

# Informal employment in the poor European periphery

Informal  
employment

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## Abstract

**Purpose** – During the transition from socialist to post-socialist regimes, many Central and Eastern Europe societies have developed a broad sector of informal work. This development has caused substantial economic and social problems. The paper aims to discuss these issues.

**Design/methodology/approach** – This paper aims to answer two questions regarding European countries with a relatively weak economy and welfare state: what are the differences in the social characteristics between workers in formal and informal employment? And how might they be explained? According to the main assumption, a key reason why people work in undeclared employment in such countries is that they are in particularly vulnerable positions in the labour market. This paper uses the example of Moldova. The empirical study is based on a unique survey data set from the National Statistical Office of Moldova covering formal and informal employment.

**Findings** – The findings show that, in informal employment, workers in rural areas, workers with a low level of education, young workers and older workers – in the final years of their careers and after the age of retirement – are over-represented. It seems that a significant reason why these workers are often engaged in informal employment is the lack of alternatives in the labour market, particularly in rural areas, compounded by limited social benefits from unemployment benefits and pensions.

**Originality/value** – Research about social differences between workers in formal and informal employment in the countries of the European periphery is rare. This paper makes a new contribution to the theoretical debate and research regarding work in informal employment.

**Keywords** Poverty, Welfare state, Informal employment, CEE countries, Social characteristics

**Paper type** Research paper

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## Introduction

Informal employment constitutes a relevant and problematic phenomenon in European societies in general and in the Central and Eastern Europe (CEE) countries in particular (Renooy *et al.*, 2004; Surdej and Slezak, 2009, European Commission, 2014; Williams, 2014). By evading both official statistical coverage and the payment of taxes and social security contributions, informal employment causes considerable harm to national economies. Its undermining of wage and price standards distorts competition and puts pressure on those market participants who comply with state regulations. The relatively large scale of informal employment in CEE countries is seen as an obstacle to substantial modernisation of the economy and society (Renooy, 2008).

According to the definition of “informal employment” used in this paper, the term describes those remunerated activities that are legal in principle but are hidden from the state in practice, in that they are not declared to the public authorities even if their

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declaration is required by the regulatory system of the state (ILO and Daza, 2005; Renooy, 2008, p. 250; Thomas, 1992; Williams and Windebank, 2005, p. 83). The paper is based on the case of Moldova, a CEE country at the European periphery which has both a weak economy and a weak welfare state.

This paper aims to answer two questions concerning CEE countries with a weak economy and welfare state: what are the differences in the social characteristics of workers between formal and informal employment? And how might these differences be explained? According to the main assumption, in the context of such countries, workers with vulnerable positions in the labour market, defined as workers who have less opportunity to find formal employment than others, are over-represented in informal employment. The main reason that they take up informal employment is hypothesised to be that social benefits for the unemployed and retired are below the poverty level, so informal work enables these benefits to be supplemented. It is also assumed that factors such as age, education, gender and type of area (urban/rural) are relevant for the degree of vulnerability of workers in the labour markets (Pfau-Effinger, 2009). The empirical study analyses a unique set of data from a module on informal employment in a data set from the Labour Force Survey (LFS) 2008 from the National Bureau of Statistics (NBS) of Moldova (Pfau-Effinger *et al.*, 2010). The data offer the opportunity to gain insight into the ways in which informal employment in a CEE country is embedded in its social structures. Until now, there has been little research about social differences between workers in formal and informal employment in CEE countries. This paper makes a new contribution to the theoretical debate and research with regards to work in informal employment.

The second section of this paper debates the social differences between workers in formal and informal employment, and the factors which lead to the over-representation of workers with specific social characteristics in informal employment. The third section introduces the theoretical framework and the methodological approach of the empirical study and describes the LFS of the NBS. The fourth section provides a short introduction to the society and economy of Moldova, the role of its welfare state and introduces the findings of the empirical study. It also explores the main factors which cause workers with specific social characteristics to be over-represented in informal employment, both in general and in specific forms of informal employment. The paper ends with a summary and conclusion.

