


INTERNATIONAL LABOUR ORGANIZATION

POLICIES AND MEASURES ARE ELABORATED IN ORDER TO  
FACILITATE TRANSITION FROM INFORMAL TO FORMAL EMPLOYMENT  
(KAZAKHSTANI MODEL)



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## ACKNOWLEDGEMENTS

The current project has been completed for the technical assignment of the International Labor Organization and within the framework of implementation of the Concept of Decent Work in Kazakhstan through the prism of informal employment decrease. The author wishes to express his sincere gratitude and appreciation to the following people who provided consultations, materials, and information. The work would not have been completed without their support.

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Special thanks the author express Olga Koulaeva and Martina Lubyova for their comments, recommendations and notes which have helped to improve the content and form of this project. The final version of the report could not be completed without valuable recommendations and suggestions Frederik Lapeyre and author express him deep regards and appreciation.

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## INTRODUCTION

Development of policy and measures aimed at facilitating transition from informal to official (formal) employment in Kazakhstan is an extremely crucial issue for Kazakhstan.

Informal employment in the country linked with unemployment and low living standards cause anxiety among the population about the future prospects, as well as distrust in the policies carried out by the government. Informal employment frequently links with lack of social protection, poor health and safety conditions on the work place, working poverty and tax evasion. Absence of registration of labor relationships is also connected with the criminalization of Kazakhstani society. Insufficient attention of the government to the problems of informal employment does not allow getting a clear and complete picture of the issue.

The main objective of this report is to develop recommendations on decrease of informal employment in the Republic of Kazakhstan.

To achieve this objective, the analysis of problems related to informal unemployment, its causes, and specific features are presented in the report. In order to provide systematic and comprehensive argument, the report offers a general picture of employment and socio-economic development in the Republic of Kazakhstan. Problems of informal employment and its causes are discussed further taking into account the trends and existing socio-economic environment. Considerable part of the report is devoted to the evaluation of informal employment, both methodological aspects and its size.

Problems of informal employment were raised in the report of the International Labour Organization "Decent Work and Informal Economy", at the International Labour Conference in 2002. That is why the problems of informal employment are discussed in the report through the prism of implementation of the Concept of Decent Work in Kazakhstan, as well as informal child labor and illegal labor migration.

Special emphasis is given in the report to the fact that informal employment provides an incentive for improving official employment. In this regard, it is essential that the system of social security, which does not cover informal employees, be improved.

Another aspect discussed in the report is an essential problem and issues of the informal employment evaluation are objective and legal indicators of its assessment. The issues that are raised are: how informal employment should be assessed and what measurement units should be used.

The final part of the report is dedicated to recommendations aimed at decrease of informal employment. The recommendations are based on the analysis of informal employment in the Republic of Kazakhstan presented in the previous parts.

Overall, the problems of informal employment in the country are discussed considering the national specifics of Kazakhstan's development, namely peculiarities of its socio-economic development at different periods of time, labor migration, child labor, and self-employment in rural areas, and some other factors.

## 1 FORMAL EMPLOYMENT AND SOCIAL-ECONOMIC DEVELOPMENT OF THE REPUBLIC OF KAZAKHSTAN

To fully grasp the problems of the informal employment in Kazakhstan, the general profile of official employment and socio-economic development of the country from 2001 to 2009 is presented below. The analysis helps provide more comprehensive and systematic picture of employment in the country during the given period.

**Socio-economic development of the Republic of Kazakhstan in 2001-2009** The beginning of the new millennium, namely 2001 – 2009 or the second decade of the sovereign Kazakhstan is characterized by the fact that the country emerged from the deep socio-economic crisis connected with the collapse of the Soviet Union and transition from the planned centralized economy to the market economy. In 2001, 2002 the Republic of Kazakhstan was recognized first by the European Union and later the US as a country with the market economy (the first among the post-Soviet countries) [1].

Overall, the period from 2001 to 2009 was quite successful for Kazakhstan. In this period GDP increased from 3, 250,6 billion tenge in 2001 to 17,007,6 billion tenge in 2009 or more than 5.2 times. Per capita GDP increased from 218,772 tenge to 1,070,422 tenge (- further 1,490,9 US dollars (further in the text USD) to 7,257,4 USD) (Table 1.1)

**Table 1.1**  
**Major socio-economic indicators of the development of the Republic of Kazakhstan in 2001-2009**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population at the end of the year, thousand people	14851.1	14866.8	14951.2	15074.8	15219.3	15396.9	15751.5	15776.5	16036.1
Average monthly nominal wage, tenge	17303	20323	23128	28329	34060	40790	52479	60805	67333
GDP, billion tenge	3250.6	3776.3	4611	5870.1	7590.6	10213.7	12849.8	16052.9	17007.6
GDP per capita, tenge	218772	254142	309341	391004	501127	667211	829865	1024175	1070422
GDP per capita, USD	1490.9	1658	2068	2874.2	3771.3	5291.6	6771.6	8513.5	7257.4
Commissioning of residential buildings, thousand sq.m	1506	1552	211	2591	4992	6245	6679	6848	6403
Foreign trade turnover, million US dollars	15085.1	16254.3	21335.4	32877.5	45201.5	61927.2	80511.7	109072.6	71604.4
Gini index	0.339	0.328	0.315	0.305	0.304	0.312	0.309	0.288	0.267
Percentage of population with incomes below subsistence minimum	46.7	44.5	37.5	33.9	31.6	18.2	12.7	12.1	8.2
Percentage of population with incomes below the food basket	16.1	13.8	9.1	6.3	5.2	2.7	1.4	1.2	0.6

Sources: [2, 3]

Kazakhstan's foreign trade turnover increased from 15,085,1 million USD to 71,604,4 million USD.

During the same period population of the country increased from 14,851,100 people in 2001 to 16,036,100 people (increase by 1,185,000 people). Average nominal wage increased by 3.9%. The percentage of population with incomes below the subsistence minimum decreased. To compare, in 2001 almost half of the population received income below the subsistence minimum (47.7 %). In 2009 the indicator made up 8.2%. At the same time, the percentage of population with incomes below the food basket decreased from 16.1% to 0.6%. Income inequality or Gini coefficient decreased during the same period from 0.307 to 0.267.

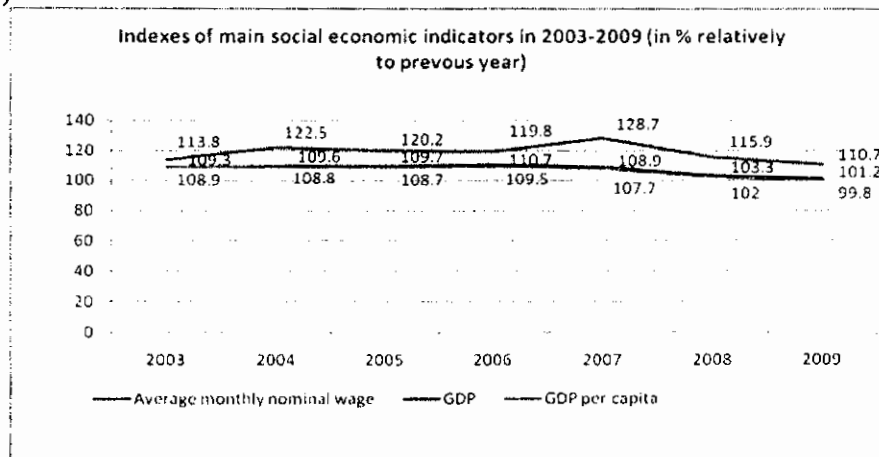
Rapid economic growth of the country in 2001-2006 was largely due to the growth of world energy prices, as well as market reforms carried out in the country. Development of the private sector of the economy, reforms in the financial sector, strengthening of the role of small and medium business and other reforms began to yield outcomes. During the same period, annual GDP growth was at least 10% compared to the previous year. Growth of GDP per capita during the same period also amounted to about 10%.

In 2005, according to the international review of the Economist Intelligent Unit, Kazakhstan was among ten most rapidly developing countries in the world.

However, socio-economic growth of the Republic of Kazakhstan in 2001-2009 was not stable. Upon the integration of the economy of Kazakhstan into the global economy, the country became dependent on external factors, such as oil prices, cost of gold and wheat, financial stability, international labor migration, and other factors.

Global economic crisis, which started in 2007, affected the economy of the country by decreasing GDP growth. If in 2006 annual index of GDP growth made up 110.7% relatively to 2005 but in 2007, annual index of GDP growth made up 108.9 % relatively to 2006, in 2008 it was 103.3% relatively to previous year and in 2009 it was 101.2% compared to 2008.

(Graph 1.1)



Sources: [2, 3]

Annual index of GDP per capita relatively to previous year decreased from 109.5% in 2006 to 107.7 % in 2007 and 102.0 % in 2008. In 2009, index of GDP per capita did not increase and even decreased, amounting to 99.8% compared to 2008.

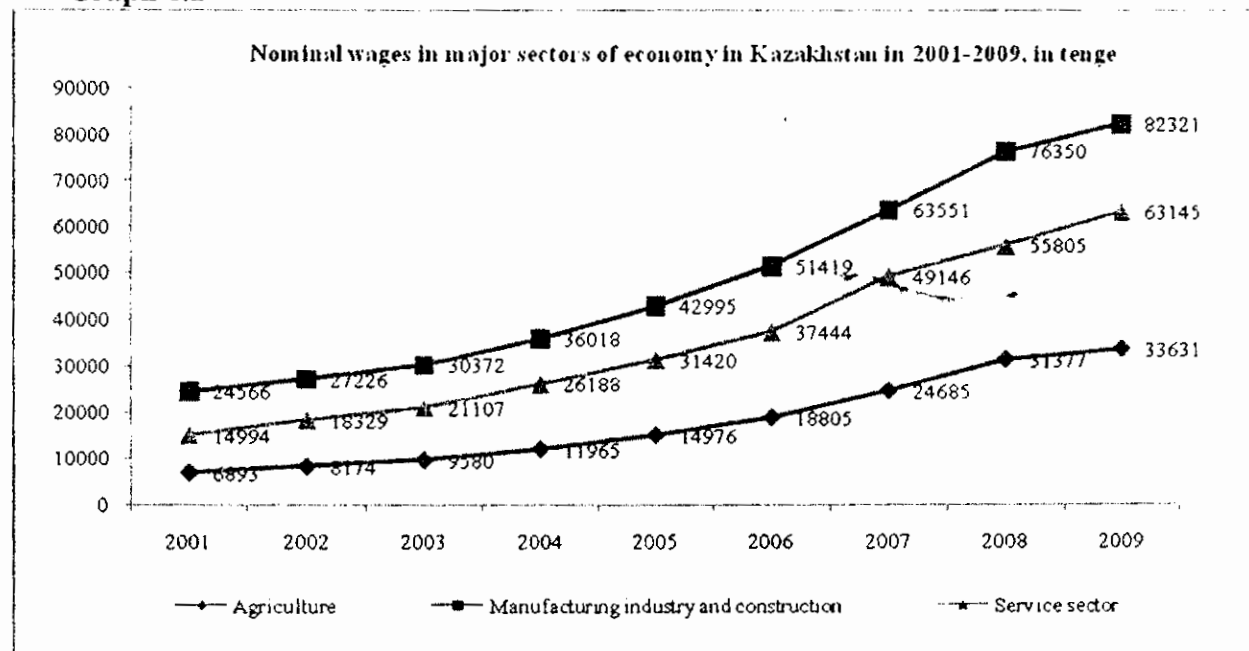
As it was noted above, from 2001 to 2009 average nominal wage increased. However, its index of growth decreased. What is more, in 2009, nominal wage index of growth was the lowest compared to 2008 and amounted to 110.7%.

One of the major factors of the development of Kazakhstan in 2001-2009 was “Construction Boom”. Socio-economic growth of the country was followed by the rapid development of the construction business. Moreover, construction of the new “Northern” capital, Astana, played a significant role in the trend. In 2005, rate of residential building construction increased by two times compared to 2004. To illustrate, in 2004, construction of 2591 thousand square meters of housing was completed and in 2005- 4992 thousand square meters accordingly. However, in the following years, despite the growth, construction rate decreased and 99.3% of housing was completed in 2009 compared to 2008. It should be noted that construction of residential buildings in the Republic of Kazakhstan like a litmus test reflected its socio-economic development.

Major source of income for the population of Kazakhstan is labor activity. In 2009, 80% of monetary income of the population came from labor activities; 16% accounted for social transfers and 4% for other monetary contributions.

In terms of major economic sectors, workers in manufacturing industry and construction business have the highest wage, while those employed in agriculture, forestry, and fisheries receive the lowest wages (Graph 1.2).

