's IEF Concept (2020) (unpublished) refers to a 2014 UNDP Report on Legal Empowerment Strategies at Work (2014) which argues that in many instances, traditional approaches to formalizing the informal sector had "proven ineffective, and in some instances, even counter-productive". See also OECD 1021. Informality and COVID-19 in Eurasia: The Sudden Loss of a Social Buffer.

⁸⁴ See discussion in Scoping Note MSME/Informal Sector. UNDP. G20 Indonesia 2022 (unpublished).

provide an opportunity for them to combine their productive and reproductive roles. However, if formal jobs allowed for more flexible working hours and part-time work, women would find it easier to complete necessary tasks in the home, while simultaneously engaging in formal employment.

It follows from the above that transitions from informality to the formal economy have to be carefully managed, otherwise there is a risk that both citizens and the larger economy will suffer.⁸⁵ They also have to be carefully managed because they are by nature complex and require integrated approaches and coherence between a broad range of policy areas. These include measures to improve the business environment (simplifying registration and other procedures; reducing and simplifying taxation; reducing trade barriers; ensuring access to a range of affordable support services; addressing corruption and other governance issues); access to inclusive financial services; measures to improve human capital, both of entrepreneurs and employees; simplifying labour market regulations but also ensuring that instruments are in place to guarantee respect (enforcement) of workplace rights and ensuring access to minimum social protection guarantees.⁸⁶ Tackling one policy area without parallel measures in others is unlikely to lead to any long-term changes in the levels of informality. Concentrating on ‘push’ factors (enforcement of legal obligations etc) without parallel ‘pull’ factors (incentives, support services etc) will lead to the loss of a valuable social ‘buffer’ without anything to replace it. The political will to address informality therefore has to be reflected across all policy areas and encapsulated in a cross-cutting manner in high level national development strategies.

The potential risks of poorly managed or partial strategies for transitions to formality are in fact recognized and highlighted in the two key ILO resolutions cited above. The 2015 ILO Resolution (204), stresses the need to:

‘enable the transition of workers and economic units from the informal to the formal economy, while ensuring the preservation and improvement of existing livelihoods during the transition’

And to ensure:

‘the preservation and expansion, during the transition to the formal economy, of the entrepreneurial potential, creativity, dynamism, skills and innovative capacities of workers and economic units in the informal economy’.

The ILO 2002 Resolution states that:

‘Workers and economic units in the informal economy can have a large entrepreneurial potential. Workers in the informal economy also have a reservoir of skills. Many people working in the informal

⁸⁵ International Financial Institutions (IFIs) have also recognized the need for more gradual and nuanced approaches to formalization. A 2020 report of the World Bank calls for rethinking approaches to formalization, suggesting that there is scope for exploring options to support informal businesses “without formalization as a target”, or through more gradual, ‘intermediate solutions’. World Bank Group, 2020, Re-thinking the Approach to Informal Businesses Typologies, Evidence and Future Exploration. <https://openknowledge.worldbank.org/handle/10986/34926>

⁸⁶ A 2021 IMF report states that, “Reducing informality over time is essential for sustained and inclusive development, but this process will inevitably have to be gradual, given the importance of informal activities to the livelihoods of billions of people currently”. See IMF, 2021, The Global Informal Workforce: Priorities for Inclusive Growth, July Eds: Corinne Deléchat and Leandro Medina. Cited in UNDP Informal Economy (IEF) Draft Framework Document, 2022 (unpublished)

⁸⁶ See the list of policy areas in ILOGC resolution 204 (2015), sections III, IV and V.

economy have real business acumen, creativity, dynamism and innovation, and such potential could flourish if certain obstacles could be removed. The informal economy could also serve as an incubator for business potential and an opportunity for on-the-job skills acquisition. In this sense, it can be a transitional base for accessibility and graduation to the formal economy, if effective strategies are put in place.'

As stated in the introductory section of this report, UNDP's work on the informal economy is not primarily focused on formalization, which is generally recognised to be a complex and gradual process; but on measures and processes which can help improve the quality of jobs and employment across the spectrum of the employed, with a focus on the more disadvantaged on the labour market. Transitions to formality may be part of this, and indeed may be the desired end goal, but there may be also some intermediate steps which can be taken to improve the quality of jobs for selected target groups, and to help ensure respect for the rights of workers in both the formal and informal economies. In short, promoting improvements in the quality of jobs and access to social protection rights across the employment 'continuum' should be the main focus.⁸⁷

5.2 Tax Regimes and Registration

All three countries included in this study are at various stages of engagement in ILO-led discussions on formulating national strategies for promoting transitions to formality. However, prior to these discussions, some actions had already been taken, reflecting on the whole policy approaches which focus on promoting formal registration, and on streamlining administration and reducing tax burden for the self-employed categories.

Kyrgyzstan already implemented an "Action Plan to Reduce Informal Economy in the Kyrgyz Republic 2015-2017". In practice, the focus was on simplifying business registration and reducing costs of registration for the self-employed and own account workers. In 2006, the so-called 'patent' system was introduced and has resulted in a striking increase in the share of individual entrepreneurs among the total employed population. In fact, it has been the main source of new employment creation since 2010.⁸⁸ The patent is a simple fee-based certificate allowing an individual to operate formally up to a given income threshold. In the garment sector the threshold is 75 people, and in others it is 35. Patent holders are subject to lower tax rates, less taxes, and smaller social insurance contributions: for this category, tax rates are 2.6% and there is no VAT or sales tax. Social security contributions are 6% of the average wage, and there are limited reporting and bureaucratic requirements. In contrast, enterprises contribute 17.25% of the wage fund, and 10% of the average wage.⁸⁹ A 2019 ILO national survey of 500 SMEs found that 50% were operating on the basis of the patent system.⁹⁰ Those operating on the

⁸⁷ See for example the concept note for UNDP's Informal Employment Facility (IEF) (2020, unpublished): 'human well-being and rights should remain at the forefront of policy efforts dealing with economic informality, with a focus on securing sustainable livelihoods and decent working conditions for the men and women who rely on the informal economy, even if 'formalization' is not achieved.'

⁸⁸ See Transition from informal to formal employment: extension of social protection schemes (maternity and un-employment) in Kyrgyzstan. ILO 2023; and OECD 1021. Informality and COVID-19 in Eurasia: The Sudden Loss of a Social Buffer.

⁸⁹ Cited in ILO, UNICEF, WB, WFP (2023). Comprehensive Assessment of the System of Social Protection of the Population in the Kyrgyz Republic based on the ISPA CODI tool. Draft.