### **State of the art**

In the debate on the development of welfare states, which is partly influenced by neoclassical economics, state regulation is seen as the main cause of the increase in informal employment. Informal activity is seen as the result of over-regulation and heavy state intervention in the economy through tax and social security systems. According to this argument, both workers and employers/contractors jointly create an “informal economy” with the main aim being to avoid paying taxes (Kirchgässner, 2011; Schneider and Enste, 2000). The authors who apply an institutionalist approach counter this assumption with the argument that the risk that work is organised in terms of informal employment is higher in weaker welfare states due to these welfare states having a low level of political regulation, trust and social security. This assumption is also supported by empirical studies (Kus, 2010; Renooy, 2008; Pfau-Effinger *et al.*, 2009; Williams, 2013).

With regard to the main social characteristics of the workers in undeclared work, some studies have found that male manual workers with relatively low skills are the dominant type of workers in informal employment (Reidmann and Fisher, 2007, p. 29; Portes *et al.*, 1999; Renooy *et al.*, 2004), while other studies suggest that highly qualified craftsmen and male professionals also engage in undeclared work (Kimmel/Conway, 2001; Renooy *et al.*, 2004, p. 7). It has also been established that migrants are over-represented in informal employment and that such work is more common in rural areas (Flaquer and

Escobedo, 2009; Belev, 2003). Pfau-Effinger (2009) argues that undeclared work covers several distinct types of employment relations which develop on the basis of a differing logic. The paper shows how the development of the different types of undeclared work can be explained by the ways in which they are embedded in a variety of institutional, cultural and socio-structural contexts.

Since informal employment is clandestine, outside the remit of formal employment and based on illegal work relations, there are few studies that explore in depth how informal employment deviates from formal employment in less affluent European societies with regards to the social characteristics of the workers, and the differences between different forms of informal employment, as far as they are measured in the available data. This is the contribution of this paper.

## **The theoretical and methodological framework of the study**

### *Theoretical approach*

The paper relates its argument to a classification of informal employment by Pfau-Effinger (2009). The approach distinguishes different types of informal employment through their exposure to varying degrees of social risks, and different types and motivations of the workers and employers. According to this approach, specific types of informal employment such as the “moonlighting type” and the “social solidarity” type are associated with relatively low social risks for the workers. The “moonlighting” type of informal employment is based on a second job which supplements a full-time job in regular employment (Kimmel and Conway, 2001). These workers have usually already paid social security contributions through their regular employment relationship, and are not interested in paying additional taxes and contributions. Their main motive is to provide a little extra income – for example, to afford a few luxuries – rather than to escape poverty. Work in the “solidarity-based” type of informal employment is based on an exchange of services among acquaintances such as relatives, friends, colleagues or neighbours. For example, friends help each other to renovate their flat or house. The main motive is mutual support within social networks, rather than monetary gain. Some welfare states treat this type of work as paid employment and tax it (Williams and Windebank, 2001; Pfau-Effinger *et al.*, 2009). The “poverty escape” type differs from the previous two types in that it is the main source of income for the workers. The workforce engaged in this type of informal employment comprises people who are restricted from entering formal employment and who have an income below the poverty line (e.g. unemployed people on benefits or retired people with pensions below the poverty level). The main motive of this group is to escape poverty in a societal context in which they do not have acceptable alternatives in formal employment or on the basis of social security benefits. This type is mainly promoted by weak economies and weak welfare states. Strong welfare states such as Denmark, which offer relatively high unemployment benefit and pensions, have largely eradicated this “poverty escape” type of informal employment, as Jensen and Rathlev (2009) show.

The social risks that are related to the three types of informal employment differ substantially. High social risks for workers are particularly associated with the “poverty escape” type, since there is a high risk that these workers do not have another source of income to bring them above the poverty level. This is less problematic for workers who act as “moonlighters” or who provide the “solidarity-based” type of informal employment. Typically, their primary job in formal employment provides these workers with social security and an income above poverty level.

The paper argues that, in the context of less affluent CEE countries, the combination of a weak economy and a weak welfare state supports the development of the “poverty type” of informal employment and leads to the over-representation of workers with specific social characteristics in informal employment.