**Graph 1.2**



Sources: [2, 3]

To compare, in 2001, average nominal wage of manufacturing industry employees and those who worked in construction business amounted to 24566 tenge, while workers in agricultural sector, forestry or fisheries received 6893 tenge on average. That is the difference in

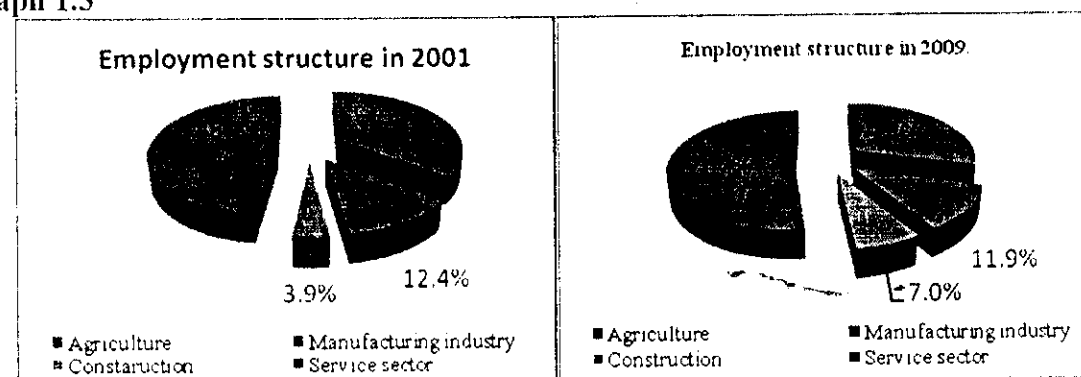
wages was 3.6 times. In 2009, the difference in wages decreased and made up 2.4 times. Despite the relative decrease, the difference in absolute terms is quite tangible (48,690 tenge).

The difference in wages in these sectors is also quite a significant factor in increase of employment rate in construction and manufacturing industry as compared to employment in agricultural sector, forestry, and fisheries.

**Employment in the Republic of Kazakhstan in 2001-2009.** In 2001-2009, employment increased to 1294, 600 persons or nearly 20%. What is more, the number of employed workforce increased by 35.6% (from 3863,300 in 2001 to 5238,800 in 2009), while the number of self-employed population decreased by 6.0% (from 2,835,500 to 2,664,600 people, accordingly). It is noteworthy that employment increase was not largely due to natural and mechanical population growth but due to unemployment decrease. During the same period, the number of unemployed decreased from 780,300 in 2001 to 554,500 people in 2009. Thus, unemployment rate of the relatively economically active population on the labor market decreased from 10.4% to 6.7%. It is noteworthy that trends in increase in employment and decrease in unemployment rates were quite steady.

In 1990s, during the collapse of the Soviet centralized economy and development of the market economy, many construction and manufacturing industry enterprises went bankrupt and were not legally competent. In 2001, the share of employment in these sectors made up 16.3%. Once the country emerged from the crisis, with the construction boom and development of manufacturing industry, the number of construction workers and industrial employees started to increase. (Graph 1.3)

Graph 1.3



Sources: [4, 5]

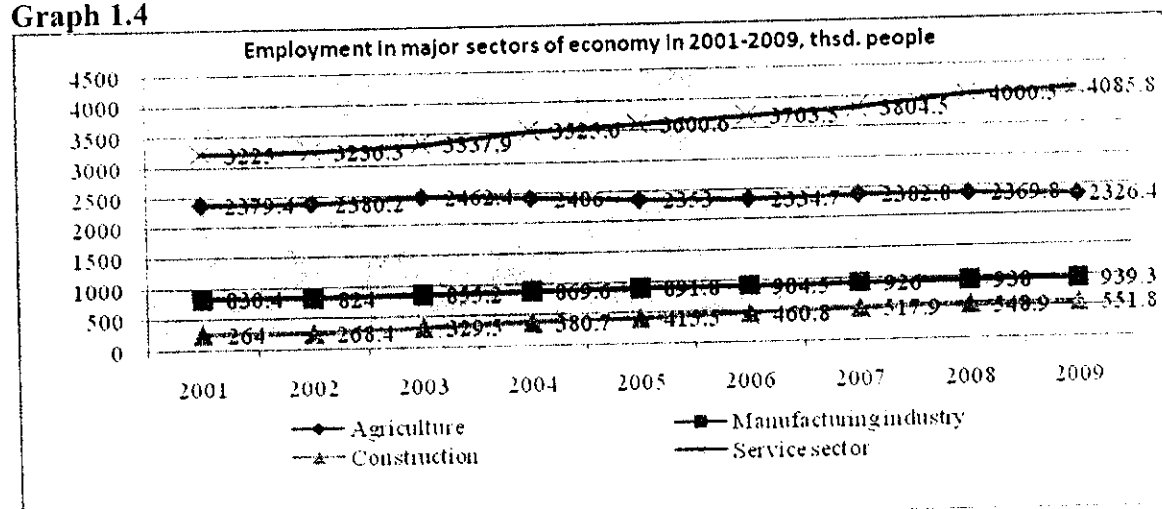
Until 2006, employment increase was mainly due to the economic growth of the country. As it had been noted above, in 2001-2006 annual GDP growth rates amounted to at least 10% as compared to the previous year. Industrial production growth rate, construction boom, development market-based financial institutions, development of small and medium enterprises and other factors resulted in employment increase.

According to the structure of employment in 2009, major part of population of Kazakhstan is employed in services industry (51.7%) and agriculture (29.4%). Less than 20% of population is employed in manufacturing industry and construction (18,9%).

Higher wages in construction and manufacturing industry were the major causes behind the official employment increase in these sectors of economy and decrease of informal employment in agriculture (Graph 1.4).



**Graph 1.4**



Sources: [4, 5]

In construction sector, from 2001 to 2009 the number of employed persons increased nearly twice. In manufacturing industry a stable employment growth became noticeable after 2002. From 2002 to 2009, the number of employees in the manufacturing sector increased from 824,000 people to 939,300 people. In 2001-2009, there was also a steady and considerable increase 26.7 % in service sector employment from 3,225,000 people to 4,085,800 people. As we can see from the graph 1.3, the number of employed persons in agricultural sector has gradually decreased. Urbanization, low wages, inadequate social infrastructure in rural areas, as compared to the urban infrastructure, led to the decrease in the employment (including informal employment) in agricultural sector.

In general, only employment in manufacturing industry, construction business, and services sector increased in Kazakhstan for the last decade. Moreover, employment in services sector has experienced the largest growth in the absolute terms.

Based on the status, a considerable part of Kazakhstan's population is employed as employee. In 2009, their number amounted to 5,238,800 people or 66.3 % of all employed population (Table 1.2).

**Table 1.2**

**Population of Kazakhstan by employment status  
in 2001-2009 (thousand people)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total employed	6698.8	6708.9	6985.2	7181.8	7261	7403.5	7631.1	7857.2	7903.4
Employees	3863.3	4030.2	4229.6	4469.9	4640.5	4776.6	4973.5	5199.4	5238.8
Including government employees	1682.5	1678.8	1715.7	1776.4	1779	1705.7	1685.6	1691.4	1763.5
Non-government employees	1445	1592.6	1722.2	1884.1	1977.7	2196.1	2338	2500.8	2480.1
Employed by physical entities	495	499.9	522.3	529.7	564.4	558.5	577.1	620	670.1

Employees in farms	240.8	258.9	269.4	279.6	319.5	316.2	372.7	387.3	325
Self-employed population	2835.5	2678.7	2755.6	2711.9	2620.4	2626.9	2657.6	2657.8	2664.6
Including employers	59.1	59.4	65	82.3	89.6	109.1	123.4	121.7	171.5
Independent workers	2609.6	2487.2	2547.8	2487.4	2427	2402.8	2427.7	2448.7	2406.5
Members of production cooperatives	96.4	64	74.5	58.1	33.2	30.6	30.9	26.6	21.5
Unpaid workers of family enterprises	70.4	68.1	68.2	84	70.7	84.3	75.7	60.6	65.1

Sources: [4, 5]

Major part of employees work in the non-government sector of economy. Moreover, the number of wage earners employed in the non-government sector tends to increase. To compare, in 2001, every fifth employee (21.6%) worked in the non-government sector and in 2009 the figure increased to 31.4%. A very insignificant number of wage earners work for physical entities in Kazakhstan. In 2001, physical entities employed 495,000 people (7.4 % of all employed population). In 2009, the number increased to 670,100 people making up 8.5% of all employed population.

With the increase in the number of employees in the country, the number of self-employed people has been decreasing gradually. In 2001, their share in the total employed population was 42.3% and in 2009 the figure was 33.7%.

A positive trend in the structure of self-employed population from 2001 to 2009 is the growth in the number of entrepreneurs. To illustrate, the number of employers increased from 59,100 in 2001 to 171,100 in 2009, which amounts to nearly three times growth. The main causes of the growth in this period were rapid development of the country under frame of market economy, growth of opportunities to borrow money from banks, development of small and middle business etc. (chapter )

Despite the general employment growth and unemployment decrease, period from 2001 to 2009 was not a stable one. Thus, in the first half of the period, there was employment increase, while in the second half, especially since 2008 the employment rate decreased. During that period, in the context of global financial instability, nearly all countries, including Kazakhstan, encountered problems of employment and unemployment. Comprehensive analysis shows that unemployment rate in Kazakhstan from August 2008 had a propensity to grow. To compare, in August 2008, unemployment rate was 6.3%; however, in February 2009, it amounted to 7.1%. In absolute terms, the number of unemployed in August 2008 was 530,300 people and in February 2009, the figure was almost 600,000 people. Unemployment growth rate within six months was 68,200 people.

To resolve the existing issues on the labor market and in the sphere of employment, the government of the country drastically modified its social, economic, and fiscal policies. In order to enhance employment, a new employment program or "Road Map" has been implemented in the Republic of Kazakhstan. The Road Map, similar to anti-crisis measures adopted in the USA in 1930s during the Great Depression, has significantly increased employment rate and improved social protection of the unemployed.

191,5 billion tenge were allocated to implement the program in 2009 and 150,6 billion were disbursed in 2010. Within the framework of this program, 8,871 projects were implemented in two years, which helped create 390,500 work places, including 258,600 work places in 2009 and

132,000 work places in 2010. According to the preliminary data of the Statistics Agency of Kazakhstan, in the third quarter of 2010, unemployment rate made up 5.6% and the number of unemployed amounted to 481,700 people.

## 2 INFORMAL EMPLOYMENT IN KAZAKHSTAN: CAUSES AND CONSEQUENCES

In 1991, after the country became a sovereign state and the reforms were carried out in Kazakhstan, not only did market relations start developing, but also shadow economy and, consequently, an informal employment emerged. Use of the Code "On Labor" till 1999, which was adopted in the Soviet Union times in 1972, and legal loopholes in regulating labor relations did not reflect market relations between an employer and an employee. In addition, low standards of living, high unemployment rate, lack of efficient system of training and retraining of the unemployed were among the most significant causes of extensive informal employment. To maintain their job, workers agreed to work without timely payment for their labor. Very often employees had to wait for months and sometimes years before they could get paid for their work. Such labor relations violated different normative acts on the protection of employees' labor rights and those of their families. Informal employment among young employees in the form of a trial period for 1-2 months was quite common. In many cases, young employees who worked for 2-3 months, and sometimes more, were fired under the pretext that their performance during a trial period was not satisfactory.

In identifying causal relationships of informal employment, it should be noted that it is closely linked with the shadow economy of Kazakhstan and should be considered as its inalienable part. In 1990s a shadow economy played a significant role in Kazakhstan. Nearly a third part of the country's GDP was produced by the shadow economy during those years (Table 2.1).

**Table 2.1**

### Share of informal economy in GDP of different countries with transition economies in 1990s

Countries (year)	GDP in national currency	Currency	Volume of informal economy	Share of informal economy in GDP, %
Armenia (1995)	5222256	ml.dram	105318	20.2
Azerbaijan (1995)	2134	ml. manat	548	25.7
Bulgaria (1998)	22421	ml. leva	3531	15.7
Estonia (1995)	44261	ml. kroon	4112	9.3
Kazakhstan (1995)	1014090	ml.tenge	330025	32.5
Kyrgyzstan (1995)	16145	ml.som	7174	44.4
Latvia (1995)	2615	ml.lats	589	22.5
Lithuania (1995)	25956	ml. litas	6295	24.3
Moldova (1995)	4583	ml.leu	1680	25.9
Serbia (1995)	126411	ml. Serbian dinar	36749	29.1
Countries with transition economies				23.8

Sources: [6]

During this period, share of informal economy in GDP in Kazakhstan was one of the highest in comparison with other transition countries (with exception of Kyrgyzstan). Thus, in countries with transition economy the share of shadow economy in GDP was estimated at 23.8% on average, while in Kazakhstan it amounted to 32.5% of the country's GDP.

Since the beginning of the new millennium, economy of the country started developing rapidly. The country emerged from the deep economic crisis of the 90s, market economy infrastructure was developed, and the share of the shadow economy in GDP of the country decreased. In 2006, its share amounted to 17.7% of GDP, which was slightly lower than the average indicator (19.0%) of the share of shadow economy in countries with transition economies (Table 2.2)

**Table 2.2**

**Share of informal economy in GDP of different countries with transition economies in 2000s**

Countries (year)	GDP in national currency	Currency	Volume of informal economy	Share of informal economy in GDP, %
Armenia (2005)	2243952	ml.dram	555422	24.8
Azerbaijan (2005)	12522	ml. manat	3706	29.6
Bulgaria (2005)	41948	ml. leva	7838	18.7
Estonia (2006)	200562	ml. kroon	19352	9.6
Kazakhstan (2006)	9738800	ml.tenge	1727481	17.7
Kyrgyzstan (2006)	113176	ml.som	53412	47.2
Latvia (2006)	11265	ml.lats	1129	10.0
Lithuania (2005)	71200	ml. litas	10928	15.3
Moldova (2006)	44069	ml.leu	7878	17.9
Serbia (2006)	2139800	ml. Serbian dinar	492034	23.0
Countries with transition economies				19.0

Sources: [6]

It should be noted that there are many problems and issues in estimating the volume of shadow economy and informal employment. It is quite a complicated task. In Kazakhstan, the volume of shadow economy is calculated conventionally. To illustrate, formal GDP is compared with volume of consumption, purchasing, sales, exports, imports, and so on. The identified difference is estimated as a share of shadow economy.