⁹⁰ Business Association JIA (with technical support from ILO) 'Sozdanie spravedlivoi ekonomiki i ukreplenie nashei strany', Bishkek 2021; OECD 1021. Informality and COVID-19 in Eurasia: The Sudden Loss of a Social Buffer; UNDP Kyrgyzstan Policy Note on Informality, 2020.

basis of the patent system are less likely to be registered with the national pension scheme (84% of registered enterprises, compared to 36% of those operating with a patent)⁹¹. Apart from lower tax rates, patent holders do not have to have formal accounting procedures. Enterprises have to report monthly to the Social Fund, while patent-holders do not.⁹² More clarity is required on how the regulations on the patent are applied to agricultural smallholders (dekhan farmers).

Both Tajikistan and Uzbekistan have variations on this patent regime. In Tajikistan in 2020, of a total of 315,369 officially registered micro, small and medium enterprises (MSMEs), only 6% were small or medium enterprises: the rest were individual entrepreneurs operating either under the ‘patent’ system (33%), or with a certificate (10%), or as small dekhan farmers (49%).⁹³ This implies that dekhan farmers operate under a regime that is similar to but not exactly the same as the patent system. However, more investigation is required in order to understand how the patent system is applied/ affects the different categories of small agricultural producers. The Tajik example suggests that there is a separate registration procedure/ certificate for ‘dekhan’ farmers, suggesting slightly different procedures and regulations. From the discussion on employment data above, it would appear that those with small plots who do not register formally as dekhans would appear not to be counted as employed, whether informal or formal.

Uzbekistan introduced a new self-employed status in July 2020, possibly as part of the reaction to COVID-19 and its impact on the informally employed. Those registered within this category do not have to pay income tax but only a ‘social’ tax. More than 100,000 people were reported to have registered as self-employed in the two weeks following this reform. A Presidential Decree ‘On Organizational Measures to reduce the shadow economy and improve the efficiency of tax authorities’ was also issued in October 2020. The Decree establishes a Department for the Analysis of the Shadow Economy under the Ministry of Economy and Finance (previously the Ministry of Economic Development and Poverty Reduction). It tasks the Department to design and implement digital methods to tackle corruption and informal activities; to create favourable conditions for formal businesses by providing assistance in getting permits, registration, simplification of the tax system etc.

Patents have stimulated the growth and semi-formalisation of individual entrepreneurs. Although they may be legally obliged to pay social security contributions, there is no information on compliance rates, and the extent to which these obligations are enforced. Any workers hired by those operating on a patent are not offered workplace guarantees. The incentive is for entrepreneurs to remain under the simplified ‘patent’ regime to reduce the costs of tax accounting and tax payments. Even if they grow, they may still organise part of their activities in the informal economy or split up their firms. The system encourages businesses to stay small and discourages the leap into SME status. And while patent holders may be registered, there is no registration of any undeclared informal workers who they may employ. This appears to be true also for the agricultural sector, where dekhan/ smallholder farmers are

91 ppt (unpublished) on Survey of Enterprises in Kyrgyzstan, 2019. Gustavo Rinaldi and Bruno Viale. See also OECD (2020), Supporting Firm Creation and Growth through Business Development Services in Kyrgyzstan, OECD Publishing, Paris. <https://www.oecd.org/eurasia/competitiveness-programme/central-asia/Supporting-Firm-Creation-and-Growth-through-Business-Development-Services-in-Kyrgyzstan-ENG.pdf>

92 ppt (unpublished) on Survey of Enterprises in Kyrgyzstan, 2019. Gustavo Rinaldi and Bruno Viale.

93 Cited in Impact of COVID-19 on Lives, Livelihoods and Micro, Small and Medium-sized Enterprises (MSMEs) in Tajikistan. Shukrat Mirzoev and Nezhat Sedaghat, UNDP 2020.

registered formally, but seasonal workers are predominantly hired informally (see section 4 above).

5.3 Social Protection

“ *We have a permanent job, we take vacations. We are not afraid that there will be no work in winter, we have a permanent salary, pension is accrued. We got a job under an employment contract.*

”

Formal employee representative, FGD in Issyk-Kul province, Kyrgyzstan

Since one of the main pre-conditions for decent work is access to formal social protection systems and guarantees, it is important to try to unpack what this implies in the case of the rural workforce in Central Asia. The main purpose of national social protection systems is to ensure that over the life cycle all those in need have access to basic income security. In practice, this is guaranteed through three main pillars: (i) non-contributory tax- financed benefits in cash or in-kind (social assistance); (ii) contributory schemes (social insurance, such as old-age pension schemes and unemployment benefits); and (iii) tax-funded labour market policies and programmes to promote employment and skills development. Ideally, these types of programmes should be supplemented by a network of local community care services, and local professional social workers who can work on establishing the appropriate mix of cash and care services for vulnerable individuals and households in order to facilitate their social and economic inclusion.⁹⁴

ILO Resolution 204 (2015) on the transition from informal to formal economy makes several recommendations regarding social protection, including:

Through the transition to the formal economy, Members should progressively extend, in law and practice, to all workers in the informal economy, social security, maternity protection, decent working conditions and a minimum wage that takes into account the needs of workers and considers relevant factors, including but not limited to the cost of living and the general level of wages in their country.

Through the transition to the formal economy, Members should progressively extend the coverage of social insurance to those in the informal economy and, if necessary, adapt administrative procedures, benefits and contributions, taking into account their contributory capacity.

The three countries covered by this study have quite well-developed national protection systems, with programmes under the three categories listed above. However, gaps in coverage and adequacy are evident in all stages of the life cycle. Most relevant to the focus of this report are the gaps in coverage social insurance benefits which are linked to formal employment, namely access to old age pension schemes, maternity benefits, unemployment benefits, sick leave and work injury benefits.

Old age pensions represent the largest social insurance scheme in terms of coverage and budget expenditure. Contributory state pension schemes based on the length of working service and previous

94 Social Protection for Rural Populations in Europe and Central Asia. Priorities for FAO. FAO Budapest, 2022.

earnings are available; and for those who have insufficient or no contributory record, social (minimum) pensions are paid from the state budget. The problem is that there are growing numbers with limited contributory records, in large part due to the large numbers working informally, creating problems for the financial sustainability of pension funds, and a growing burden on the state budget to compensate through payment of social pensions. These problems are likely to increase as the share of the elderly population grows (see section 2). As outlined above, there are reduced social security contribution rates offered to small farmers (and to those in other sectors operating on the patent system or variations thereof) which are designed to incentivise and make possible participation in the pension schemes. In practice, however, they give contributors the right to pensions which are low in size or equal to the statutory minimum pension. This in turn tends to reduce or eliminate the incentive to participate.