It is assumed that it is mainly young adults during the transition from school to work, older workers, workers with a low educational level and people in rural areas who have a higher risk

than other workers to be informally employed. Young adults who enter the labour market have a particular risk to be unemployed, since the offer of jobs in weak economies and times of mass unemployment is relatively low (Pfau-Effinger, 1988). For older workers, the risk of long-term unemployment once they have lost their job is high, since the likelihood of finding new work is very low. Many workers of retirement age in countries with a weak welfare state are forced to work since the income from their pension is below the poverty level. However, such people have even less chance of finding a job (Pfau-Effinger, 1988). Furthermore, in labour markets with high unemployment rates, the chances of workers with a lower educational level finding a job are particularly remote (Renooy *et al.*, 2004). Finally, workers in rural areas have a higher risk of unemployment, as jobs in formal employment are found predominantly in urban areas (Belev, 2003). Such workers have less opportunity to be employed in formal employment than others, and for them the option not to work is not viable as they lack the safety net of a welfare system that would keep them above the poverty level. They therefore have little option but to take up informal employment[1].

It is argued that within the field of informal employment distinctions need to be made between dependent informal employment in enterprises, and independent forms of informal employment in self-employment or in the subsistence economy of rural households[2]. The distinction works as follows: at times where there is an unbalanced labour market and mass unemployment, there is not only a shortage of jobs in formal employment, but in informal employment as well, which is mainly caused by low demand for consumer goods. This was, for example, shown in a study in North-West Germany in the 1980s (Siebel *et al.*, 1988). It can, therefore, be expected that in the situation of a weak labour market and a low level of social security, people try to escape poverty through informal employment based on self-employment. Another option which is mainly only available for people living in rural areas is work in the subsistence economy of rural households, which means that family members provide agrarian work in their family-based small farm households.

#### *Methodological approach and data base*

In principle, data based on questionnaire surveys such as those carried out by the Rockwool Foundation (Pedersen, 2003) and the Special Eurobarometer 284 on informal employment that were carried out in 2006 and 2014 (Reidmann and Fisher, 2007; European Commission, 2014) can deliver more reliable data compared with indirect approaches. However, these international surveys do not offer in-depth analysis of the structures and the types of workers in informal employment (Pfau-Effinger, 2009). Because of such problems, the ILO has developed a concept for the measurement of informal employment and the informal sector and introduced international measurement guidelines. The Republic of Moldavia was tested within this framework, along with Brazil, Georgia, India and Mexico (Hussmanns, 2008). As a consequence, unique and relatively precise data sets exist for informal employment and the informal sector in the Republic of Moldova (in the framework of the LFS from the National Bureau of Statistics of Moldova (NBS)).

The LFS is a nationally representative sample survey that offers statistics on the labour force. It was designed and launched by NBS specialists in cooperation with experts from the ILO and has been conducted continuously by the NBS since 1999. The survey includes data about the employed, unemployed and economically inactive population. In addition, the LFS of 2008 included modules on informal employment which contain precise data. These data offer a unique chance to gain insight into the structures of undeclared work in a CEE country and the social mechanisms that lead to the over-representation of workers with specific social characteristics in informal employment. Nevertheless, some methodological problems remain. The data may not always be reliable; for example, they may underestimate the scale of undeclared work, since this is a clandestine and forbidden economic activity (National Bureau of Statistics of the Republic of Moldova, 2009a).

On the basis of the LFS data, this study analyses the role of age, gender, educational level and rural/urban area of the workplace for the participation of workers in undeclared work. In a first step, it analyses the differences in structures between formal and informal employment with regard to working times, to their location in rural or urban areas, and to the form of employment (dependent employment, self-employment and unpaid employment family work). It then explores how far the social characteristics of the informal workers differ from those in formal employment and the different forms of informal employment in relation to gender, age, educational level and if they work in a rural/urban area, and how the differences can be explained.

### **Main features of the Republic of Moldova**

This section introduces the main features of the Republic of Moldova in the late 2000s when the LFS was conducted. Moldova is a South Eastern European post-socialist country, and a direct neighbour of the EU since Romania joined in 2007. The 2008 population was 3,792,142[3]. The World Bank classified Moldova as a low-income economy. In a cross-national comparison, the GNI per capita was comparatively low – at US\$1,470, ranking 153rd out of 210 World Bank Atlas economies, lagging far behind other post-socialist countries from the region (the Russian Federation ranking 75th at US\$9,620, Romania 81st at US\$7,930, Belarus 98th at US\$5,380, Ukraine 125th at US\$3,210). The Moldovan economy depended heavily on agriculture and fishing, with the share of the agricultural sector in GDP in 2008 being 17.3per cent. The economy was strongly based on the income of emigrant workers, whose remittances represented nearly one-third of GDP (31 per cent) (The World Bank and the International Finance Corporation, 2009). Moldova received the largest flow of remittances in the region: contrasting with Romania (5.6 per cent), the Russian Federation (0.3 per cent), Ukraine (3.9 per cent) and Belarus (0.8 per cent) (National Bureau of Statistics of the Republic of Moldova, 2009b). There was a significant imbalance between demand and supply of work in formal employment in that jobs in formal employment were relatively rare, particularly in rural areas.