The most popular method of estimating the share of "parallel economy"<sup>1</sup> is a statistical method, which uses a system of national accounts (SNA). According to SNA, major segments of invisible economy are informal, hidden, and illicit activities and, therefore, employment. The following approaches are used in their definition:

- **informal** activity is typically employment of individuals that are not registered by the statistical and taxation agencies as entities producing goods and services;

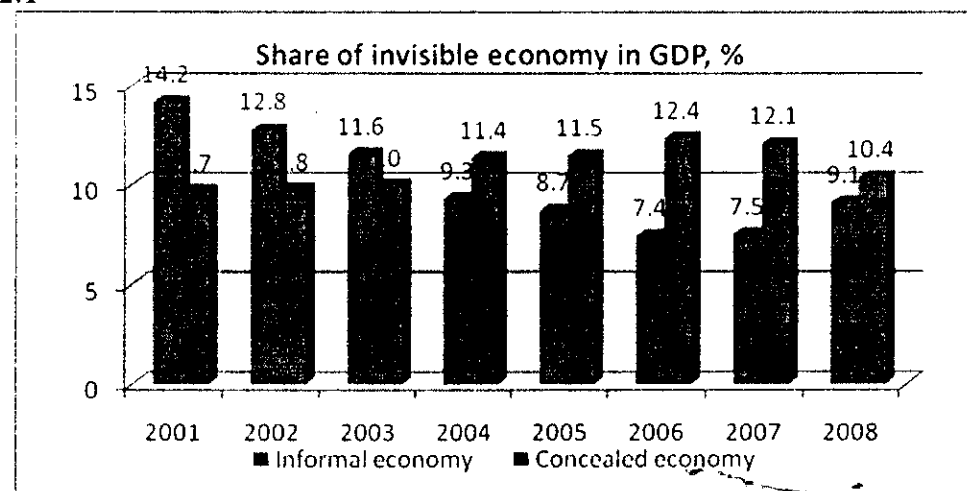
<sup>1</sup> There are many different methods and approaches in defining the economy, which is impossible to account for and which is mainly linked with undeclared activities ("shadow economy", "black market", "parallel economy", etc.). Since the present study is not aimed at researching and classifying the abovementioned economic category, various word combinations, such as "shadow economy", "black market", "parallel economy" will be used in this paper as synonymous words.

- **invisible** activity is work of officially registered enterprises that produce goods and services that hide their profits from statistical accounts in order to avoid paying taxes;
- **illicit** activity is the one where goods and services that are forbidden by law are produced (drugs, weapons, prostitution, human trafficking, etc.). Manufacturing of legal goods and services without permission or license is also considered as an illicit activity.

In Kazakhstan, similarly to other countries, estimation of the share of illicit activity related to the criminal activities is not included into the total volume of GDP since such activities do not result in producing new goods or services. Such activities are mainly about redistribution of material, financial, and other benefits from one sphere to another. In many instances, it is based on deception, coercion, and violence.

The graph 2.1 shows GDP received as a result of informal activities, which were not registered by statistics or taxation agencies, as well as invisible activities, which were statistically registered; however, these were not subject to tax deductions.

Graph 2.1



Sources: [7, 8]

As we can see from the graph, in general, the share of invisible economy in GDP of the country decreased due to informal economy.

Major causes behind the informal economy decrease and, subsequently, informal employment in the given period, are modifications to legislative norms in the sphere of labor relations, employment sphere, social security, etc..

As it had been noted earlier, for nearly a decade (till 2000), an old code "On Labor", which was adopted in 1972 by the Supreme Soviet of the Kazakhstan Socialist Republic, was utilized in the country. On December 10, 1999 a new statute #494-1 "On Labor in the Republic of Kazakhstan" was adopted [9]. The new statute instigated market regulations of labor relations in the Republic of Kazakhstan. To develop and encourage entrepreneurial activities, the statute vested employers with significant rights.

Important role of the trade unions in regulating labor relations was recognized and implemented in the statute "On Social Partnership in the Republic of Kazakhstan" adopted on December 18, 2000 [10]. On December 30, 1998, and later on January 23, 2001, new statutes of

the Republic of Kazakhstan "On Employment" were adopted [11, 12]. Thus, during the first decade of its sovereignty, Kazakhstan was short of perfect legal basis in the sphere of labor market and employment, while the second decade was characterized by filling in the existing legislative gaps.

However, the statutes in the sphere of socio-labor relations and employment adopted in the beginning of new millennium did not fully reflect socio-economic, cultural, and geographical peculiarities of the development of the Republic of Kazakhstan. In some instances, the statutes even encouraged development of informal employment. To illustrate, restructuring in government agencies and reduction of their functions on the basis of the statutes "On Employment" adopted on December 30, 1998, and January 23, 2001, were among the major causes of informal employment growth in some regions of the country. The Republic of Kazakhstan is known for its huge territory. Quite often the unemployed in remote and economically undeveloped regions are informally employed not in their place of residence but in other even more remote areas. In this case, the government employment agencies did not have relocation functions, which caused informal employment in Kazakhstan.

One of the major causes of informal employment in Kazakhstan is distrust of its population to the government agencies, which was ingrained over the Soviet times and grew further during the economic crisis of the 90s. The Soviet economy with its harsh system of the criminal (not administrative) punishment for receiving profits that exceed the state imposed limits gave way to acute rejection and phobias among the population towards different statistical and taxation agencies. Thus, due to the fear of criminal punishment, any activity that results in unregistered income, regardless of its small size, is concealed.

Another major cause of informal employment in Kazakhstan is low living standards of a part of the population. As Table 1.1 shows, in 2001, income of almost half of the population of the country was lower than the subsistence minimum (46.7%). Owing to the economic growth the indicator decreased and made up 8.2% in 2009. Despite the significant decrease, average monthly income of the population with the lowest income was 8,772 tenge in 2009, whereas the average salary of the population with the higher income was 46,789 tenge. To improve their wellbeing, population with lower living standards, as well as other parts of the population, agrees to be employed by enterprises which are not registered by statistical and taxation agencies.

In 2008, 7.0% of the country's GDP was linked to informal and hidden employment in the spheres of trade (3.5%) and real estate (3.5%). Moreover, 1.1% out of 3.5% of the shadow GDP in trade was received due to informal employment. In real estate business, the share of informal employment was 1.6%. However, taking into account the number of employees in these sectors (1,150,300 in trade and 378,100 in real estate business), it can be concluded that more people were engaged in informal employment in trade sector than in real estate business.

In 2008, 3.2% of GDP in the country was linked to shadow economy in agriculture. However, unlike trade and real estate sectors, the largest part of shadow economy in agriculture (3.0% out of 3.2% of the shadow GDP) was linked to the informal employment.

One of major causes of informal employment in agriculture is low income of the population. In 2009, the average monthly income in the country was 67,333 tenge, while in agricultural sector the average monthly income was 33631 tenge or two times less. To increase their income, many employees in rural areas who work in the private sector of economy are employed informally.

To decrease informal employment in the Republic of Kazakhstan, more attention is paid to the development of different forms of entrepreneurship. In order to speed up registration and diminish bureaucratic barriers, taxation agencies provide services working on the principle of so called "one window". The service is aimed at facilitating procedures on establishing and development of small and medium enterprises, as well as individual entrepreneurship. In Kazakhstan, it is easier to establish a private enterprise on the basis of patent or simplified declaration. While working on the basis of patent, a private entrepreneur's pays 2% tax and 3% tax if he/she works on the basis of simplified declaration.

To register the activities, a private entrepreneur must pay a fee in the amount of four monthly calculation indices (in 2011 monthly calculation index is 1478 tenge), fill in the registration form; provide identification documents (ID or passport, a photo, tax registration number, social individual code, and residence registration papers).

Despite the considerable facilitation in the development of entrepreneurship, there are still obstacles in decreasing informal employment in agricultural sector. Lack of developed infrastructure in registering entrepreneurial activities and illiteracy in legal issues of the rural population are the major causes of informal employment in agricultural sector. To register entrepreneurial activities and then to submit regular reports, rural employees must go to the regional taxation agencies, which is often inconvenient for those who live in remote villages. Transportation costs, underdeveloped infrastructure, and lack of response on the part of the taxation agencies are important factors in sluggish development of entrepreneurial activities in rural areas and, therefore, in increase of informal employment.

Another important factor in underdeveloped entrepreneurship in rural areas is payment of a registration fee and tax deductions. The fee and tax payments are considered small for urban citizens. However, for those who live in rural areas and receive an average monthly salary of 34,171 tenge the amount is still a substantial one.

For example, in 2011, it is necessary to declare an annual income of 200,000 tenge to register an individual entrepreneurship for a year on the basis of a patent. The condition is stipulated by the fact that in 2011 an average monthly salary will be 15,999 tenge. Total earnings for 12 months will be 191,988 tenge or about 200,000 tenge. According to the form 911.00 adopted by the Ministry of Finance of the Republic of Kazakhstan of December 24, 2009, #574 "Calculation for Patent Receipt" the total initial fee (which includes 2% tax, social deductions, and 10% pension fund contribution) should be 34,800 tenge. Taking into account the abovementioned factors, initial registration of the individual entrepreneurship on a patent basis for a year almost equals the monthly nominal wage of a rural employee. This fact coupled with inadequately developed infrastructure for rural entrepreneurs' registration considerably hampers development of entrepreneurship in agricultural sector and, subsequently, encourages informal employment.

Underdeveloped financial system, predominant use of cash in payment transactions in particular, is another significant reason behind the slow decrease of informal employment in Kazakhstan. In many cases, employees prefer to receive their wages in cash instead of transfer to their debit cards. Even though the pay is transferred to a debit card, the employees try to withdraw the entire amount (with possibility of further exchange into a foreign currency). The trend is explained not only by distrust in the financial system (financial crises of 1999 and 2009 played role in it), but it is also due to the lack of financial literacy among certain parts of the population.

Use of mainly cash payments for goods and services, especially on the markets, makes employees agree to receive wages in cash, particularly when they are not formally employed.

The largest part of the informally employed population in the Republic of Kazakhstan works also in the services sector, namely in commerce. As it was mentioned above in 2008 year 1150.3 thsd. persons worked in the trade and among them 254.7 thsd. persons or 22.1% worked informally. Informal employment in commerce is mainly due to its inadequate management or complete lack of management on the part of the local administrations. Street vending of different goods on the sidewalks and selling without a patent in order to hide profits are common occurrences in Kazakhstan.

In many instances, informal employment in commerce is linked to criminal activities. Since new types of goods or services are not produced; therefore, there is no need to get a license and major part of income comes from reselling, so criminal groups often involve employees into an informal employment. In our opinion, if local administrations do not carry out systematic preventive measures and local police remains indifferent, it will be quite difficult, even impossible, to resolve the problem of informal employment in commerce.

Unlike the trade sector, informal employment in the sphere of transportation services is not that criminalized. Quite often informal employment in the sphere of transportation services provides an additional income for the part of the population that is formally employed elsewhere. To compensate for "gasoline costs", unprofessional drivers pick up people on their way to work and back, competing with the professional taxi drivers. At the same time, for some unprofessional drivers this type of activity is becoming an additional job, although it is not registered as such. It should be noted that this type of informal activity is perceived by majority of the population as an ordinary phenomenon and is even welcomed since the transportation services are inadequately developed.

One of the major social problems in Kazakhstan is an informal employment in construction business. Economic growth was a major cause of the construction boom in Kazakhstan. Moreover, the trend was not only about construction of large socially significant or manufacturing buildings, but also construction of individual residential housing. Improvement of living standards allowed many people in Kazakhstan to renovate their houses and apartments and in some cases to build new two-three storey mansions. To ~~cut spending~~ and to avoid paying an income tax and pension deductions, individuals attract informal employees to renovate existing housing or to build a new one and pay in cash for their work.

In many instances foreign laborers from neighboring countries in Central Asia, as well as from other foreign countries, are involved in construction business in Kazakhstan. The procedure for attracting foreign laborers in Kazakhstan is quite a bureaucratic one and cannot be applied to use of foreign hired labor by an individual in renovation or construction of individual housing. In particular, work permits are fully controlled by different agencies that issue quotas and licenses. Besides, procedures of receiving a work permit take a lot of time. That is why labor migrants engaged in construction and renovation of individual housing are employed informally.