Rural women are more likely to work as contributing family workers, for whom access to social insurance schemes is rare. They may have voluntary access to pension schemes, but their contributory capacity – i.e. ability to make regular monthly contributions – is likely to be low. Moreover, they are likely to have fewer years of contributions because of breaks for childcare purposes, meaning that they will inevitably have a low size of pensions once they reach retirement age.⁹⁵

In practice, coverage with old age pensions is universal or almost universal, due to the fact that those with no contributory history are entitled to tax-funded social pensions. However, coverage of the working age population with other social insurance benefits such as unemployment benefits and maternity benefits is low. Very few working adults have access to unemployment support, whether in the form of unemployment cash benefits, or in the form of active labour market programmes. In Kyrgyzstan, for example, under the current legislation 60.5% all women and men in the labour force are entitled to protection against unemployment through the social insurance system, but in 2021 there were just 360 recipients of unemployment benefits,⁹⁶ and the share of the unemployed receiving unemployment benefits was estimated at 2.7%.⁹⁷ In rural areas, the self-employed/ own account workers in agriculture can be automatically excluded if they have a plot of land, regardless of whether they have the capacity to earn income from the land.⁹⁸

Another major gap is coverage and adequacy of maternity benefits. Existing legislation in Kyrgyzstan envisages employer liability to pay the first 10 days or more of maternity leave. In Kyrgyzstan, the ratio of the number of women receiving maternity benefits to the number of women giving birth in the same year is approximately 22.2% although the legal framework provides for coverage of all women by maternity benefits, either through social insurance or social assistance.⁹⁹ Rural women are even less likely than their urban peers to benefit from formal maternity leave rights, due to informality and/or employment as contributing family members in rural employment. When available, benefits are low. In Kyrgyzstan in 2021 the average monthly maternity benefit was 2,531 soms, which was equal to 36

95 See discussion in *Social Protection for Rural Populations in Europe and Central Asia. Priorities for FAO*. FAO Budapest, 2022.

96 Data from the Ministry of Labour, Social Security and Migration of the Kyrgyz Republic.

97 ILO, UNICEF, WB, WFP (2023). *Comprehensive Assessment of the System of Social Protection of the Population in the Kyrgyz Republic based on the ISPA CODI tool*. Draft.

98 See discussion in *Social Protection for Rural Populations in Europe and Central Asia. Priorities for FAO*. FAO Budapest, 2022.

99 ILO, UNICEF, WB, WFP (2023). *Comprehensive Assessment of the System of Social Protection of the Population in the Kyrgyz Republic based on the ISPA CODI tool*. Draft.

per cent of the subsistence minimum for an able-bodied person, or 12.5 per cent of the average wage.

There is limited investment in, and capacity to, deliver Active Labour Market Programmes (ALMPs). In Kyrgyzstan and Uzbekistan, they are mainly limited to public works programmes and vocational training. However, the public works schemes are not usually combined with skills development or other programmes which could help the jobseeker in the longer run to access higher skilled employment. Public Employment Services (PES) are present in every district, but do not enjoy the trust of jobseekers or employers, and their tasks are seen as being limited to matching vacancies and jobseekers. Their offer is not tailored by being based on profiling of the territory and of job seekers; and in general they do not have the capacity to manage and implement more complex active labour market programmes. The size of the unemployment benefits is in any case too low to make it worthwhile spending time to register with the PES.¹⁰⁰

Apart from social insurance, it is worth pointing out that there is also evidence of rural populations being penalized when applying for budget-financed targeted social assistance for the low-income. Although poverty rates among the rural populations have traditionally been higher, coverage of rural households that own agricultural land larger than a certain limit (circa 0.5 ha) are *a priori* not eligible for targeted means-tested social assistance schemes, whether or not the land is productive and the family capable of using the land productively. This is because the schemes use formulas which overestimate the potential income that agricultural land and/or livestock can generate, due to weak productive capacity or lack of links to supply chains.

What is striking is that although rural populations have higher poverty risks and are also exposed to various hazards at work as well as to the risks associated with climate change and associated extreme weather events, degradation of natural resources on which they are dependent for their incomes, there is very little insurance protection or tax-funded social assistance available to them. There is little discussion on how to make existing social protection nimbler, adaptive or shock responsive, particularly for rural populations; and on how to complement them with forms of agricultural insurance which are designed and affordable for small agricultural units.

100 Saltanat Kudaiberdieva, How is the labor market of Kyrgyzstan adapting to new conditions?, CABAR, date of publication: June 17, 2021, available at: <https://cabar.asia/en/how-does-the-market-of-kyrgyzstan-adapt-to-new-conditions>



In Jalal-Abad, Kyrgyzstan, UNDP's mentorship programme for women entrepreneurs creates opportunities for natural chocolate production, generating decent jobs. Photo: UNDP Kyrgyzstan

6. Policy and Programmatic Implications

“

It would be good to go to an official job, but there is nowhere to work. There are no official jobs in our field.

”

Informal worker, FGD in Sughd province, Tajikistan

6.1 Key Findings

The literature review and survey results point to the following broad conclusions:

Structural Constraints on the Supply of Decent Jobs

- There are structural features of the national economies which have contributed to shortfalls in the supply of decent jobs and the prevalence of small firms, self-employed, and individual entrepreneurs (including small farmers), often working in the informal or semi-informal economy. Blurred lines between state and private sector activities which have also hindered job creation in the formal sector. There are few off-farm formal employment options for rural populations leading to a reliance on subsistence farming, public sector employment and unprotected migration.

- Demographic trends mean that there will be significant supply pressure on labour markets for the foreseeable future, with some forecasts predicting the need for a 50% increase in the number of jobs available. Significant contingents of young first-time entrants will be joining the labour force annually for the foreseeable future. At present they have few choices beyond informal self-employment or migration.
- Migration is not only a rural phenomenon, but the higher poverty risk in rural areas, coupled with lack of investment and low prioritization of support for smallholder farms have been major push factors for labour migration from rural areas. The ongoing implicit reliance on migration and remittances to relieve the supply-side pressure on rural labour markets is creating additional distortions in that it discourages uptake of jobs at wages which the local private and public sectors can offer. It is therefore acting as a hindrance to the expansion of local formal sector employment. It also discourages workers from making investments in improving their education and skills.
- The structure of the economies is such that formal sector jobs are concentrated in the public sector, and in large capital-rather-than-labour-intensive large enterprises. Job creation occurs mainly in small informal or semi-formal units, which have little incentive or capacity to grow. Improving the availability and quality of employment opportunities requires incentives and support for small individual entrepreneurs in agriculture and non-agricultural sectors to expand and take the leap into SME status, where there is more chance that they can create productive, safe jobs at decent wages. This implies not just simplified business registration and tax systems, but improved access to finance, availability of affordable support services/ ecosystems, and tackling corruption.
- Lack of jobs coupled with the growing reliance on migration and remittances have contributed to stagnant or falling labour market participation rates for women and youth. For women, these have been compounded by the growing and persistent influence of social norms which mean that the bulk of care and domestic duties fall on women. Given the prevailing norms regarding the number of children per family, the limited availability of public childcare facilities for pre-school children, as well as the steady growth in the elderly population, there is little sign that care burdens within households will diminish.
- It is in practice difficult to separate measures to tackle informality in the agricultural sector and agro-industries from informality in other sectors and in urban areas. Lack of decent jobs in rural areas has fed urban informality. Solutions for the continuing supply pressure on rural labour markets will have to be partly or mainly sought in formal employment in non-agricultural sectors. For most working age citizens – whether they are resident in rural or urban areas - the only alternative to informality at present is formal public sector employment.