Furthermore, Moldova has a relatively weak welfare state. At the time of the study (2008), it offered very low unemployment benefits – far below the poverty line – with similarly meagre pensions. The low level of unemployment benefits contributed to the weakness of the bargaining power of the labour force[4]. The findings of a September 2009 report prepared by the NBS on the quality of employment in Moldova indicated that although unemployment benefits increased by 40 per cent from 2006-2008 and by 20 per cent compared with 2007, they still continued to be relatively low, at about 26 per cent of the 2008 average wage. In addition, access to unemployment benefit was limited: the share of people receiving unemployment benefit amounting to around only 10 per cent of the total registered as unemployed. These benefits obviously did not offer significant financial support to the unemployed people (National Bureau of Statistics of the Republic of Moldova, 2009b).

During the socialist regime in Moldova, levels of informal employment were comparatively low. Informal activities were treated as illegal and forbidden. With the transition to a market economy, and the deep labour market crisis that developed in this context, informal employment and informal enterprises became widespread, particularly in agriculture and trade (ILO, 2004, 2006). In the early 1990s, the demand for labour decreased substantially, a large number of workers were dismissed, and since then the labour market has been characterised by a fundamental imbalance between relatively low demands with an extremely large supply of workers.

### **Size and structures of informal employment in Moldova**

This section introduces the findings of the analysis of differences in size and structures between formal and informal employment in Moldova, on the basis of the LFS of the NBS of Moldova for the year 2008.

First, the structures of informal employment are compared with formal employment and the differences between different forms of informal employment are analysed, on the basis of size, main forms of work contract, economic sector, working times and how far they are provided in urban or rural areas.

The data indicate that the workers in total employment numbered 1,251,000 in 2008. Nearly one-third of the employed population (31.1 per cent or 389,600) were working in some kind of informal employment (Table I).

Informal employment can be disaggregated into three main types of job, each of which forms an approximately equal part:

- (1) Dependent informal employment in formal enterprises (35.1 per cent).

In this case, an officially registered firm, for example a firm in the construction sector, which usually employs workers on the basis of formal employment, hires a worker without registering the employment of this specific worker with the public authorities and without payment of taxes and social contributions:

- (2) Informal employment in informal sector enterprises (32.5 per cent).

In this case, the worker in informal employment is hired by an unregistered firm that operates on an informal basis, for example an informal taxi agency, or a worker starts his or her own small business, for example in trade, on the basis of self-employment, without registering this with the public authorities and without paying taxes:

- (3) Informal employment in the agricultural subsistence economy of rural households (31.3) per cent[5].

In this case the workers are members of a family which is an active small rural household and produce agricultural goods exclusively for their own consumption, working at least 20 hours per week. By definition these persons are considered to be informally employed[6].

It is clearly easier for people to begin undeclared self-employment than to be hired by a firm. Since purchasing power in a poor European country with a relatively weak economy is also relatively weak, it is plausible to expect that informal self-employment of vulnerable labour market groups is a relatively precarious type of work and often does not help the workers to escape poverty. It should also be considered that work in the agricultural subsistence economy of rural households is only available for people who own land or at least have access to land.

Officially employed workers work predominantly in public administration, education, health and social assistance (28.7 per cent), followed by approximately equal numbers (16-18 per cent) in construction, industry, agriculture, forestry and fishing (see Table II).