Shadow economy and informal employment linked with it are among the major impediments and serious destabilizing factors of the development of Kazakhstan. Informal employment is one of the major reasons constraining further socio-economic development of the country. Its harmful consequences for the economy of Kazakhstan are reflected in the following negative features:



- Informal employment in many cases is temporary and unstable and has become one of the factors of population's uncertainty in the further development of the country. The trend raises doubts in appropriateness and efficiency of the government's socio-economic policies;
- Since informal employment is linked in many ways to receiving additional, officially unregistered income, it undermines a moral climate not only at an enterprise, where it is practiced, but also in a family and in the society at large. In fact, informal employment of one or several members of a family leads to a common perception in that particular family that it is possible to get income without any legal obligations or without adopting such commonly accepted principles of any civilized society as honesty, decency, and transparency.
- Informal employment in many cases is a basis for undermining a labor motivation and disqualification of an employee. Due to the lack of a working contract or any other officially recognized instrument for regulating informal labor relations an employer cannot officially demand a high quality work and at the same time an employee cannot claim full compensation for his/her labor.
- Informal employment in many instances is linked to the criminal activities. Arbitration of various conflicts in this sphere does not take place in a court. Such settlements are often criminal in character and frequently imply coercion. Therefore, one of the consequences of informal employment is a growth of violence, theft, and even murders.
- One of the major consequences of informal employment is a decrease in tax payments to the state budget, which in turn leads to investment cuts allocated to construction of schools, hospitals, other social service institutions, salaries for high school teachers, doctors, public sector employees, etc..
- It should be noted that with integration of Kazakhstan into the international labor markets the expansion of informal employment is often one of the causes of acute conflicts between foreign employees and employers. In Kazakhstan, informal labor migrants are sometimes forced to work for rations only. Moreover, their working conditions do not meet not only the norms of the labor code but also elementary humane norms. Their working day is longer than the legally accepted one. Very often they do not have any days off. Safety and labor protection standards are not followed and are not enforced. As a result of informal employment a negative view of the country is established and the country's international image is affected.

### 3 INFORMAL EMPLOYMENT AND ITS SPECIFIC FEATURES IN KAZAKHSTAN

Well-substantiated methodology for identifying indicators of informal employment and for measuring its scale is a significant factor in decreasing informal employment. It is quite complicated and sometimes impossible to estimate the efficiency of various programs aimed at the decrease of informal employment without proper objective indicators for its measurement.

In Kazakhstan, conceptual provisions of the Resolution on Labor Statistics in Informal Sector adopted on the 15<sup>th</sup> International Conference of Labor Statisticians (1993), the guiding principles on statistical definitions of informal employment approved by the 17<sup>th</sup> International Conference on Labor Statisticians, as well as Recommendations of the "Delhi Group" are used to estimate informal employment. Following the international recommendations, the Statistics Agency of the Republic of Kazakhstan looks into **informal sector and informal employment** to

measure informal employment.

To gauge employment in an informal sector, the Statistics Agency of the Republic of Kazakhstan draws on the following methodological provisions and definitions [13]:

- **employment in informal sector** includes persons who are engaged in major activities of informal sector enterprises, regardless of their employment status;

- **informal sector enterprises** are enterprises that produce goods and services and do not have a legal entity status.

Persons who are hired to work in households and those who produce agricultural produce for their own consumption are not part of the informal sector.

Households that generate agricultural produce entirely or partially for sale or barter are included in the informal or formal sector depending on whether they have a state registration or not.

Statistics Agency of the Republic of Kazakhstan uses the following methodological provisions to measure informal employment:

**Informal employment** includes persons with the following status:

- self-employed workers which have not any official registration;

- employers who work at informal sector enterprises;

- members of informal manufacturing cooperatives;

- unpaid employees of a family enterprise of informal or formal sector;

- employees who work for individuals or in farms, as well as informal and formal sector enterprises, if they were hired upon a verbal agreement or if an employer does not pay for their social security or if they are not entitled to have a medical insurance or paid vacation;

- laborers who work for their own household producing goods only for their own consumption.

**Formal employment** includes employers, who work for formal sector enterprises, as well as members of formal manufacturing cooperatives, and employees who are hired on the contractual basis, which entitles them to a medical insurance, paid vacation, and whose employer pays social security costs.

Evaluation of informal sector and informal employment in the Republic of Kazakhstan is carried out every quarter with the help of "Questionnaire of Sample Research of Population Employment".

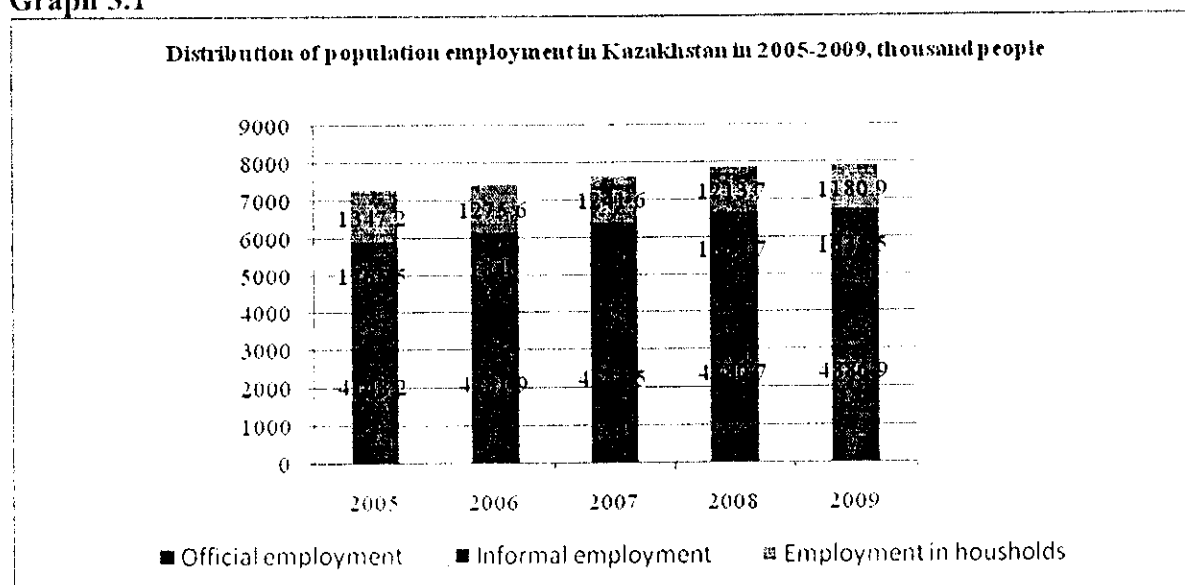
The questionnaire contains various questions regarding characteristics of population's employment (employment status, type of economic activity of an enterprise, registration of its activities, work schedule, an employee's social benefits, etc.).

To define and characterize informal sector of population's employment, there are specific questions, such as an interviewee's activity status; legal status of an enterprise and its size; an employee's workplace, etc. Furthermore, a major criterion on defining an informal sector is a question on the interviewee's activity status. To illustrate, persons who produce agricultural products on their household for their own consumption are referred to the household sector. If an interviewee produces agricultural products on his/her household partially for their own consumption and/or also for barter, then he/she is referred to an informal or formal sector of economy.

To define and identify **informal employment** of employees, the Questionnaire contains the following questions: whether an employee has or does not have a labor agreement; whether an employer transfers social security payments; whether an employee is entitled to a paid vacation,

a medical leave and/or a maternity leave. Use of the abovementioned methodological provisions and definitions has allowed reflecting informal employment in the database of the Statistics Agency of the Republic of Kazakhstan since 2005. As the statistical data show, in 2005 every fourth employee was involved in informal employment (Graph 3.1).

**Graph 3.1**



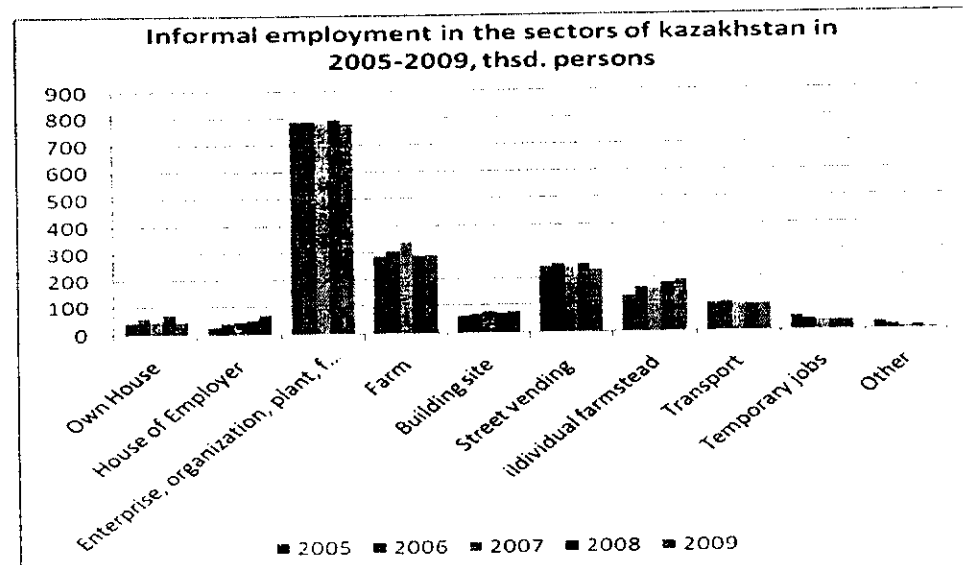
Source: [5]

During the five year period, informal employment increased from 1,765,500 persons in 2005 to 1,835,500 persons in 2009 (70000 persons). In this time period informal employment increased sharply in the sphere of job in house of the employers. The number of such informal employees increased from 28.7 thsd. persons till 74.2 thsd. persons or more than in 2.6 times.

In the soviet time the jobs out of state' sector were not respected. And the unofficial jobs in the house of employer (looking after their children, cooking, small construction etc) were rare phenomena. With transition to market economy many citizens of Kazakhstan have changed their minds relatively to the jobs in the house of employer. Moreover, if an employer pays rather well many unskilled unemployed persons preferred to choose such type of job.

Rather high increasing of informal employment occurred in the sector of service of individual farmstead.

**Graph 3.2**



Source [5]

Many citizens of Kazakhstan and especially in the villages have individual farmsteads. Unemployment, and free market economy, and wishing to be independent persons from one side and problems with registration of individual entrepreneurship in the villages from other side are main causes of the increasing informal employment in the sector of service of individual farmstead. Usually the income which individual entrepreneurs get from their activity in their farmstead is rather small and has seasonal character and therefore they do not try to work officially. In case when they hire employees they do it unofficially.

During the five year period, from 2005 to 2009, despite the absolute increase in the number of informally employed people from 1,765,500 persons in 2005 to 1,835,500 persons in 2009, their share in the total number of employed decreased from 24.3% to 23.2% accordingly.

**Problems of statistical reporting of informal employment in Kazakhstan.** The analysis of statistical materials on informal employment shows that there are some discrepancies in these data [14, 15]. It is visible when we began to calculate the exact number of informal employed people. The problem becomes more complicated when we began to include the persons which work as a part-time worker and holding of more than one office. In this case one person will be assessed not one times as in formal and informal sectors. In this connection we joint to the opinion of Russian scholars, which note "Russian tradition of studying the nature of informal employment represents *dual* approach and here the informal employment is not considered out of formal employment. Contrary this tradition supposes strong mutual influence and mutual development of these two sectors" [16]

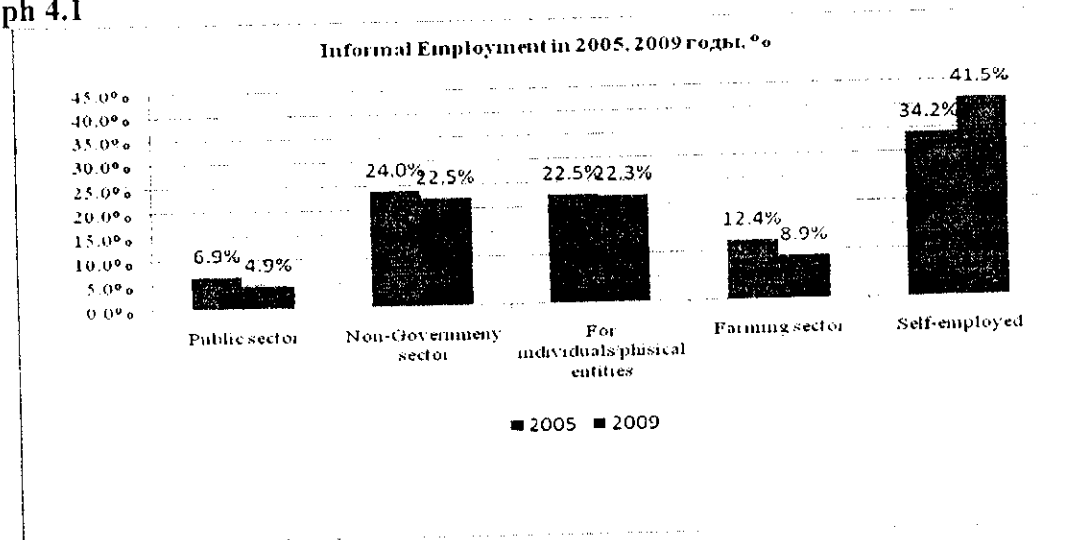
In our opinion, in the future it will be more accurate to use time factor or the number of hours of employment formally and in informally.

#### 4. PECULIARITIES OF INFORMAL EMPLOYMENT STRUCTURE IN KAZAKHSTAN

**Informal employment in the public sector.** Informal employment is linked not only with the problems of its formal assessment, but also with its legal aspects.

For instance, according to the statistical data 122,600 people (6.9%) were employed informally in the public sector in Kazakhstan in 2005 (Graph 4.1).