Data and Knowledge Gaps on Informality in Agriculture

- Currently it is difficult to access annual data on informal employment, and to make cross-country comparisons, and even ‘vertical’ comparisons within countries across different years. There is insufficient or inconsistent data available to inform policies/ strategies and to monitor their impact. Countries do not consistently use ILO definitions. In agriculture

there is a blur surrounding definitions and the extent of formality among small farmers. It is not clear how many work informally, and for how long. In the case of Tajikistan, these latter a large share of agricultural workers are not classified as employed, i.e. not considered to be part of the labour force. There is a risk that this makes them more invisible for policy makers.

Formal versus Informal Employment Options

- Improvements in the supply and the quality of formal employment opportunities – in any country context - will be a long and gradual process, and are only feasible if reflected in an overarching high level strategy reflecting political will to invest in agriculture, including smallholder agriculture; to incentivise transitions to formal self-employment and beyond including in non-agricultural sectors; and to move away from the ongoing reliance on migration and remittances as the main means of easing the supply pressure on rural labour markets. Expectations regarding a short-term reduction in informal employment and informal activities are not realistic, and are unlikely to go beyond formal registration.
- For many, choices on employment are made on the basis of individual preferences on the basis of options available. Every individual has a complex set of family, geographical and other circumstance characteristics which influence options. The challenge is to find ways in which these options can be improved to help him/her move up the spectrum.
- Public sector employment represents almost the only formal sector option capable of providing jobs which offer security and stability. However wages seem low relative to the importance of the services provided. This may force employees into taking on second jobs in the informal economy. It also risks reducing the quality of public services for citizens.
- There are clear calls for more flexibility in work schedules, quitting/ firing/ hiring regulations in the formal sector. It should be possible to adapt labour market regulations, but also the work culture in the public sector, to allow for more smart working etc. More flexibility in work hours would also mean that women with care duties are not limited to informal employment options.

Social Protection Needs in Rural Areas

- Rural households tend to diversify their sources of income, and rely on a mix of small-scale farming, remittances, wage labour in agriculture or non-agricultural sector, casual seasonal work, and income from pensions. Of these, those engaged in seasonal agricultural employment would seem in many cases to represent a group in particular need of support, protection, representation, and channels to ensure that their rights are recognized and enforced.
- There are some specific barriers faced by rural populations in accessing their social protection rights; for example their right to targeted social assistance benefits for the low-income. Coverage with, and adequacy of, social protection benefits for the working age population tend to be low. This is partly due to a lingering attitude among policy makers that access to cash support in particular can cause passivity and dependency. Pension coverage for the elderly is good, but lower contribution rates leading to lower pensions

in the end discourage participation in contributory social insurance schemes for the self-employed and own account workers. There is however evidence that participation could pick up easily, due to the overall level of respect for the pension system and pension rights.

6.2 Entry Points for Policy and Programmatic Support

As mentioned earlier, while formalization may be an end aim, improvements in the quality of employment can in the interim be made across the diverse spectrum of formal and informal employment. Here it makes sense to aim at promoting graduation of different groups in the job or employment continuum to the ‘next stage’, perhaps identifying and concentrating on those within the ‘subsistence informality’ and ‘induced informality’ categories set out in Box 2, as these categories are those with less choices. The following sub-sections provide recommendations in areas where future UNDP support could be provided, and where UNDP potentially has some comparative advantage.

Improved data, including gender-sensitive data on informality in agriculture

There should be advocacy and support provided for establishing clearer national definitions of formal and informal employment, overall but especially in agriculture. These may or may not conform to ILO definitions but should be clearly defined and used consistently. As noted above, within agriculture, it seems that currently small farmers (dekhan farmers) registered as a legal entity are considered as formal, and those who are not registered are informal. However, more information is required on what formality in this case (registration) actually implies, especially in terms of accessing social protection and work safety rights. It not easy to locate data on the share of dekhan farmers who are registered; and on the share of these and their contributing family members who are actually contributing to national social insurance schemes.

All in all, there may be a need to define different levels or stages of informality for rural entities (e.g. including those who are formally registered, but not contributing to social security on a regular basis). The categorization of small farmers (presumably non-registered) in Tajikistan should be clarified, as they risk being totally invisible for analysts and policy makers dealing with employment issues. Ensuring digitalization of and compatibility between national social protection registries, employment registries, and registries of smallholders (farmers’ registries) would also be important for informing work on quantifying and addressing informality in agriculture, and would create the basis for ensuring greater coherence between agricultural and social protection policies and in programming work aimed at improving the quality of rural employment.¹⁰¹

There is also a need for more regular and consistent data on women’s work in agriculture, the share of women who are land-owners or home-owners, and time use. There is currently some discussion going on at the global level regarding the automatic categorization of contributing family members as informal workers.¹⁰² This should be followed and adapted to national contexts.

¹⁰¹ As recommended in Social Protection for Rural Populations in Europe and Central Asia. Priorities for FAO. FAO Budapest, 2022

¹⁰² Defining Informality for Contributing Family Workers. ILO Department of Statistics, 2022. https://www.ilo.org/wcms-sp5/groups/public/---dgreports/---stat/documents/meetingdocument/wcms_867428.pdf

Leveraging digital technologies to facilitate transitions of small informal businesses to formality

An important part of any strategy to improve the supply and quality of employment is the provision of incentives and support for small individual entrepreneurs to expand and take the leap into SME status, where there is more chance that they can create productive, safe jobs (on- and off-farm) at decent wages. This in turn implies simplified business registration, tax systems, bureaucracy, access to finance, support services/ecosystems, and tackling corruption.

All of these can potentially be enabled through ongoing processes of digitization and digitalization – so-called ‘e-formalization’ measures - which can be harnessed to increase transparency (reducing corruption) and speed up bureaucratic processes related to registration, tax compliance and making social insurance contributions.¹⁰³ While these will not remove those disincentives associated with the additional costs of making tax and social insurance contributions, they can definitely help address employers’ complaints regarding the complicated ‘interactions’ with social security authorities (which in the survey results in some cases were more frequently cited than the costs).