	Total employment	Total formal employment	Total informal employment	Different types of informal employment within total informal employment		
				Informal employment in formal sector enterprises	Employment in informal sector enterprises	Informal employment in households
	1,251,000	861,300	389,600	126,800	136,800	125,900
% of total employment		68.8	31.1	10.2	10.9	10
% of total informal employment			100.0	32.5	35.1	31.3

**Source:** LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations

**Table I.**  
Total number and proportion of workers in formal and informal employment

Sectors of economic activity	Total employment	Total formal employment	Total informal employment	Different types of informal employment within total informal employment		
				Employment in informal sector enterprises	Informal employment in formal sector enterprises	Informal employment in households
Agriculture, forestry and fishery	31.0	16.5	63.2	33.0	52.7	97.0
Industry	13.0	16.8	4.6	10.3	3.0	0.0
Construction	6.6	4.5	11.1	6.2	27.4	0.0
Trade, hotels and restaurants	16.6	17.9	13.9	32.0	8.4	0.0
Transport and communication	5.6	6.6	3.3	5.4	4.3	0.0
Public admin, education, health and social assistance	19.8	28.7	1.8	3.4	1.9	0.0
Other	7.4	9.0	2.1	9.7	2.3	3.0
Total %	100.0	100.0	100.0	100.0	100.0	100.0

**Table II.**  
The distribution of formal and informal employment among the sectors of activity

**Source:** LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations

In contrast, informal employment is strongly connected with the traditional branches of agriculture, forestry and fishing. The majority of informally employed workers – about two-thirds (63.2 per cent) – work in these sectors, compared to only 16.5 per cent of formally employed workers. In the more modern sectors of public administration, education, health and social assistance, in which 28.7 per cent of workers in formal employment have a job, only a rather small proportion of informal workers are employed (3.4 per cent).

However, there are substantial differences between the different forms of informal employment. Nearly all workers in rural households (97 per cent) work in agriculture, forestry and fishing. In comparison with the share of workers among the formally employed, those who work in dependent informal employment in formal sector enterprises are also over-represented in this sector (52.7 vs 16.5 per cent), and also in construction (27.4 vs 4.5 per cent).

In contrast, the share of those who work in agriculture, forestry and fishing among the informally employed workers in informal sector enterprises is clearly lower, but they are still more often employed in this sector than workers in formal employment (33 vs 16.5 per cent), and this relates also to the sector of trade, hostels and restaurants (32 vs 17.9 per cent) (Table II).

Jobs in informal employment in Moldova largely provide the main share of income of the workers: the great majority of informally employed workers (71.2 per cent) spend 30 hours or more per week doing informal work while informal employment on a part-time basis, i.e. less than 20 hours per week, is uncommon (4.6 per cent). This finding indicates that a large amount of informal employment in Moldova is based on the “poverty escape” type of informal employment (Table III).

The distinction between formal and informal employment shows that the majority of work contracts in formal employment are based on dependent employment in enterprises (89.8 per cent), while this relates to only about one-third of informal employment (31.6 per cent). The majority of workers in informal employment work in independent forms of informal employment such as undeclared self-employment (37.1 per cent) and family work in the subsistence economy of rural households (31.3 per cent) (Table IV).

Some studies have found that in the CEE countries, small, unregistered firms have established themselves as a principal feature of the rapid process of economic

transformation in those systems, remaining undeclared and hiring informally employed workers as their survival strategy (Belev, 2003; Renooy *et al.*, 2005; Surdej/Slezak, 2008). However, I found that “informal sector enterprises” with dependent employees barely exist in Moldova. Instead, the economic units that are active in “black market” activities are nearly exclusively workers who work on the basis of informal self-employment in order to escape poverty. A key reason why the business remains informal is that they cannot afford to register as a formal enterprise or to employ other people as workers.

### Comparison and explanation of differences in the social composition of formal and informal employment

#### *Differences in the social characteristics of workers between formal and informal employment*

Table AI in the appendix provides insights into the main social differences between workers in informal and informal employment. With respect to the gendering of work, women represent about half of the workers (49.7 per cent) in formal employment and also in informal employment (47.1 per cent). However, social characteristics of workers such as urban/rural place of work, age and education seem to influence whether they work in formal or informal employment.

The data show that informal employment is mainly a rural phenomenon: the great majority of informal workers (77.4 per cent) work in rural areas, while the majority of workers in formal employment in Moldova work in urban areas (54.7 per cent). There are also differences between workers in formal and informal employment with regard to age. Younger workers in the early stages of their working lives, older workers in their last years of their careers and retired people are more frequently found in informal employment. The share of workers aged 15-34 is 28.9 per cent in formal employment and 33.3 per cent in informal employment. The share of workers aged 55 and older is 15.5 per cent in formal employment and 19.4 per cent in informal employment, and 1.6 per cent of the workers in formal employment are aged 65 and older, compared to