Graph 4.1



Source: [5]

Such occurrences can take place and are legally possible. In certain cases, the government organizations have to hire employees for a short period of time without a contract. One example of such incidents could be arranging haulage for an organization's relocation. Hired laborers in this case receive payment for their work not through the wage fund with subsequent transfers to the pension fund, and other payments, but through some other accounts. Many of those instances become the cause for tax violations and in general raise issues of shadow economy increase.

**Informal employment in non-government sector.** With advent of the market economy, a considerable part of the population of Kazakhstan started working in the non-government sector of economy. In 2009, 50.3% of employees in this sector were formally employed. At the same time, because the sector offers many opportunities for informal employment, unlike the government sector (namely, State Accounts Committee does not check their activities; employees do not have to follow the statute on government employees, etc.), share of informally employed in non-government sector is considerably higher. Thus, in 2009, 412,300 people (22.5%) of all informally employed people worked for non-government organizations.

**Informal employment for individuals/physical entities.** In Kazakhstan, many employees work without a contract or an agreement for individuals. Hired on a basis of a verbal agreement, these people work providing services on construction or renovation of private housing, cleaning the territories, hauling different freight, etc. 397,300 employees worked informally for individuals in Kazakhstan in 2005. In 2009, their number increased to 409,300 people and amounted to 38.1% of all illegal laborers.

**Informal employment in farming sector.** In farming sector of Kazakhstan in 2005 a large number of employees were employed informally. Thus, the number of legal workforce was 100,600 people, while the number of illegal workers was 218,900 people or twice as much. By 2009, the number of legally employed workers increased and amounted to 161,500 people. The number of illegal workforce decreased and made up 163,500 people. Thus, in 2009 half of the employees in farming sector were employed legally and another half illegally. It should be noted

that decrease in the number of illegal workforce in the sector was not a steady one. Moreover, in 2007, the number of illegally employed in the farming sector was 241,000 people, which was an increase in the absolute terms. There was a substantial decrease in the informal employment only in 2009. Compared to 2008, the number of informally employed people decreased from 220,200 people to 163,500 or by a quarter. In general, as we can see from the graph above, share of employees in the farming sector was 8.9% out of the total number of informal employed population of the country.

**Self-employed employees engaged in informal employment.** A considerable part of informally employed population of the country is self-employed. In 2009, 41.5 % of informally employed population was self-employed. Compared to 2005, the number increased both in absolute terms and in relative expression. Thus, in 2005, there were 603,500 self-employed people (34.2%), while in 2009 the number increased to 761,300 (41.5%).

It should be noted that during those years informal employment grew faster than the growth of formal (legal) employment. To illustrate, within the five years share of the legally self-employed population increased by 8.1%, while the share of illegally employed population grew by 26.1%.

Self-employed population in Kazakhstan works in different areas and has different statuses. Part of them is employers, while others are members of manufacturing collective or unpaid employees at family enterprises. It is noteworthy, that the number of informally self-employed population is quite high. Within the past five years, from 2005 to 2009, their number increased by 6, 5 times.

Certain part of the population of Kazakhstan works in a family business. These do not typically have official contracts or labor agreements. In many instances, labor relationships are based on kinship. These relationships are guided by such factors as age, gender, and degree of kinship. Compensation for labor might come in different forms (natural, monetary, financial aid for children's education, etc.). Size and time for compensation depend on many circumstances. 65,000 people were involved in that sphere of informal employment in 2009.

## **5 INFORMAL EMPLOYMENT AND SELF-EMPLOYMENT IN AGRICULTURAL SECTOR**

It was noted above that nearly third part of the employed population in Kazakhstan works in the agricultural sector. Development of the agricultural sector has been a priority for the government of the country. However, the sector has faced a number of acute social problems. Employment in this sector is one of these issues. Low income of the rural population has led not only to migration from villages to the cities, but also caused informal employment in the agricultural sector.

Overall, every sixth employee who was employed informally in Kazakhstan (15.2%) worked in the agricultural sector of the country in 2009.

Majority of informally employed population in Kazakhstan has a status of a self-employed. In 2009, every third of informal employee (33.7%) was self-employed. Their activity is largely linked with retail sales and different services. Many of them are employed informally and work as taxi-drivers or so called "gipsy drivers".

There are also self-employed people who provide medical and educational services working as tutors, consultants, nurses, etc. at home. A considerable number of self-employed populations

work in the household sector. In 2005, there were 1,297,100 people employed in the sector. In 2009, their number gradually decreased to 1,125,500 people.

In general, self-employed population has a lower income. Very often their earnings come from occasional incomes provided not only in the monetary form but sometimes in the form of produce or other goods. The completed work is quite frequently seasonal and temporary only. All self-employed people do not have a state social support, which could be linked to their activities.

Since employment in the agricultural sector is especially socially acute, the government of the Republic of Kazakhstan is currently developing a national program dedicated to resolving the problem.

We should note that more than 70% of the self-employed live in rural areas. Very often, self-employed populations that live in villages or remote areas receive income from their household activities. Nearly 60% of all produce harvested on the household territory or in the private gardens is sold in its original form or as processed products [17].

According to the survey conducted by the author in Almaty, many agricultural sector employees, who do not have a permanent job, come to the city from villages and work informally in urban areas. For example, they come to Almaty from neighboring Southern Kazakhstan, Zhambyl, Almaty regions, and very frequently from more remote areas (mostly because Almaty has higher salary rates than other cities in Kazakhstan). Most of these people who come to search for a job in a city are young people. In villages these young people have homes, where they live with their parents and help them in agricultural activities, such as sowing and harvesting, hay harvesting, etc.).

Due to the seasonal nature of the activities and low income, they regularly come to a big city looking for more opportunities to earn money. Here, several people rent a room or an apartment (often in makeshift homes at households) to save money and to pay less for rent. Because these people visit cities on a regular basis, they gather at certain streets or spots in cities, where an employer can find them. While negotiating with a potential employer, the major issue for these people is work compensation. Issue of working conditions comes afterwards. Rarely or never is there a discussion of a labor agreement. As a rule, while negotiating the pay, these people emphasize that their daily compensation should not be less than the daily average income of a city resident. However, due to the tough competition among them, they consent to work for a smaller compensation.

Moreover, having compared the living standards in a city and in a rural area, many of these young people gradually start planning migrating to the city.

## **6 INFORMAL EMPLOYMENT OF LABOR MIGRANTS AND CHILD LABOR IN THE REPUBLIC OF KAZAKHSTAN**

Like in many countries with an open economy, there are a large number of labor migrants in Kazakhstan. Some of them work legally and some illegally. The government of Kazakhstan sets annual quotas to attract foreign labor force.

Every year, according to the procedures on determining quotas, local executive bodies on employment must present proposals on necessity to attract foreign work force for the upcoming year by October 1. Their proposals take into account potential employers' applications. Later on,

by December 1, based on these proposals, the Ministry of Labor and Social Protection of Population introduces a normative legal act on determining quota for the next year into the government of Kazakhstan. To get a work permit for a foreign employee, a potential employer must search for people with required qualifications on the local labor market (at least a month before submitting a work permit application).

There are representatives of more than 130 foreign countries officially working in Kazakhstan. The largest part of officially employed foreigners worked in Kazakhstan in 2007 (15,800 people). Later, in 2008, due to the global economic crisis, the number decreased to 54,200 people. In 2009, the figure was 31,000 employees.

Foreign employees or official labor migrants are employed in the construction sector (more than 60%), in extracting, and processing industries (about 20%). Foreign employees also work officially in transportation, health care, hotels, catering, etc. Foreigners also work as labor migrants in the agricultural sector. For example, implementation of the intergovernmental agreement between Kazakhstan and Kyrgyzstan on attracting Kyrgyz workers for seasonal work in Kazakhstan brought in a number of workers from the neighboring country.

However, there are much more illegally employed labor migrants than those who work officially in the country. In 2002, there were about half a million illegal labor migrants in Kazakhstan. According to the experts, depending on the season the number of illegal labor migrants is about a million people.

Majority of illegal labor migrants, like their officially employed counterparts, work in the construction business, especially in the construction of the new "Northern" capital of the country and its "Southern" capital, Almaty.

A lot of attention is paid to the issues of informal labor migration. The issue has been covered many times and research projects of several international organizations, such as International Labor Organization (ILO), the United Nations Development Program (UNDP), UNIFEM, International Organization on Migration (IOM), and other organizations and institutions.

The problems of labor migration are very complicated and vital ones. Majority of informal labor migrants comes to Kazakhstan from neighboring ~~Central~~ Central Asian countries, such as Uzbekistan, Kyrgyzstan, and Tajikistan. The tendency is stipulated by the absence of visa regime between Kazakhstan and these countries, knowledge of the Russian and/or Kazakh language, availability of relatives in Kazakhstan, and other factors. According to the recent studies, conducted in 2010 by the representative office of International Organization on Migration, informal labor migrants work in such spheres as trade, construction sector, agricultural sector, hotels, restaurants, entertainment venues, households, etc. Most frequently informal labor migrants have to work illegally. For example, a prohibition on issuance of official trade permits forces them to work illegally. The trend was especially acute during the economic crisis.

There is a big disparity (4-6 times) in incomes of the informal labor migrants. Labor migrants who work in commerce usually have the largest income. Their monthly income is about 70,000-100,000 tenge. Another group of labor migrants with high income is a group working in the construction sector (60,000-100,000 tenge). The labor migrants who work as janitors have the lowest income (15,000-25,000 tenge a month). Seasonal laborers employed in the agricultural sector usually earn about 400 USD per season.

Working conditions of informal labor migrants do not meet any sanitary or humane standards. To illustrate, they sell goods or food on the streets without any conveniences under



severe weather conditions. The builders do not have any protection gear while working under dangerous conditions. Seasonal illegal labor migrants frequently do not have any elementary living conditions and might sleep in tents or makeshift homes, frequently 10-15 people in a room. Informal labor migrants do not have any days off and work in shifts for 15 days, 10 hours a day. Some of them work 10-15 hours a day.

Gender breakdown of informal labor migrants has its specifics. Men typically work in the construction sector, while women are employed in commerce and household sector. Not only men and women are employed as seasonal workers, but also children.

Child labor is one of the vital problems of the informal employment in Kazakhstan. However, the acuteness of the problem is not only in its size but also in the fact that underage children are involved in labor activities. Due to the age restrictions and limitations, children are not supposed to work and by regulations cannot work officially or on a contractual basis. Instead of getting education at a high school, some children have to work. In many instances, they do not work for their own benefit but for the adults who exploit them under different pretexts.

During the economic crisis and transition to the market economy in 1990s, due to the general unfavorable environment, child labor in Kazakhstan did not draw due attention. In 2000s, when the country's economy started growing and socio-economic environment improved, the issue of the child labor drew discontent and denunciation in the society.

To resolve the issue of child labor, National Coordination Council to fight the worst cases of underage labor was established at the Ministry of Labor and Social Protection of Population. In Kazakhstan, there are also a number of international and local organizations specializing in child labor problems. For example, in 2006, the International Labor Organization conducted a study aimed at researching use of a child labor in manufacturing tobacco and cotton in the country. In 2009, UN's Children's Fund studied issues of human trafficking and children's exploitation in Central Asia. In 2010, International Labor Organization and public foundation "Children's Fund of Kazakhstan" conducted a pilot sociological research in Almaty and southern Kazakhstan regions aimed at studying conditions for migrants' children in Kazakhstan.

According to the finding of the abovementioned research, as well as other publications, children work informally in the agricultural sector in Kazakhstan. They work on the fields and in the gardens not only during the harvest season, but also while sowing, processing different vegetables, fruit, and other goods on unorganized open air markets. In the cities, they are often employed in car washing and sales of various goods on street markets. In some cases, criminals or dysfunctional families make them beg for money or steal things, and even engage the children in prostitution.

It is very difficult, if not impossible, to identify the exact number of informally employed children. It might be doable to come up with more precise figures if the data from the Department of Internal Affairs were used because informal child labor is mainly linked with their exploitation. However, there are certain problems in this regard too. In some cases well-to-do parents allow their children to work during the summer school vacation so that to provide some kind of a labor upbringing. Sometimes children are willing to work voluntarily during the longer school breaks. The society frequently approves such initiatives.

Nevertheless, all these situations do not comply with the general concept of the International Labor Organization on fight against child labor or implementation of the programs of the International Program on the Elimination of Child Labor (IPEC).

## 7. DECENT WORK AND ILLEGAL EMPLOYMENT IN KAZAKHSTAN

The Concept of Decent Work put forward by the International Labor Organization has clearly identified that informal employment is linked with the lack of various social benefits for the employees. In particular, as it was noted in 2002 on the 90<sup>th</sup> session of ILO in the report "Decent Work and the Informal Economy", informal employees **"are deprived of seven most important benefits:**

- guaranteed access to labor markets;
- secure employment;
- secure workplaces (for further qualification improvement or promotion opportunities);
- occupational safety guarantees;
- qualification improvement guarantees;
- secure income;
- representational guarantees"

The abovementioned guarantees are, in fact, basis for establishing socially-oriented legal society. However, informally employed workers in Kazakhstan do not have these guarantees. To implement the Concept of Decent Work in Kazakhstan, the Agency of the Republic of Kazakhstan monitors the employees using the following indicators:

1. Opportunity to get/find a job and have a freedom of choice, which results in the number of the employed and unemployed people on the labor market.
2. Stability and security of work (a job), which implies an employee's official labor contract for an indefinite period of time. Degree of employees' social security, as well as the extent of professional development for them; opportunities for training and retraining.
3. Social dialogue and labor relationships, which imply coverage by collective labor agreements or trade unions, as well as their social protection by an employer.
4. Occupational safety that presupposes absence of unfavorable or hazardous working conditions, as well as availability of social security and medical insurance at a workplace.
5. Working hours within the norms of a legally accepted work time (40 hours per week).
6. Harmonious combination of work and family life, which presupposes a possibility to combine work and household responsibilities.