There is in fact a growing literature on how digital technologies can be leveraged to leapfrog barriers to formalization.¹⁰⁴ Mobile money services can facilitate inclusion into formal financial systems, enabling an increase in savings.¹⁰⁵ Moreover, if digital wallets are used to make and receive payments, they leave financial footprints which open up opportunities for additional financial services (insurance, credit, and savings). Digital identification systems can streamline access to various automated services, without having to go through laborious processes of providing evidence of identification.¹⁰⁶ Global micro-finance schemes are expanding the products available to individuals and small businesses, including in Kyrgyzstan, Tajikistan and Uzbekistan.¹⁰⁷

Lack of offer and availability of credit and loans for MSMEs is often due to the higher costs faced by lenders to assess creditworthiness and process loans. The amounts tend to be relatively small, but the processes are the same. Lending is riskier and less profitable. Digital microfinance products coupled with digitalization of business processes have opened up alternative sources of data which can be speedily accessed and used to assess creditworthiness. Use of digital payment systems create digital records of payments which in turn provide evidence of cash flow and income and can be used to calculate repayment capacity. Sales through digital e-commerce platforms also provide evidence of income and cash flows.¹⁰⁸ Overall, digital financial services have the potential to make lending faster through automation of on-boarding, underwriting, due-diligence and collection of payments.

¹⁰³ See discussion in Scoping Note. MSME/Informal Sector. UNDP G20 Indonesia, 2022 (unpublished); and *Renewing the Social Contract through E-formalization in the World of Work*. ILO 2021.

¹⁰⁴ *Fintech and SME Finance: Expanding Responsible Access*. World Bank Group 2022. *Renewing the Social Contract through E-Formalization in the World of Work*. ILO 2021.

¹⁰⁵ See for example M-PESA, a mobile phone-based money transfer service, payments and micro-financing service, launched in 2007 by Vodafone and Safaricom, the largest mobile network operator in Kenya. It has since expanded to Tanzania, Mozambique, DRC, Lesotho, Ghana, Egypt, Afghanistan, and South Africa. See <https://www.safaricom.co.ke/personal/m-pesa>

¹⁰⁶ One example can be found at <https://www.kiva.global/protocol/>

¹⁰⁷ *Fintech in Europe and Central Asia: Maximizing Benefits and Managing Risks*. World Bank Group, Fintech note no.4, February 2020. <https://openknowledge.worldbank.org/server/api/core/bitstreams/3cf7bb28-19b1-542c-bcb7-6d7835812af8/content>.

¹⁰⁸ *Fintech and SME Finance: Expanding Responsible Access*. World Bank Group 2022.

From the point of view of the borrower, digital services can help overcome the barrier of not having sufficient collateral or a lack of credit history. Many MSMEs do not own property but own moveable assets. There are new fin-tech enabled asset-based lending products, which are more affordable for both customers (MSMEs) and lenders.

There are however certain pre-requisites which have to be met in order to reap the benefits of e-formalization. These include the availability and accessibility of digital infrastructure, and appropriate legal safeguards and compliance with international standards regarding data privacy. Digital literacy is also required to allow the more disadvantaged to take advantage of new opportunities. Finally, changes to regulatory frameworks are needed to protect data and consumers, and provide safeguards against fraud and breaches of privacy.

All three countries have invested/are investing in expanding digital infrastructure and have adopted national E-governance strategies. A survey of informal businesses carried out by UNDP's Accelerator Labs showed that small informal businesses – particularly after the COVID lockdowns – are increasingly using digital tools to run their businesses. Approximately 80% of the informal businesses sampled in Uzbekistan were already using digital tools, albeit quite basic ones, such as Facebook and Whatsapp.¹⁰⁹

There is potential for further promoting transitions to the use of digital financial services and mobile phone technology in rural areas,¹¹⁰ particularly as the latter is quite widespread in the three countries. Use of digital financial services through mobile devices lowers transaction costs and provides broad access to simple products. Given the low level of trust in traditional banking services, the further diffusion of mobile phone-based money transfer services and financing platforms, may be of relevance. Public-private partnerships can help improve mobile phone and internet access to ensure expansion of, and access to, digital infrastructure, as a pre-requisite for harnessing digitalization.

Improving access to Social Protection for Rural Populations

It was noted above that rural populations can face special barriers to accessing social protection, including social assistance. It could be worthwhile working with national and international partners on further documenting the particular barriers faced by rural populations, as a basis for informing ongoing social protection reforms.¹¹¹

As indicated in the section above, digitalization could act as an enabler to overcome some of the barriers. For example, automated systems with single window access (one portal to access all social protection schemes, i.e. automation of front office services), digitalization of back-office administration processes, coupled with automated digital identification systems should help simplify administration,

109 How is the Digital Transformation Affecting Informal Businesses in the Global South? Eduardo Gustale and Alberto Cottica UNDP Accelerator Labs. <https://zenodo.org/records/7965970>

110 <https://assets.kpmg.com/content/dam/kpmg/kz/pdf/2020/12/Overview-of-Fintech-Development-in-Central-Asia.pdf>; Fintech in Europe and Central Asia: Maximizing Benefits and Managing Risks. World Bank Group, Fintech note no.4, February 2020. <https://openknowledge.worldbank.org/server/api/core/bitstreams/3cf7bb28-19b1-542c-bcb7-6d7835812af8/content>

111 See for example the categorization of barriers used in ILO & FAO. 2021. Extending social protection to rural populations: Perspectives for a common FAO and ILO approach. Geneva, Switzerland. <https://doi.org/10.4060/cb2332en>

reduce fraud, lead to cost efficiencies, make receipt of payments easier, reduce transaction costs, etc. Again, for these to have full impact, they would have to be accompanied by measures at the local level to ensure that lack of digital literacy does not become an additional barrier for the more vulnerable to access social protection; and to ensure that the necessary data protection measures are in place and operational.

From the survey results, those hired workers reliant on income from seasonal agricultural employment emerge as a group facing gaps in social protection and other rights. Here it may be worth investigating whether the various ‘voucher’ schemes used in Europe could be of relevance. These schemes partially or fully formalize temporary employment in agriculture, by simplifying and digitalizing the contracting procedure. This makes formalization easier for employers, as they do not have to draw up monthly contracts, when the work is dependent on weather conditions and therefore unpredictable and there is no guarantee that the labour will be needed every day for one month. Vouchers can be purchased through government schemes, although not necessarily administered or delivered through government bodies. The vouchers cover daily pay and social insurance. The vouchers can be purchased only for seasonal and occasional work in agriculture. They can only be used for work that lasts less than a certain number of days per year and do not supersede a certain amount of wage income in any year. In addition, related regulations can ensure that the worker is protected by a number of regulations regarding the minimum daily wage, the maximum number of working hours per day and the entitlement to rest periods. The following example is from Croatia. Similar systems exist in France (CESU), and Belgium, but mainly in the case of temporary home-based employees. More information is required on the means used to enforce regulations regarding working hours, rest periods etc; as this presumably requires additional work by the Labour Inspectorates of the Ministries of Employment.