**Table III.**  
Employed persons  
by number of hours  
actually worked  
(percentage)

Hours worked	Total employment	Total formal employment	Total informal employment
Less than 20 hours	5.6	6.0	4.6
20-29 hours	11.4	6.8	24.2
30-39 hours	16.2	10.2	26.2
40 hours and more	66.8	77.0	45.0
Total %	100.0	100.0	100.0

**Source:** LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations

**Table IV.**  
Formal and informal  
employment by  
employment status,  
2008 (percentage)

Employment status	Total employment	Total formal employment	Total informal employment	Different types of informal employment within total informal employment		
				Informal employment in formal sector enterprises	Employment in informal sector enterprises	Informal employment in households
Employees	83.0	89.8	31.6	84.3	9.1	3.0
Self-employed	14.3	10.2	37.1	15.7	90.9	0.0
Unpaid family workers	2.7	0.0	31.3	0.0	0.0	97.0
Total %	100.0	100.0	100.0	100.0	100.0	100.0

**Source:** LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations



6.8 per cent of the informally employed workers. Furthermore, informal employment is more common among workers with a relatively low level of education. While 89.4 per cent of workers in formal employment have at least finished a secondary education, this contrasts with only 67.4 per cent of those in informal employment. Altogether, the study finds that there are considerable differences in the main social characteristics between workers in formal and informal employment.

*Differences in the social characteristics of workers in different forms of informal employment*

The social profile of the workers differs substantially between the three forms of informal employment (Table AI):

(1) Informal employment in formal sector enterprises.

This is the least common form of informal work in which the majority (59.2 per cent) work in rural areas. Mainly concentrated in the younger age groups, 43.5 per cent of the informally employed in this group are less than 35 years old. The share of workers who have at least finished secondary education, at 73.8 per cent, is clearly higher than in the independent forms of informal employment (65.1 per cent among workers in informal units and 62.7 per cent for unpaid family workers in rural households). Formal enterprises recruit and employ some younger workers informally. The firm-specific skills of this group of workers are less developed than those of the older workers, and it is therefore easier for the enterprises to apply a “hire and fire” policy. Some informal contracts may be transformed into formal employment after a certain period of time working in these firms:

(2) Informal employment in “informal sector enterprises”.

As stated above, the majority of informal workers who work in “informal sector enterprises” are self-employed (90.9 per cent). This type of informal employment is particularly common in rural areas where three quarters (76 per cent) of these workers gain their livelihoods in this way. Two-thirds of this sector are male. The share of older workers is clearly higher than in the formal sector (17.7 per cent in informal self-employment compared to 10.4 per cent in formal employment) and the share of workers who have finished at least a secondary education is lower as shown above. Older workers with a relatively low level of education generally work in undeclared self-employment since they have relatively little opportunity to find a job in formal enterprises. It also seems that undeclared self-employment is one of the few options in which retired people may make an income and potentially even escape poverty, since the likelihood of obtaining a pension which offers a standard of life above a subsistence level is low:

(3) Informal employment in the subsistence economy of rural households.

Informal employment in the subsistence economy of rural households is nearly exclusively based on unpaid work within the family. Women are somewhat over-represented in this group (55.9 per cent). What is evident here is that the share of older workers who are 65 years and older – and may be considered “retired” – is relatively high (31 per cent). The share of workers who have at least finished secondary education is particularly low in this group, as is shown above. It can be assumed that this type of informal employment is often used as a survival strategy by workers in rural areas with a relatively low level of education and low social benefits, as employment in formal enterprises is relatively rare.

### **Factors explaining social differences between workers in formal and informal employment**

These findings show that the combined weakness of the economy and the welfare state has led to a high proportion of informal employment in Moldova, covering about one-third of

total employment and being particularly common in rural areas. It is mainly based on self-employment (68.4 per cent) and is likely to be dominated by the “poverty escape” type of informal employment (according to the typology of Pfau-Effinger, 2009), in which this is the workers’ main source of income, and is connected with particularly high social risks for the workers, since informal employment is not connected with work-related rights to social security or employment protection.

Moldova’s widespread informal employment is mainly a reaction to the low demand for workers and to the low level of benefits provided by the welfare state. Formal sector enterprises use a limited degree of informal employment, and informal employment in formal enterprises does not compensate for the considerable lack of jobs in the economy. The majority of informal workers – about two-thirds – work in independent forms such as self-employment or in the subsistence economy of rural households with the objective of escaping poverty, or, failing that, of survival. Since the social security systems do not offer social benefits above the poverty level, people are obliged to work in order to make an income, even if the formal employment system does not offer them jobs, and even if they are unemployed or retired.