If we use the first indicator of the methodological provisions on assessment of decent work, in Kazakhstan 7,903,400 people were employed in 2009, which is 94.1% of economically active population in the country. Another 5.9% did not have jobs or did not get/find it.

Based on the second indicator, according to the statistical data, 4.4% of the employees did not have a stable job in 2009. In most instances, they had a verbal agreement to be employed; therefore, there were no official social security agreements, possibilities for professional development, training and retraining opportunities. Basically, these people were employed informally.

Analysis of the labor contracts, which provide a guaranteed decent work, shows that 196,300 people (2.5% of all employed) had a temporary job in 2009 due to its seasonal character or the fact that it was an occasional job. We can conclude that 2.5% of the employees in 2009 did not have any social support from employers and did not have an opportunity to engage in a social dialogue with them.

Assessment of decent work through the prism of the fourth indicator, occupational safety, shows that 844,000 people (10.7%) of all employees in the country worked in unfavorable or hazardous conditions in 2009. However, only 277,100 employees were insured against accidents. Moreover, the insurance plan was funded by an employer for 212,800 employees, while 64,200 employees paid for their own medical insurance.

Analysis of the fifth indicator shows that 1,383,700 people (17.5% of all employees) worked more than 40 hours a week in 2009. The trend can be explained by one of the following factors: employees' willingness to have an additional income; employers' requirements; work necessity; social responsibilities, and some other factors. We should note that employees very frequently are willing to work extra hours, which prevents implementation of the Concept of decent work in the context of observing duration of working hours. Moreover, employees are willing to work extra hours not only in their major workplace, but also at their additional jobs.

Harmonious combination of work and family responsibilities is promising in Kazakhstan because 1,779,100 employees have an opportunity to get a maternity leave and receive social payments upon the birth of a child. 1,703,000 employees are also entitled to get an additional leave to take care of a child.

The indicators of the decent work mentioned above characterize conditions and opportunities of officially employed population in Kazakhstan, whereas informal employees work in conditions that are not compatible with the concept of decent work in the real sector of economy.

A number of informal employees work longer hours under the threat of being laid off. In 2009, about 11% of officially employed people worked 46-50 hours a week, while 12.4% of informal employees worked the same number of hours per week. 1.5% of officially employed population worked longer than 51 hours a week, whereas the figure for the informal employees was 2.4% in 2009.

Employers frequently do not provide appropriate working conditions and informal employees do not require any improvement because there is no official labor agreement. Informal employees are not members of any trade unions and do not have an opportunity to join any of the unions. As a rule, informal employees are also less educated. 34.7% of officially employed population had a higher education in 2009, while the indicator for the informal employees was only 13%. 30.6% of formally employed people had a vocational education, compared to 24.8% of the informal employees. Lack of sufficient knowledge and in many instance legal illiteracy on the subject of "The Labor Code" and the statute of the Republic of Kazakhstan "On Population Employment" result in violation of standards established by the republican concept of decent work.

## **8 EXISTING POLICIES AND MEASURE AFFECTING THE INFORMAL ECONOMY**

It is neet to outline that existing policy and measures affecting employment and shadow economy of Kazakhstan are reflected in the program of "Main directions of economic policy and organization's measures relatively of the reduction of sizes of shadow economy in the Republic of Kazakhstan in 2005-2010". The priority and urgency of the solving of problems of informal economy were raised by the government of the country more than 5 years ago. In 2005 on September 30<sup>th</sup> the program of "Main directions of economic policy and organization's measures relatively of the reduction of sizes of shadow economy in the Republic of Kazakhstan

in 2005-2010 years” was adopted by the Government of Kazakhstan. The goal of the program was linked with decline of the sizes of informal economy on the base of improvement of economic, legislative and administrative measures. The program was compiled on the base of suggestions of the ministries, finance and public organizations, research institutes<sup>2</sup> which represented state’s interests.

According to the program main causes of shadow economy in Kazakhstan are next challenges:

- low level of economic development and welfare of population;
- administrative impediments;
- imperfection of registration’ system and evaluation of shadow economy;
- taxation system;
- predominance use of cash in payment transactions and weak level of development of the system which could accept payment (credit or debit) card.

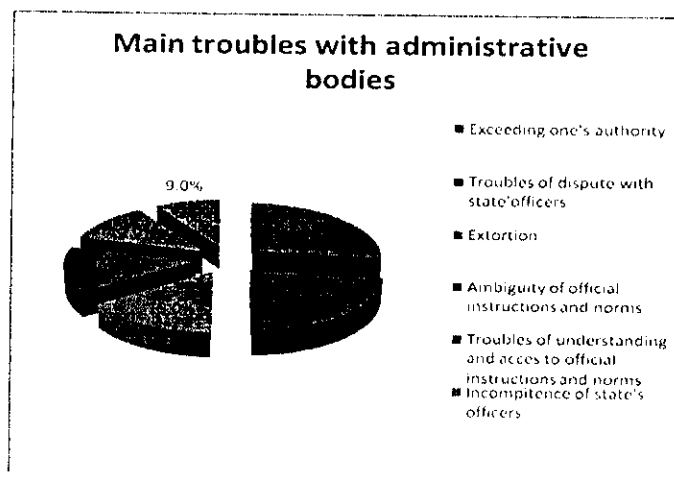
The program ranked these challenges according to their importance. In the table we can see main causes which stimulate development of shadow economy in Kazakhstan and their ratings (Table 8.1)

Causes	Rating of importance
Low level of economic development and welfare of population	9
Overregulation of the procedures of establishment and doing business	8
Imperfection of the evaluation methods of size of shadow economy	7
Insufficiently developed material and technical bases of administrative bodies in the sphere of combat with economic crimes	6
Imperfect legislation, which regulate the sharing of income between state and other sectors of economy (tax regulation).	5
Predominance use of cash in payment transactions and weak level of development of the system which could accept payment (credit or debit) card	4

Source: [18]

Program outlined that among main causes of shadow economy in Kazakhstan are administrative impediments. Population and entrepreneurs come into collusions with state’s officers. They cannot argue with state’s officer because of misunderstanding. Very often the requirements of state’s officers are subjective. Instructions and norms of many official documents are very bad quality. They do not explain clear relation between officials and population. According to the survey which was organized by the RGP “Institute of Economic Research” 27 % of respondents of this survey were not satisfied by officials because of exceed one’s authority (Graph 8.1).

<sup>2</sup> Institute of Economics of the Ministry of Education and Sciences of the Republic of Kazakhstan was one of the research institutes which sent several suggestions relatively of this issue.



Source: [18]

Reasoning from these causes the government had included to the plan such directions as development of national economy and rise of welfare of population.

Development of national economy included next tasks:

- provide annual economic growth not less 8%;
- provide annual growth of income per capita not less 6%

Regarding the increasing of welfare of population and development of social sector the program planned to reduce the coefficient of poverty till 8%.

In the part of the declining of administrative impediments and overregulation of the procedures of establishment and doing business this program had included such tasks as:

- gradual development of income declaration among all population;
- construction of the unit tax centers
- optimization and improvement of the documental forms (official instructions) tax declaration;
- development of tax administration among persons who are occupied by net marketing

Program had included to its plan also improvement of existing legislation which create impediments in the sphere of business. Program planned working out of new laws which can help to develop small, middle and individual business. For example the need of amendments in the Code of the Republic of Kazakhstan "On Administrative Regulatory Offences" was included to this program. As practice measure of the development of small, middle and individual business in Kazakhstan the necessity of working out of new law "On Private Entrepreneurship" was included to the plan of this program also.

One of chapter of this program is related directly to the informal employment. According to the program the main activity in the sphere of declining of informal employment had to be next directions:

- Adaptation of new Labour Code;
- Signing of international agreements with China and other CIS countries relative to the international labor migration;
- Putting into operation of hour wage payments
- Concession of the right to work as a part-time worker and holding of more than one office.

Analysis of realization of the program "Main directions of economic policy and organization's measures relatively of the reduction of sizes of shadow economy in the Republic of Kazakhstan in 2005-2010 years" shows that not all measures which were planned in this program were adopted.

Because of global economic crises and other circumstances Kazakhstan did not have annual economic growth not less than 8% or annual growth of income per capita not less than 6%. As it was shown above in the 1<sup>st</sup> chapter (Graph 1.1) in 2008 annual economic growth was 103.3% and in 2009 – 101.2%. Annual growth of incomes per capita in 2008 and 2009 were 102.0% and 99.8% correspondingly.

At the same time some directions of the reduction of sizes of shadow economy were realized. For example in 2006 in the country the amendments in the Code of the Republic of Kazakhstan "On Administrative Regulatory Offences" had been included.

Some amendments were linked with administrative responsibility. For example, the amendment of article №34 "Administrative responsibility of officials and others persons, who carry out management functions" point out that the officials can be brought to the managerial responsibility in case if he or she does not carry out their duties. Amendment of article №84 "Compensation of damages which was caused by administrative regulatory offence" outlined material responsibility of officials and other persons in case of their quilt. Amendment of article №84 "Denial of concession of right to information or unlawful limitation of right in access to information sources" point out that in this case the size of penalty can be 5<sup>th</sup> to 170<sup>th</sup> monthly calculation indices (in 2011 monthly calculation index is 1478 tenge)

With aim to develop business environment and decline of shadow economy in 2008 on December 10 the new Law of the Republic of Kazakhstan "On Tax and other Mandatory Payments to the Budget (Tax Code)" was adopted [19]. The Tax Code in compare with previous Tax Code reflects new stage of development of Kazakhstan. As it was outlined in the speech of the President of the country, if old Tax Code was linked with stabilization of the economy but the new one was linked with its development. One of the main goals of the new Code is to provide convenience for honest-minded tax payers and decline a share of shadow economy.

In 2006 on January 31 law of the Republic of Kazakhstan №124-III ЗРК "On private entrepreneurship" was passed [20]. The main aims of the law are creation of convenient condition in the sphere of private entrepreneurship development and defense of state's interests and right of consumers. According to this law the main principle of state regulation of private entrepreneurship is development of small business in the Republic of Kazakhstan as priority.

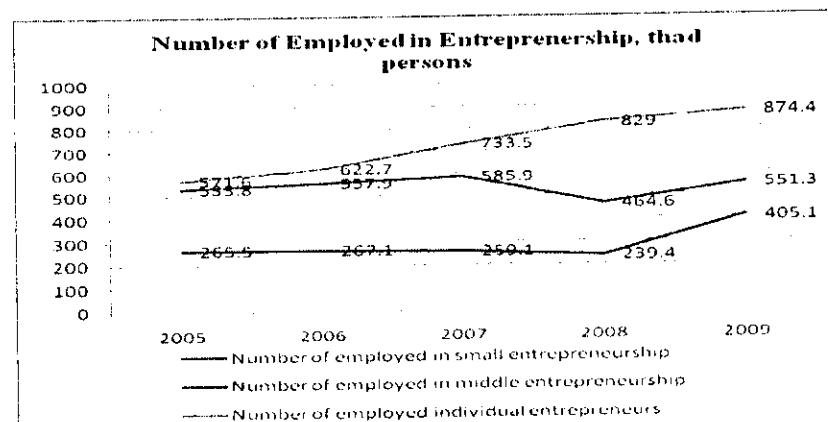
Another peculiarity of this law is development of individual entrepreneurship. Individual entrepreneurs may realize their activity without registration as juridical persons. Such opportunities simplified doing business drastically. In the Graph 8.2 we can see increasing number of persons who are involved in this business.

As it can be seen from the graph 8.2 the numbers of employed persons in small and middle entrepreneurship fall down in 2008 year which was linked with global economic crises. At the same time we can see increasing number of individual entrepreneurs in this year. The main cause of this trend was linked with adoption of law of the Republic of Kazakhstan "On private entrepreneurship".

Among different measures of affecting the informal economy and especially informal employment is new Labor Code [21]. This code was adopted on May 15, 2007. In compare with

old law “On labour in the Republic of Kazakhstan” the new Labor Code regulates not only labour relation, but social partnerships and health and safety of labor also.

**Graph 8.2**



Source [2,3]

It is need to outline that the labour Corde had included articles which let have to work as a part-time worker and holding of more than one office with different employers. Old law did not have such articles. In many cases employers of informal sector began to utilize of holding of more than one office under frame of informal employment.

### 9 MAJOR DIRECTIONS AIMED AT DECREASE OF INFORMAL EMPLOYMENT IN THE REPUBLIC OF KAZAKHSTAN

Analysis of informal and formal employment shows that they tie with each other interdependently. Both phenomena are not shared. Many researchers when they analyze informal employment they to touch on problems of informal economy also. However, the problems of informal employment and the major directions aimed at their decrease have own specific.