Box 3: Vouchers for Seasonal Agricultural Workers: the Example of Croatia

The employment contract for seasonal and occasional work in agriculture must be concluded before the worker commences working (i.e., by accepting the Enterprise voucher). The content of the contract is regulated (Regulation on the Content and Form of the Contract for Seasonal Work in Agriculture) and cannot be changed based on a different agreement between the employer and seasonal worker. The contract has the form of a booklet with specific details, namely:

- Year of agreement and information about the seasonal worker
- Day, month and year of work;
- details about employer;
- details about the wage and payment methods;
- space for attaching vouchers.

The minimum daily wage paid for this type of contract is regulated on a yearly basis. The back page of the booklet includes the contract regulations: (1) the workday cannot exceed 12 hours; (2) the worker is entitled to a minimum 30-minute break in each workday if the work is more than 6 hours per day, and an uninterrupted daily rest period of not less than 12 consecutive hours in each 24-hour period, and an uninterrupted weekly rest period of not less than 24 consecutive hours in each seven-day period, and (3) the length of employment of a seasonal worker in agriculture cannot be longer than 90 days within a calendar year.

When commencing the respective work, a seasonal worker is required to have the seasonal employment contract with them.

The seasonal work does not have to be conducted continuously (i.e., the 90 days of work can be conducted with interruptions).

The seasonal employment contract is concluded by adding Enterprise vouchers in the contract/ booklet. Whilst the Enterprise vouchers are purchased from the Financial Agency (Fina), the worker is paid directly via bank account or cash (as stipulated in the contract/ booklet).

At the end of the year, the booklet is submitted by the worker to the Croatian Pension Insurance Institute for calculating their pension contributions.

The above schemes may guarantee access to formal social insurance pension schemes, but they will still result in a small/inadequate pension size, and limited access to other social protection rights. For this and other categories of rural workers, it could therefore be worthwhile exploring options of alternative insurance products on the global digital financial services market, which offer pension, unemployment and sickness insurance, as well as insurance for rural workers against environmental events/ shocks.¹¹² The FAO, for example, has done some work (at the global level) on looking at how agricultural insurance can be linked to social protection.¹¹³ More work is required to devise and pilot scalable schemes suitable for the given national contexts.

“ *There is no stability, there is work today, and there is none tomorrow, so there is no guarantee that there will always be earnings. Anything can happen: natural disaster, crop failure. And in such situations, we are not protected. That’s bad.*

”

Formal worker, FGD in Sughd province, Tajikistan

Apart from its more traditional protective and preventive roles, social protection – if appropriately designed and financed - also has the potential to play a ‘promotive’ role. The promotive role is usually performed by measures which can assist those eligible for social assistance to gain the skills, information or assets to help them access productive jobs and improve their situation over the long term. Promotive measures commonly take the form of active labour market policies (ALMPs), and may include access to microfinance.¹¹⁴ There has recently been some experimentation in Kyrgyzstan with ‘cash plus’ programmes for recipients of targeted social assistance benefits in rural areas, whereby additional types of non-cash support are provided to the recipients, provided they sign up (on a voluntary basis) to a type of ‘social contract’.¹¹⁵ The cash plus scheme piloted in Kyrgyzstan with support from the FAO included support aimed at improving nutrition for household members, as well as measures to improve the capacity of the households to make use of their small plots to produce more and better quality products for self-consumption and potentially for sales on local markets. There have also been experiments along the lines of ‘activation’ programmes, whereby adult members from low-income families are offered grants to help them take up self-employment activities. In Uzbekistan, for example, several programmes targeting young people and women were introduced at the beginning of 2018. Approximately US\$1.3 billion worth of ‘soft’ loans were allocated covering more than 600,000 families within the framework of the programmes “Every family is an entrepreneur”, “Youth is our future” and

112 Over roughly the past 20 years, the number of weather-related disasters in Kyrgyzstan has increased six times, with 70% of the events occurring in the southern regions. In 2016, weather related emergencies caused approximately US\$23 million damages. See FAO Green Climate Fund Feasibility Study, 2017; also Programma razvitiya ‘zelenoi’ ekonomiki v Kyrgyzskoi Respublike na 2019-2023 gody.

113 See Protecting Livelihoods. Linking agricultural insurance and social protection. FAO 2021. <https://www.fao.org/3/cb2690en/cb2690en.pdf>

114 For more details on the definitions and potential roles which social protection can play, see Social Protection for Rural Populations in Europe and Central Asia. Priorities for FAO. FAO Budapest, 2022.

115 See for example the FAO supported cash-plus programme piloted in Kyrgyzstan: <https://www.fao.org/3/cc2702en/cc2702en.pdf>

other programmes aimed at promoting micro-entrepreneurship.¹¹⁶

The problem is that these types of programmes are currently implemented in the absence of long-term support or eco-systems for the self-employed; and/or against a background of underdeveloped local social support services, and a lack of a qualified social workforce to work with families and individuals on determining the right mix of the available financial and non-financial support which could to help them exit from poverty on a sustainable basis. These schemes sometimes seem to be driven more by the desire to reduce budget expenditure on social assistance, rather than to increase investment in the capacity of social protection to help ‘promote’ recipients into improved employment status and improve living standards over the longer term. For example, the current (revised) version of the cash plus programme in Kyrgyzstan leads to disqualification for child benefits for those households signing up for the scheme. The approach of making social assistance more effective by linking it with additional support is a positive one, but such support should be complementary to the other – in this case low-income child benefits - and not replace them. They should be seen as a medium-long term investment, rather than a short-term means of reducing the number of social assistance beneficiaries.

In order to make this cash-plus type of support work for the rural poor, better coordination is required between three key services available at the local (district) level, namely public employment services, agricultural extension services and social protection units. These could provide the basis for the introduction of integrated case management for rural clients. However, there is currently under-investment in all of these services. The presence at the local level of qualified professional social workers is also necessary to ensure that the needs of individuals and households are evaluated, that they are directed to the available services, and that coaching and follow-up is available. Non-public service providers can and do help in the delivery of social services and labour market service provision in the three countries. However, there is still much untapped potential for local rural-focused non-public service providers (such as NGOs and cooperatives) in delivering a range of social care services, ALMPs and state-subsidized extension services. More work is required to work on the details of how such collaboration could be realized, piloted, and made available on a sustainable basis. In practical terms, it would require, for example, the adaptation of legal frameworks regarding service procurement criteria, coordination on service quality standards, performance indicators and other procedures.¹¹⁷

Protecting and Empowering Women Workers

Women workers in rural areas have particular needs and vulnerabilities, and support to reverse declining patterns in female labour force participation will require a special set of measures. It has been argued that remittances are one factor discouraging female employment at current wage rates. However, on the demand side, employer liability for maternity during the first 10 days of maternity leave represents a barrier to hired female labour in the formal sector. In practice few women have access to maternity benefits, and the amount of benefit is low. Support should be provided for current

¹¹⁶ Uzbekistan Poverty Reduction Paper 2021-2030. Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, the United Nations Development Programme, the World Bank, the United Nations Children’s Fund and the World Health Organization, 2022. See also Papa J., Hamdamov H. (ILO); Aliev U., Oleinik Yu. (UNICEF); Sukhova A., Honorati M. (World Bank), Novikova M., Yusupov Kh. (World Bank). (2020) An assessment of the social protection system in Uzbekistan, Based on the Core Diagnostic Instrument (CODI). A joint report by ILO, UNICEF, and The World Bank.