Workers with a low level of education in rural areas, who are either at the start of their working life or in the final phase, seem to have a higher risk than others of being employed informally. However, while young workers engaged in informal employment are sometimes later employed in formal sector enterprises, and are sometimes offered a formal working contract, for the majority, independent employment is often a dead-end street which offers no transition to formal employment nor to a better income or social security benefits.

### Conclusion

The study shows that in informal employment, workers with a low level of education, young workers beginning their working lives, older workers in the last years of work and those who have already retired, as well as workers in rural areas are over-represented. It seems that a significant reason why these workers are more exposed to informal employment is the lack of alternatives in the labour market, and the poor provision of unemployment benefits and pensions, and that informal activity is more necessary than voluntary. These workers are engaged mainly in independent forms of informal employment such as undeclared self-employment or informal employment in the subsistence economy of rural households, for which the entrance barriers are particularly low.

Altogether the data indicate that there is a clear segregation of the working population, where better educated people in urban areas have better chances of formal employment – often after a short entrance period of informal employment in a formal sector enterprise. By contrast, less educated workers and those in rural areas are often faced with no alternative but to remain permanently in informal employment, which carries high social risks, the workers being ineligible for social security benefits and employment protection.

The still-substantial share of informal employment may be expected to diminish with an improvement in the economic situation in the CEE countries. However, as long as the CEE welfare states are weak and do not offer social security systems that help people avoid poverty, informal employment will remain a significant economic and social problem.

### Notes

1. It should be noted that although this situation may also relate to migrants, they have not been included in this study, since corresponding data are not available.
2. Pfau-Effinger (2009) stresses that also the distinction between firms as employers and private households as employers or contractors is important for social characteristics of workers. However, it was not possible to make this distinction on the basis of the available data.

3. Not including the population of the eastern part of the country.
4. Taking into consideration that people in informal employment are in their main activity, it reveals a significantly higher level of informal employment compared to EU countries (Pfau-Effinger, 2009).
5. Based on the LFS terminology, employment in the households sector comprises all persons engaged in the production of agricultural goods exclusively for own consumption by their household, if they worked for 20 or more hours during the survey reference week in this activity, as well as paid domestic workers employed by households. Thus, by definition these persons are considered to be informally employed.
6. Among these, 97 per cent work in households which produce goods for own consumption and 3 per cent work in households which employ unpaid domestic workers.

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Social characteristics	Total employment	Total formal employment	Total informal employment	Different types of informal employment within total informal employment		
				Informal employment in formal sector enterprises	Informal employment in informal units (mainly self- employment)	Informal employment in households
<i>Work in urban/rural areas</i>						
Urban	44.7	54.7	22.6	40.8	24.0	2.6
Rural	55.3	45.3	77.4	59.2	76.0	97.4
<i>Gender</i>						
Male	50.3	49.0	52.9	48.8	64.9	44.1
Female	49.7	51.0	47.1	51.2	35.0	55.9
<i>Age groups</i>						
15-24 years	9.9	9.0	12.0	18.9	9.3	7.5
25-34 years	20.3	19.9	21.3	24.6	22.3	17.0
35-44 years	24.6	25.2	23.3	23.3	25.9	20.2
45-54 years	28.3	30.3	24.1	22.9	24.8	24.2
55-64 years	13.5	13.9	12.6	8.6	11.2	18.5
65 years and over	3.3	1.6	6.8	1.8	6.5	12.5
<i>Level of education</i>						
Higher education or secondary vocational education	37.2	47.1	14.0	19.0	12.1	10.2
Secondary professional education	25.4	25.5	27.5	29.1	25.4	28.5
Complete general secondary education	20.1	17.5	25.9	25.7	27.6	24
Incomplete general secondary education, primary or no education	17.3	10.5	32.5	25.7	34.4	36.9
Total %	100.0	100.0	100.0	100.0	100.0	100.0

**Source:** LF in the Republic of Moldova, Employment and Unemployment, NBS, 2009, and own calculations

**Table A1.**  
Main social  
characteristics of  
workers in formal and  
informal employment  
in Moldova in 2008  
(percentage)

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