First of all, these main directions should be concentrated on providing of favorable conditions of the labour, social protection of employees, and realization of Decent Work and other ILO' conventions.

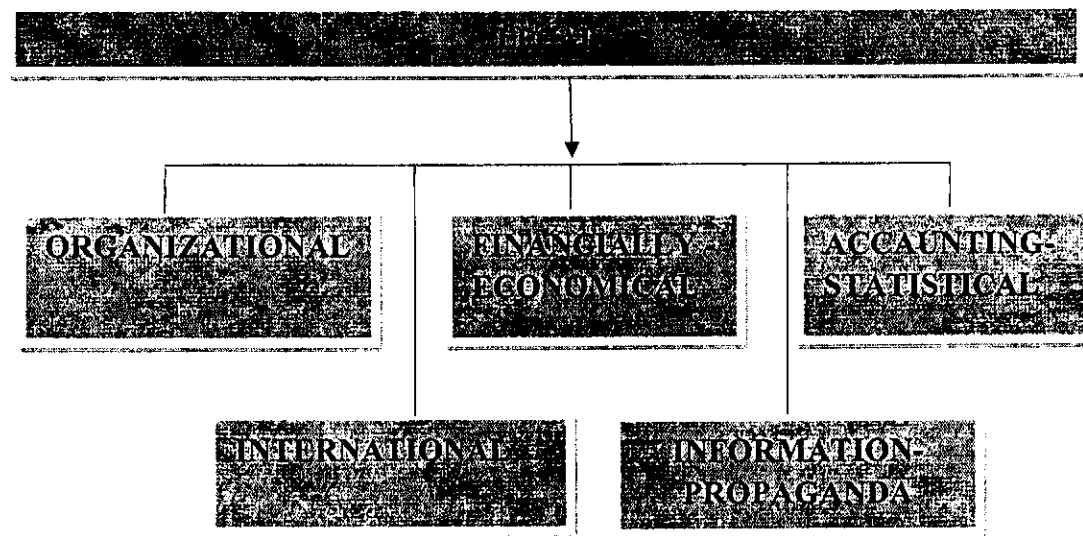
Secondly, these measures should take into consideration the peculiarities of informal employment on the base of quantity (number of employed), quality (sex, age), regional and brunch specifics.

Thirdly, these measures themselves should be structured and systemized on the base of their importance and priority.

International experience and programs of ILO show about availability of different mechanisms and tools of decrease of informal employment which could be used in Kazakhstan. Coming from international experience and national specific Graph 9.1 shows main blocs of the mechanism of decrease of informal employment in Kazakhstan.

Graph 9.1

MAIN BLOCS OF THE MECHANISM OF DECREASE  
OF INFORMAL EMPLOYMENT



The tools of these blocs interrelate with each other very close. . Realization of any of these tools are impossible without influence of others. In certain cases measures or tools which we have included to one bloc could be formally reckon among other. But in any case presented mechanism in the picture 10.1 allows us to imagine policies and measures aimed at decrease of informal employment in the Republic of Kazakhstan more clearly and systematically.

**Legal bloc.** According to the Constitution of the country, Kazakhstan is a socially oriented, legal country with a market economy. Therefore, while discussing the legal component of the poverty reduction, we need to highlight its significance compared to other aspects of the issue. The aspect becomes even more crucial and important as we must incorporate a part of informally employed population into certain legal framework, namely into a sphere of legal contracts, formal agreements, as well as verbal agreements that have legal force.

One of the major issues of informal employment reduction involves providing legal framework and, therefore, formalizing labor relationships under the Labor Code of the Republic of Kazakhstan of May 15, 2007. Among the main reasons for deficiency of labor contracts is lack of interest both from employers and employees in signing a labor contract. Another reason is insufficient awareness by the population of legal and economic significance of taxes not only for the development of the state at large, but also for the participants of the informal labor market. It is known that informal employment leads to the reduction of payments to the social insurance funds and the state budget, which provide funding for the social sphere. In general, the trend results in the increase of the cost of living not only for the formally employed but also for the informally employed population.



In order to stimulate this process in the country, large-scale information and propaganda measures are required. Measures that would enlighten on the significance of Labor Code of the Republic of Kazakhstan, paying social taxes, as well importance of transparency in their spending.

As the analysis of the causes of informal employment shows, and it was noted in Part 3, the statutes existing in the sphere of socio-labor relations and employment do not fully reflect socio-economic, cultural, and geographical peculiarities of the development of the Republic of Kazakhstan in the context of reduction of informal employment. For example, restructuring in government agencies and reduction of their functions on the basis of the statutes "On Employment" adopted on December 30, 1998, and January 23, 2001, were among the major causes of informal employment growth in some regions of the country. The Republic of Kazakhstan is known for its huge territory. Quite often the unemployed in remote and economically undeveloped regions are informally employed not in their place of residence but in other even more remote areas. In this case, the government employment agencies did not have relocation functions, which caused informal employment in Kazakhstan.

In fact, considering theoretical and methodological provisions of regulating the labor market and employment, both the form and content of the statute of the Republic of Kazakhstan "On Population Employment" should be transformed and improved. As it was noted in our research, labor market and employment are two closely integrated sub-systems of the labor functioning although with their own specifics [22].

To illustrate, if the labor force demand and supply are regulated on the labor market, as well as unemployment decrease, and as a result, its movement, both in industrial and regional aspects, then regulation of efficient labor use will be provided in the employment sphere.

To conclude the abovementioned, the statute "On Population Employment" should be formulated as the statute of the Republic of Kazakhstan "On Labor Market and Population Employment". As for its content, the law should include provisions on the rights and obligations of the state employment agencies, as well as rights and obligations of citizens in search for jobs, taking into account their relocation or transfer to another job

The statute of the Republic of Kazakhstan "On Individual Entrepreneurship" was adopted on January 1, 2006. Development of individual entrepreneurship played a significant role in reducing informal employment. The law regulated social relationships, which emerged as a result of entrepreneurial activities by non-government physical and legal entities; it also determined legal, economic, and social provisions and guarantees that provide freedom of individual entrepreneurship in the Republic of Kazakhstan.

Despite the advanced character of the law, individual entrepreneurship has not yet been widespread in the agricultural sector. As it had been noted in part 2 of the report, inadequately developed infrastructure for registration of entrepreneurial activities in rural areas is a major factor impeding the development of entrepreneurship in rural areas, and, subsequently, reduction of informal employment.

To resolve this problem, in our view, mobile groups of tax advisors should be formed. These tax advisors could counsel rural residents on the opportunities of legalizing their business within the frameworks of the law. They could also provide information on advantages and disadvantages of individual entrepreneurship in the form of a patent or a simplified form, and, in general, on peculiarities of the individual entrepreneurship.

In order to reduce informal employment among the youth, particularly in the field of legal regulation of hiring a person for a “trial period”, some curricula of the higher education institutions should be modified. Many university graduates are uninformed both of the law “On Population Employment” and “Labor Code of the Republic of Kazakhstan”. Regardless of a university they graduated from, a university graduate’s first problem will be going through the job search and job finding procedure.

In our view, in order to eliminate illiteracy in legal issues regarding labor relationships, it is necessary to introduce a mandatory course on the labor code. Moreover, the course should be introduced in the curricula as a required credit course.

**Organizational bloc.** Organizational measures aimed at reducing informal employment are quite multifaceted and comprehensive. In fact, they provide major leverage in implementing various normative and legal documents, as well as financial and economic instruments. They are connected with information-propaganda work in many ways. At the same time, this aspect has its own specifics and tools in reducing informal employment.

Establishing Labor unions of different types is one of the instruments in reducing informal employment. In this regard, it is worth to mention the experience in establishing labor unions of the countries with transition economies. For instance, the experience of Georgia in establishing labor unions of market vendors and bus drivers is quite interesting. These labor unions were mainly established upon the initiative of the vendors, bus drivers, and truck drivers. It is noteworthy that the major principles of these unions’ organization were their location and objectives. Thus, the unions were not created on the basis of the old trade unions, such as Trade Union of the Commercial Employees or Trade Union of the Employees of the Automobile Industry. These new organizations were established on a qualitatively new basis. Thus, for example, bus drivers set up independent labor unions on the basis of different bus routes. The report made by Lavrentiy Alania, chairman of the Labor Union of the Employees of the Automobile Transport and Road Workers, states that 32 bus drivers established their own labor union on the route “Rustavi-Tbilisi-Sports palace”; 36 drivers set up their own trade union on the route “Rustavi-Tbilisi- Railway Station”; and 50 drivers established their own professional trade union on the route “Rustavi-Tbilisi- Didube”, etc. [23]

In our view, such approaches and measures in establishing labor unions could be also used in Kazakhstan.

Introducing amendments on informal employment issues into the relevant trilateral agreements based on the industry and regional aspects could become one of the instruments in reducing informal employment. To illustrate, provisions on increase of the labor union members at the expense of reducing the informally employed would lead not only to membership fee increase, but also to the increase of the socially unprotected workers. As we know, “the history of the trade union movement is the history of the defenseless employees who become united to protect their rights in opposition to employers and the governments; to apply major principles of solidarity and to acknowledge that while protecting and legalizing the rights of the shadow economy, they are also protecting the rights of their legally employed members” [ 24].

Creating opportunities for the informally employed to participate in a social dialogue is an important factor in reducing the informal employment. However, a temporary nature of a job and an impermanent job location seriously hold back establishing trade unions among the informal employees. In our view, at this stage of development when a life-time employment at one workplace is a rare occurrence, and when it is replaced by employment in small and medium

business and by the individual entrepreneurship, a drastically new concept of creating trade unions should be developed and adopted. In particular, the admission to the unions should be on the basis of working hours in a certain industry or sector. Verbal application of an informal employee and his/her voluntary participation on the meetings and events conducted by a trade union will allow providing a moral and objective protection of the rights to the decent work of the informal employees.

In addition, based on the model of India and some other countries, similar trade unions could be established not only according to the industries, but also in the regional or urban contexts. Specifically, regional trade unions could be established in large Kazakhstani cities, where a considerable number of the informal employed work temporarily. Such unions, while functioning to offer social protection for the informally employed citizens, could lead to legalization of the phenomenon. Informal employees' evidence and experience of the trade union members could provide basis for the legal protection of the informal employees and boost the image of the unions, which will have to be registered officially and will, therefore, be vested with certain legal rights.

One of the factors impeding population in rural areas of Kazakhstan from finding a job is a lack of organized formal job search not only in their region, but also in the country in general. In this regard, arranging regular mobile state employment agency branches, which will monitor and inform rural residents on the national employment market, will reduce informal domestic labor migration.

When a temporary relocation to another region is required, the state agencies should help residents of rural areas to relocate by covering transportation costs and other related expenses. The measure will allow legalizing informal employment to some extent and will allow reducing invisible employment in rural areas.

In order to reduce informal employment and unemployment, and to establish a competitive environment on monopsonic and oligopsonic labor markets, systems providing mobile relocation of labor force on a temporary or permanent basis should be established in cities and rural areas in Kazakhstan. To implement large scale national projects, there should be possibilities to work in shifts, which provide flexible mobility.

In nearly every Kazakhstani city, there are streets or spots, where the unemployed people or those who look for a temporary job gather. As a rule, these jobs are temporary and no labor agreements are offered in these cases. To regulate the process and to decrease the informal employment to some extent, in our view, local administrations should organize regional or city employment agencies. Such agencies will establish information database, which will reflect the current situation on demand and supply on certain occupations or services, which are offered by the employees registered at an employment agency. More civilized arrangement of a search for the temporary jobs will not decrease the informal employment, but will also provide a social protection from the potential repression.

One of the major directions in reducing informal employment should be development of the training and retraining system. Such a system should encompass informally employed population and should be aimed at providing them with a formal workplace upon the training completion. *Development of comprehensive vocational education on the one hand, and providing a workplace on the other hand, will not only decrease informal employment but will also improve the image of both state and private systems of personnel training.* It should be noted that professional training and retraining demonstrates flexibility of the labor market. If the territorial

relocation to a new workplace shows spatial functioning of the labor market, training and retraining demonstrate a quality aspect of the labor market functioning.

**Financial-economic bloc.** It is obvious that this aspect and the instruments utilized in its implementation are also rather crucial and vital. In many cases, higher taxes and various duties, tariffs, quotas, and other payments become the major impediment for entrepreneurship and lead to the increase of population's informal employment. Utilization of such payments should be economically substantiated and used rationally.

As it had been noted in the previous parts, Kazakhstan conducted certain reforms in improving tax legislation and entrepreneurship development. However, these measures have not resulted in the desired outcome due to various obstacles. Thus, according to the World Bank "Doing Business -2010" Report, Kazakhstan ranked 63<sup>rd</sup> among 183 countries in the rating on the Ease of Doing Business Index. At the same time, Kazakhstan ranked 82<sup>nd</sup> on the Enterprise Registration Index, which means that various bureaucratic obstacles are one of the major factors holding back development of the entrepreneurship.

Social insurance is one of the important financial-economic instruments reducing informal employment of the population.