¹¹⁷ See discussion in Social Protection for Rural Populations in Europe and Central Asia. Priorities for FAO. FAO Budapest, 2022

moves towards reforms within social protection to remove employer obligations to cover the first 10 days of maternity payment. An alternative proposal has been put forward in Kyrgyzstan, for example, whereby all maternity benefits should be paid by the state at a basic rate, and those who are in formal employment with social security contributions should be entitled to a top-up to the basic benefit, and possibly to slightly longer leave periods.¹¹⁸

Women in rural areas who do have pension rights, are more likely to have small pensions as the time spent for full-time care duties or other forms of unpaid work is not or incompletely recognized. Within ongoing discussions on social protection reforms, more attention should be paid to providing compensation for those engaged in full-time care (this is sometimes available for full-time carers of family members with disabilities), and to devising proposals which would envisage contributory credits within existing contributory pension schemes to account for time spent on unpaid care.¹¹⁹

The study has shown that public sector employment currently represents almost the only alternative to informal employment. It has also been argued that women are more likely to turn to informal employment, due to the greater flexibility it offers in terms of work schedules, compared to the formal sector and in particular the public sector. However, women also make up the bulk of the workforce in the health and education sectors. (In Uzbekistan, for example, women represent circa 75% of public sector employees in the health, social services and education sectors.¹²⁰) Flexible working hours and where possible hybrid working arrangements would open up more options for formal and informal sector work for women who are trying to balance work with care duties.

However, there is also a need to work towards relieving the care burden shouldered by women. Support to reverse declining patterns in female labour force participation should involve raising awareness on social norms regarding care duties, recognition of the value of care work and its contribution to the national economy, and in parallel development of the care economy. Regarding the latter, there is evidence of a traditionally positive attitude to public childcare, but in practice limited access due to the low number of pre-school places available. In Kyrgyzstan, for example, despite increases in investment in public pre-school education over the past decade, there were places for just 24% of children aged 0-3 years in 2017, and coverage of pre-school for 1–6-year-olds was higher in urban than rural areas. In 2019, the share of pre-school age children (1-6 years old) with places in public structures was twice as high in urban as in rural areas (34% vs 18%).¹²¹ In Uzbekistan 29% of children aged 3-7 years old were in pre-school.¹²² Apart from the lack of infrastructure, there is insufficient capacity to guarantee the required safety and nutrition norms. While advocating for further improvements in public childcare infrastructure, options for establishing or further expanding community child care centres and child development centres should be explored, in coordination with UNICEF. It has been pointed out above that the share of elderly in the populations of the three countries will grow steadily over the coming

118 See CODI assessments for Uzbekistan (2020) and Kyrgyzstan (draft 2023).

119 See for example the UK Carer's Credit scheme, available for those who provide full time care for at least 20 hours per week.

120 Valuing and Investing in Unpaid Care and Domestic Work. Country Case Study Uzbekistan. UNESCAP 2022.

121 Empowering Women Through Reducing Unpaid Work: A Regional analysis of Europe and Central Asia. UNECE UN Women 2021.

122 Valuing and Investing in Unpaid Care and Domestic Work. Country Case Study Uzbekistan. UNESCAP 2022.

years, implying the need for increased investment in care support and services also for this category.

Rights to maternity leave in rural areas are in general difficult to access. However, measures to promote more equal sharing of care duties include ensuring that the relevant legal framework provides for paid gender-neutral parental leave, and that men are actively encouraged to take up paid paternity leave. In general men's involvement in unpaid and paid childcare should be promoted, while also working to create mechanisms to guarantee formal recognition of skills gained through paid and unpaid care work.

Promoting Decent Work

The study has shown that choices on employment – formal or informal - are made on the basis of individual preferences and the options available. Every individual has a complex set of family, geographical characteristics and other circumstances which influence his/her options. The challenge is to help citizens expand their options to help him/her move up the employment spectrum. This may involve encouraging formalization, but not necessarily. Improvements in the quality of employment can, in the interim, be made across the diverse spectrum of formal and informal employment.

Improvements in the quality of employment can be attained through policy and programme work aimed at:

1. support for improving the business climate/environment for entrepreneurship, which can create better jobs for the poor, including policy measures to provide incentives for businesses to create jobs in geographically deprived or labour surplus areas;
2. support for tackling distress employment, which requires a different set of policies, and a key role for integrated public employment and agricultural extension services, with strong links to social protection;
3. support for supplementing national social protection schemes through more flexible insurance schemes to increase the resilience of small agricultural producers, while simultaneously working with partners to promote reforms to existing national social protection schemes to make them more shock-responsive and risk-informed;
4. development of the care economy in rural areas;
5. targeted use of digitalization as an enabler for all of the above.

On the basis of the analysis conducted, some suggestions are made below as to how projects or programmes could measure and monitor the impact of its activities on the quality of employment for those involved. However, a balance will have to be found between guaranteeing certain 'core' guarantees and gradually expanding those which are 'desirable', recognizing that young firms striving to position themselves on value chains and export markets will have to evaluate and gradually expand the amounts they can allocate for workplace improvements and in the social investments needed to improve the quality of employment and productivity of their workforce.

The key characteristics of decent work can be used to provide overall guidelines for establishing a set of 'core' guarantees. As set out in section 2, these can be summarised as:

1. Productive work delivering a fair income

The benchmark for ‘fair income’ would have to be established somewhere between the minimum wage, the subsistence minimum for adults, and average wage for the respective country, and then indexed annually. The minimum wage is not suitable as – at least until recently – it was not sufficient to guarantee a living wage. For example, in Kyrgyzstan in 2022 the minimum wage represented 25% of the subsistence minimum;¹²³ in Uzbekistan in 2017 it was lower than the threshold for eligibility for the low-income benefit.¹²⁴ For monitoring productive work, the returns to labour inputs could be calculated as a benchmark, with the ambition for gradual improvements.¹²⁵

However, it has been seen that rural workers tend to adopt multiple income-generating strategies and calculating a decent living income for small farmers involves factoring in different factors. It would be worth building on UNDP’s ‘living income approach’ which aims at calculating the living income which can guarantee farmers in agricultural value chains with decent income levels. This comprehensive approach involves a combination of economic analysis, social considerations and consultations with various stakeholders to ensure that the calculated income is sufficient for small farmers to have a decent income.¹²⁶

2. Safety in the workplace

The health and safety norms of the labour inspectorates attached to the Ministries of Labour can be used as a benchmark, and if necessary possibly improved upon, using international standards as guidance¹²⁷. Controls by the labour inspectorates may not be regular due to staffing and other issues. However ad-hoc evaluation teams should be able to carry out checks for conformity, while systemisation of the results of such evaluations could also being used to inform the work and reform of labour inspectorates.