One of the criteria in determining the employment status of the population is providing them with social insurance. If an employee does not have a social insurance, then his/her work does not meet the standards of decent work. Moreover, according to the methodological provisions adopted by the Statistics Agency of the Republic of Kazakhstan such an employee can be referred to a group of the informally employed upon analysis of the employment status. It is noteworthy that the employed population of the country does not have a clear and comprehensive perception of the system of the social insurance in the Republic of Kazakhstan. Many employees do not understand why they should be paying a unified social tax, which covers three types of risks. That is, the existing system of the social insurance does not follow a major insurance principle: closeness and redistribution or proportionality of received and expended insurance premiums on certain risks.

At the beginning of new century, in the Republic of Kazakhstan, the law "On Social Insurance" is enforced [25]. Within the framework of the law, the state receives a unified social tax and pays insurance premiums on three different types of social risks: on the loss of employment, on the loss of a bread winner, and on a job-related accident. It is confusing for the employees because they do not know when and how they can get an insurance payment if they lose a job, for instance. Thus, in order to reduce the informal employment and to provide a clear picture of the social security, the whole system of the compulsory social insurance should be improved.

The social insurance system as an important tool in reduction of the informal employment can be developed also in the sphere of the international labor migration. Both legal and illegal labor migrants, who work in Kazakhstan, are not included in the accounting and calculation of actuarial on social insurance. There is an objective reason for that. It is difficult and even impossible to calculate an insurance premium if the insurance area is amorphous or persons whom we want to insure do not want to be involved in it. In this case, it will be more correct to implement social insurance on the international level, within the countries which are involved and interested in establishing international labor markets.

Thus, insignificant insurance premiums upon licensing or upon crossing the borders should be collected. On the basis of these fees, international social insurance funds for labor migrants

could be established, for example, within the framework of the Eurasian Economic Community (EurAsEC), the Customs Unions, and even CIS. In the long term, it is possible to implement also in case visa-free regime is introduced with the European countries and the European Union. An insurance policy, which will be given in this case, will serve not only as a type of social protection from certain risks, but will so serve as a patent for formal employment in the countries- members of such a union.

Development of micro-financing programs is a significant direction and instrument of the financial-economic aspect in reducing informal employment. Micro-financing takes an important place in social-economic development of the country. It plays a significant role not only in the development of entrepreneurship but also in providing formal employment to the population. First and foremost micro-financing is aimed at providing access to the financial resources to the poor and to the socially vulnerable parts of the population.

It should be noted that Kazakhstan has a practical historical experience in implementing similar programs. A non-government lending organization "Microcredit" was established in late 90s, which started implementing the program. The programs aimed to complete the following tasks:

- To provide population employment;
- To increase incomes;
- To reduce poverty;
- To develop individual and family small and medium business among the unemployed, economically active part of the population.

The aims and objectives of the micro-financing program predetermined a special procedure of the allocation of its loans. The amount of the first-time loan was \$400.00 with the annual interest rate of 5% for the period of no longer than 18 months. Subsequent loans were provided for larger amounts at the rate negotiated by the parties. Moreover, the prospects of receiving consecutive loans depended largely on how successfully the terms of the initial loan were met. Strengthening of the material base was another decisive factor.

Although the outcome of implementing the program could not be quite successful due to the lack of the financial resources, the use of the existing experience in micro-financing sphere is a significant factor in reducing informal employment of the population.

One of the most significant directions in reducing the informal employment is the development of financial-technical and electronic systems of wage payment. As it had been noted in the analysis of the informal employment causes (part 2), presence of the large number of informally employed population is due to the widespread use of cash for wage payments and lack of the developed system of transfer to debit cards. Modern system of trade should also develop the system of non-cash payments. Construction of large supermarkets and shopping centers, as well as small retail outlets, equipped with cash registers that accept card payments, is one of the required steps in reducing informal employment. Another important direction in this regard, will be conducting various seminars and lectures for the population to inform about the advantages of the non-cash payments and, in general, to improve financial literacy of the population. Frequently, population, especially in the rural areas, is cautious about the use of the modern financial systems and monetary instruments.

While developing the system of non-cash turnover, not only do we encourage development of new servicing culture and new standards of economic activities, but we also assist in the

improvement of the financial system of the country and make it conform with the international standards of efficiency and transparency.

Introduction of annual tax declarations for all citizens of the country, similar to the US experience, can result in the decrease of informal employment. This direction along with the introduction of the non-cash payment transfers will lead not only to the reduction of informal employment, but also to the decrease in the number of criminal transactions.

**Accounting-Statistical bloc.** As it had been noted in the analysis of population employment in part 3 (Informal Employment and Its Specifics in Kazakhstan), the informal employment issues are in many ways linked with its insufficiently precise or accurate assessment. We should note that this problem is connected with determining its accounting unit. Currently, accepted accounting unit is an employee who works in the informal sector or informally employed. Due to the fact that both notions of an accounting object and subject are confused, which results in unsystematic accounting of informal employment, it is necessary to correct the current situation. How should we account for the informal employment at any rate? In cases when an accounting unit, an employee, is used, the problem will not be solved because an employee can be working both in formal and informal sectors. Obviously, it will be more accurate to use a man-hour as an accounting unit, not an employee, which is a common practice used to calculate wages in developing countries. Hourly pay for labor and, subsequently, hourly assessment of employment, will present a more objective assessment of the extent of the populations' informal employment.

Establishing an extensive information database that reflects functioning of the national labor market in the real time can become one of the promising directions in reducing informal employment in Kazakhstan. The measure might require development of the national and regional Database Banks on existing vacancies. These Banks should be integrated into the unified automated system of the labor demand and supply. This system will involve different websites and search engines that will display functioning of the national, regional, professional, and industry labor markets.

To reduce frictional unemployment, especially among the youth, it is necessary to develop and utilize modern systems of psychological, sociological, medical analysis of individual characteristics and an employer's potential in locating a job for him/her and in offering a job. Identifying peculiarities and competitive advantage of an employer can become a significant instrument in reducing informal employment.

**International bloc.** International-political measures on ~~reduction~~ of informal employment are connected, first and foremost, with the development of intergovernmental agreements on labor migration. Study of the labor migration in the Republic of Kazakhstan indicates that labor migrants from Kyrgyzstan are more socially and politically protected owing to the various intergovernmental agreements between two countries on labor migration. Absence of such agreements between Kazakhstan and Uzbekistan result in frequent deportation of Uzbek labor migrants, who do not have employees' rights and are also vulnerable when they encounter the Kazakhstan state law enforcement agencies. Lack of intergovernmental agreements also is a major cause for the larger number of Uzbek labor migrants in the country compared to the Kyrgyz labor migrants. The trend is similar for the Chinese illegal labor migrants.

Measures aimed at strengthening the state borders should also lead to reduction in illegal labor migration. In the view of extensive borderline, it is quite difficult to implement this task in Kazakhstan. However, new modern equipment can be built up in the places of the most frequent illegal infiltration of the migrants, similar to the measures carried out by the US along the

Mexican border in Arizona. In the long term, it is possible to fund scientific research aimed at the use of modern satellite systems, such as Geographical Information System (GIS), Global Positioning System (GPS), and Global Navigation Satellite System (GLONASS) to monitor and safeguard the borders in order to prevent illegal migration.

Currently, Kazakhstan, Russia, and Belarus are cooperating within the framework of the Customs Union. Solutions of many economic issues, namely the issue of the common customs policy, are coordinated between the countries and are resolved fast. There are also prospects of establishing Common Economic Space (CES). When it happens, such issues as labor migration regulation, issuing quotas, and limiting foreign labor force, particularly from Russia and Belarus, should be resolved from new angles.

**Information-propaganda bloc.** Implementation of the abovementioned blocs of the first and second levels (legal, organizational, financial-economic, and accounting-statistical) is impossible without their proper information support.

Promotional brochures, booklets, information fliers aimed at promoting reduction of informal employment can become instruments of information support. In addition, it will be useful to utilize experience of the Kyrgyz experts in developing, producing, and distribution of the video clips on how damaging can be employment without properly arranged labor agreements.

Use and implementation of the Bulgarian experience will become quite a substantial trend in reducing informal employment. [26 ] To illustrate, in 2007, Bulgarian Chamber of Commerce, Bulgarian Association of Manufacturers, and eight national media agencies joined their efforts in covering shadow economy issue under the slogan "To the Light".

A special website was created [www.nasvetlo.net](http://www.nasvetlo.net). Through the different initiatives, publications, and information materials, they initiated comprehensive public debate of the issue. The initiative was supported by the national institutes and labor unions.

Main objective of the Bulgarian initiative was to combine efforts of all organizations and institutes of the country in order to achieve substantial progress in the fight against shadow economy and informal employment. To achieve the aim, the following objectives were delineated:

- To strengthen public awareness on negative aspects of informal employment, which people and society in general encounter;
- To publicize positive experience of the companies and organizations of the formal economy;
- To share positive international experience in reducing shadow economy and informal employment;
- To propose concrete mechanisms in fighting informal employment and to initiate inspections based on the complaints by the Internet site users.

The efficiency of the campaign became obvious from its start. In a month after the start of the "To the Light" Initiative, 81 complaints on the breach of the labor legislation were resolved. Complaints on the breaches in the sphere of the social insurance, duration of the working day, and lack of labor agreements were among the most common grievances filed by the employees.

In 2008, right after this positive initiative, another campaign "Legal Employment" was launched in the country.

In our opinion, the positive Bulgarian experience in reducing informal employment can also be used in Kazakhstan.

Information-propaganda bloc must include instruments on reducing informal employment among women and children.

As it had been noted in the previous parts, in Kazakhstan children are very often employed in the agricultural sector. They work in the fields and gardens not only during the harvest time, but also during planting and processing of various vegetables, fruit, and melons. In the cities, children are very often involved in car washing and selling different goods on street markets. Moreover, in many instances even the parents of wealthy families give permission to such labor to provide labor upbringing. Besides, the children are willing to work somewhere during the school breaks and in their free time. Thus, such experience is encouraged not only by the parents, but is also positively perceived by the others.

Informal employment of men and women in Kazakhstan, as well as formal employment, is largely predetermined both by their physiological characteristics and national traditions. To illustrate, women are informally employed in the household, in education sphere, and trade. Moreover, women dominated in the trade not only during the crisis of the 90s, but also continue to prevail in the sphere in the modern days. They usually work as sellers of various imported goods in the urban and rural markets. Many of them sell vegetables and fruit that they grow on the backyards or just resell the produce.

In general, informal employment both among women and children is widely spread especially in the southern regions of the country. Therefore, information-propaganda instruments, such as various television programs, newspaper publications, public debates aimed at reducing informal employment among women and children, should be more developed in the southern regions of the country.

It should be noted and reiterated that information-propaganda instruments on reducing informal employment will bring a positive outcome when implemented together with legal, organizational, financial-economic, national, and political instruments mentioned above. Furthermore, their implementation should take into account regional and industrial aspects.



## CONCLUSION

The research conducted to develop policies and measures aimed at facilitating transition from informal to official (formal) employment shows that the problems of informal employment in Kazakhstan are acute and crucial. Informal employment is frequently linked with poverty level, unemployment, and is a social indicator of the society along with these trends.

Having built a market economy, Kazakhstan has considerably decreased informal employment. However, it still has a substantial share in the agricultural sector, commerce, and construction sector. Particularly large part of informally employed is represented by the self-employed population. In the sphere of labor migration the problem of informal employment or their social protection is one of the fundamental issues.

As the research shows, development of policies and measures aimed at facilitating transition from informal to official (formal) employment in Kazakhstan entails resolving a set of wide-ranging issues. Existing normative-legislative acts on population employment should be improved, the statute "On Social Security" should be modified, and different intergovernmental agreements should be sealed. To decrease informal employment, it is also essential to take certain organizational, technical, and financial measures to reduce cash flow and to move to a card system of financial transactions.

Among the measures aimed at reduction of informal employment in Kazakhstan are improvement of statistical accounting, methodological provisions on assessment of the scope and duration of informal employment. Drastically innovative approaches on identifying indicators of informal employment are required to a certain extent.

Conceptually new approaches are required to develop social partnerships aimed at reduction of informal employment in the Republic of Kazakhstan in view of the development of small and medium business and individual entrepreneurship. In particular, the partnership can be formed not on the industry level but in the regional aspect.

Overall, the set of proposed measures are in the line with the existing and prospective programs on socio-economic development of the country. At the same time, some of these measures require innovative approaches for their implementation.

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**ILO questionnaire : KAZ 153**  
**On the following issue:**  
**“Policies and Measures are elaborated in order to**  
**facilitate transition from informal to formal employment**  
**(Kazakhstani model”**

1. Was research of informal employment carried out? (titles of reports, papers, etc. and their results)
2. How would you measure acuteness of the problem? (preliminarily, percentage of involvement)
3. What is informal employment to you? (types of activities)
4. What types of activities are more prone to informal employment (in descending order)?
5. Major causes of informal employment:  
Extended time for contract registration (examples)  
Low income level (examples)  
Absence of employment (examples)  
Other (examples)
6. What is the average level of income in the informal sector by types of activities?
7. What are the working conditions like in the informal sector by types of activities?
8. What is the duration of work in informal sector by types of activities?
9. What categories of employees are involved in informal employment?  
Gender -  
Age -  
Education -
10. In what regions is informal employment more widespread?
11. How has the economic crisis affected informal employment?  
By types of activities  
Gender -  
Age -  
Education -
12. What measures could reduce informal employment?