3. Access to social protection for workers and their families

As set out above, barriers for rural populations to access existing social protection schemes should be clearly documented, as a basis for advocating for changes to national schemes to increase their capacity to address rural poverty. These should be when possible supplemented by increasing availability and access to agricultural and/or other insurance schemes. Beneficiaries along the value chain should participate in either state or alternative social insurance schemes. For both types of schemes, there is a need to advocate for, and find flexibility in contribution schedules, i.e. they should not be strictly on a monthly basis, but flexible enough to accommodate irregular earning patterns.

4. Social Dialogue Mechanisms

For those employed in small businesses, there should be some institutionalized platform for open

123 ILO, UNICEF, WB, WFP (2023). Comprehensive Assessment of the System of Social Protection of the Population in the Kyrgyz Republic based on the ISPA CODI tool. Draft.

124 Papa J., Hamdamov H. (ILO); Aliev U., Oleinik Yu. (UNICEF); Sukhova A., Honorati M. (World Bank), Novikova M., Yusupov Kh. (World Bank). (2020) An assessment of the social protection system in Uzbekistan, Based on the Core Diagnostic Instrument (CODI). A joint report by ILO, UNICEF, and The World Bank.

125 ILO offers guidelines for calculating the impact of project activities on productivity. See ILO (2017). Measuring Productive Employment: A ‘How-To’ Note. Ilo.org/thelab. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_565180.pdf

126 See UNDP 2020. UNDP’s Food and Agricultural Commodity Systems Strategy 2020-2030. <https://www.undp.org/facs/publications/undp-facs-strategy>

127 ISO and UNIDO (2018). ISO 45001:2018. Occupational Health and Safety Management Systems – A Practical Guide for Small Organizations. <https://www.iso.org/publication/PUB100451.html>

discussion, exchange of opinion, negotiation. This is not only a right, but – as global experience has shown – can also contribute to reduction of a range of decent work deficits.¹²⁸

5. Equal opportunity

This implies equal pay for equal work for men and women, and for ethnic groups. This should be reasonably easy to document. Equal access to career opportunities is more difficult to document, but promotions should be monitored for bias.

The above 1-5 would represent core guarantees. The following should be progressively aspired to in line with financial and other possibilities.

6. Combine work, family and personal life.

This would include access to maternity or paternity leave (as above); access to small creche facilities (to be coordinated and checked with UNICEF to ensure child protection standards); and to the extent possible the introduction of flexible working hours and options for hybrid working arrangements.

7. Provide opportunities for professional and skill development

Access to professional training should be promoted and facilitated, using either the opportunities offered by local colleges, or online courses. Skills training will not resolve the systemic issues which dampen the appetite among young people for investing in skills development (due to the lack of employment opportunities at competitive wages), however may still provide workers with more possibilities to improve the quality of their employment options.

8. Use of digital traceable payments, including wage payments

These will contribute to e-formalization efforts. Overall, to inform their work on employment and social protection, it would be advisable for UNDP in each country to undertake (or update) a digital readiness assessment, in order to establish the state of the enabling environment (infrastructure, legislative framework) and consequently the range of options for e-formalization measures, while also looking at the level of access to digital infrastructure and of digital literacy, as well as mobile technology, especially among rural and more vulnerable categories of the population.

¹²⁸ See ILO 2020. Social dialogue for the Transition from the Informal to the Formal Economy. https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---dialogue/documents/publication/wcms_750495.pdf

Appendix 1. Survey Details

MVector (2022). Survey for assessment of key drivers and barriers for informality and access to decent work in agriculture and agroindustry sectors in three countries of Central Asia (Kyrgyzstan, Tajikistan, Uzbekistan).

The survey sample was drawn from employees and employers in rural populations, agriculture and agro-industries. In each country roughly 100 employers in agriculture or agro-industry were included in the sample; and circa 250 workers, including seasonal workers, mostly in the agricultural sector (82% in Kyrgyzstan, 79% in Tajikistan; 75% in Uzbekistan), but also in agro-industry. Men and women were almost equally represented in the sample. The survey also included two focus group discussions with workers in each country; and 15 in-depth interviews with representatives of national or local government authorities (11 in Uzbekistan).

Sample of workers, agriculture and 'agro-industry'

	Agriculture	Agro-industry
Kyrgyzstan	82%	18%
Tajikistan	79%	21%
Uzbekistan	75%	25%

Sample of workers, men and women

	Men	Women	Total Number
Kyrgyzstan	51%	49%	233
Tajikistan	49%	51%	251
Uzbekistan	63%	37%	241

The majority of the sample of workers were in the 25-54 year age group. The most common education level was general secondary or specialized secondary (the latter in Uzbekistan). Only a small share (10-24%) had higher education, and they were more likely to be in the agro-industry. (at least in Kyrgyzstan and Tajikistan)

Regarding main source of income, among agricultural workers in Kyrgyzstan and Tajikistan, income from own farm is the main source for 31% and 27% respectively. In Tajikistan among agricultural workers, 28% cite remittances as the main source of income. In Uzbekistan, the main source is likely to be income from work as hired labour.

Main Source of household Income of respondent workers (in %)

	Own Farm	Pensions / Benefits	Remittances	Hired Work
Kyrgyzstan	27	7	6	
Tajikistan	22	2	27	
Uzbekistan	6	4	4	43 in agriculture; 23 outside agriculture

Formal and informal employment by gender: In Kyrgyzstan, men and women had an equal probability of being in informal employment. Women are more likely to be informally employed in the agro-industry; and men in agriculture. In Tajikistan, there was a higher share of men in the formal sector in agriculture and in agro-industry. There are more women in the informal sector, especially in agro-industry. In Uzbekistan, there was a higher share of men in formal agriculture in agro-industry and in the informal sector; roughly the same share of women in agro-industry; and more men in informal agriculture. Women workers are more common in the informal agro-industry in Kyrgyzstan and Tajikistan.

The sample of employers was as below. The majority were engaged in agricultural production, or had livestock. The rest produced or supplied agricultural inputs.

	Grow agricultural products (%)	Livestock (%)	Produce seeds, fertilizers, fodder etc. (%)	Supply of raw materials (%)
Kyrgyzstan	58	27	19	
Tajikistan	67		18	27
Uzbekistan	63		21	17

It was more likely that bigger firms hired informally. Those with 0-10 employees tended to register them. The share of employers hiring informal workers was as follows:

Kyrgyzstan: 70%

Tajikistan: 27%

Uzbekistan: 60%

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