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TACKLING THE INFORMAL ECONOMY IN UKRAINE

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Abstract

The problem of informal work and informal networks (*blat*) in Ukraine is long-standing. Until now, research on the informal economy in Ukraine has largely focused on measuring its size rather than exploring the nature and motives of the people engaged in informal activities. Moreover, few studies in relation to Ukraine have sought to evaluate the validity of the contrasting theorisations of the informal economy and no studies in Ukraine have considered the issue of contemporary informal networks (*blat*). The intention of this thesis is to fill these gaps. In doing so, the objective is to start to resolve the lack of knowledge on the nature of the informal economy which leads to ineffective and even destructive policy approaches to tackling it.

The aim of this thesis is to critically evaluate the existing theorisations of the informal economy and their applicability to Ukrainian society in order to start to enable a move towards developing policy solutions for tackling the informal economy. To achieve this aim, a mixed methods approach is adopted in this thesis. The survey, consisting of 200 semi-structured interviews, was carried out in an urban area of Ukraine – the city of Mykolayiv. The data collected was analysed both qualitatively and quantitatively.

The results of the survey affirm that informal activities are diverse in nature and are driven by a variety of motives. Thus, no single existing theory fully explains the informal economy in Ukraine; instead, there is evidence to support each theory of the informal economy. As such, policy responses need to be tailored in order to effectively deal with the challenges faced by the different types of informal activity. Such a response is more likely to result in the formalisation of such activities by removing the barriers to formalisation and nurturing fledgling business activities rather than simply trying to eradicate them.

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1. INTRODUCTION

Informal work and *blat* in Ukraine are an extensive and long-standing aspect of daily life, and tackling such endeavour is a potentially very difficult task. During World War II, when the Germans were occupying what is now Ukrainian territory, it was noticed that huge numbers of agricultural products (e.g. flour, eggs) were being sent in private parcels from Ukraine to Germany by German local officials. German special services (i.e., the bureau of investigations) then investigated the issue and they found that Ukrainians had managed to corrupt German local officials (Herasymov, 2002; Ivanushenko, 2011), who were often thought to be the exemplar of order and incorruptible.

Today, the informal economy in Ukraine is extremely large. Its share is estimated to be anywhere between 30 and 80 percent of GDP. In 2011, PriceWaterhouseCoopers estimated informal work to be more than 40 percent of the overall economy in different sectors (PriceWaterhouseCoopers, 2011). Similarly, Schneider and Enste (2002) estimated it to be equivalent to 47-54 percent of GDP, whilst Dzvinka (2002) found that it constitutes 55-70 percent of GDP, albeit based on very different measurement methods. Whatever the measurement method used, however, the informal economy is a large and enduring feature of Ukrainian society.

Large businesses contribute much to the monetary value of informal cash flows using off-shore locations for their fraudulent financial schemes. For example, Aslund (1999) argues that in the 1990s, Ukrainian government officials, bankers and outright criminals prospered by means of government subsidies and permits (rent-seeking). He determined four different forms of such rent-seeking and calculated the sizes of each form on the basis of the IMF data for the years 1993 and 1995. The first was to purchase metals and chemicals at cheap prices regulated by the state and resell them abroad at the world market price which was possible through access to export permits. As a result, total export rents amounted to some $4.1 billion or 20 percent of GDP in

1992. The second form was to import Russian gas at a low subsidised exchange rate and resell it at a higher price. The third method was subsidised credits at a very low interest rate for the privileged ones. Thus, in 1993 when hyperinflation rate was higher than 10,000 percent, some credits were issued at a rate of generous 20 percent per annum. The government credits to enterprises amounted to 65 percent of GDP in 1992 and 47 percent of GDP in 1993. The fourth form was budget subsidies to agriculture and energy (gas and coal industry) enterprises. As a result, much of these rents have been laundered in off-shores. Although inflationary rents are now more possible since 1996, other forms of rents remain intact.

At the same time, many small firms and individuals participate in the informal economy. This thesis concentrates on these smaller economic actors – namely households. Not only does it focus upon their participation in the informal economy but also their engagement in informal personal connections (known as *blat* in the past), as the informal economy in Ukraine is often assumed to be closely associated with such informal connections and corruption. Moreover sometimes the distinction between the informal economy, *blat* and 'corruption' becomes very blurred. There is an established system of getting things done and tackling the informal economy requires profound understanding of this system. Furthermore, corruption is one of the most pressing problems in Ukraine that constitutes an obstacle on the way to formalisation of the economy and the development of formal sector entrepreneurship. Transparency International rated Ukraine 134th - 143rd among 178 countries in the Corruption Perceptions Index in 2010. PriceWaterhouseCoopers rated it 181st out of 183 countries in terms of the ease of paying taxes. According to the World Bank, meanwhile, it is 145th of 183 countries in terms of ease of doing business. As Schneider and Enste (2000: 29) argue,

> 'the relationship between the share (size) of the shadow economy and the amount of corruption is strong and consistent, as different measures show.

Countries with more corruption and briberies have a higher share (size) of the shadow economy'.

The influence of the informal economy on the economic and social development of Ukraine is not the only reason for choosing this subject. The topic is of personal importance for me as it relates to close people that both participate in the informal economy and also suffer from the 'informal activities' of local authorities and the lack of social security. Being brought up in the city of Mykolayiv, I first saw the people struggling to survive in the 1990s, and then trying to earn a decent living in 2000s and cope with unemployment, corruption and societal degradation. Informal economic relations and *blat* negatively affect the welfare of the state. Although the informal economy and *blat* are positively viewed by the Ukrainian society and it frequently occurs in the form of mutual aid, this research will show that in the majority of cases, informality is used not to help but to cheat, evade the laws, steal, do careless work or as a source of resistance and opposition when one is being cheated, extorted or robbed. Therefore, exploring the extent of and motives for informal work and possible ways of tackling it is of great interest for me.

This research can be viewed as a part of wider and longstanding intellectual debates on the nature of the informal economy and relevant policy approaches in the context of an urban area of Ukraine. It covers the gaps in academic literature on the informal economy and focuses on the region that has not been previously researched – Mykolayiv, a city in the South of Ukraine. However, the key contribution is that this thesis suggests a new approach to theorisation of informal networking (*blat*), which is an integral part of the informal economy in Ukraine. After in-depth qualitative and quantitative analysis of data and evaluation of theories of the informal economy towards the findings, it was suggested that the phenomenon of *blat* is not interrelated with the informal work. It rather can be explained as mediator of transactions within either formal or the informal economy.

1.1. Aims and objectives

The aim of this thesis is to critically evaluate the existing theorisations of the informal economy and their applicability to Ukrainian society in order to start to enable a move towards developing policy solutions for tackling the informal economy.

The rationale for this thesis is that there is a major gap in literature on the informal economy of Ukraine as well as insufficient empirical evidence for adequate analysis of the problem. To date, the research on the informal economy in Ukraine has largely focused on measuring its size rather than exploring the nature and motives of people engaged in informal activities. Only a few authors have addressed this latter question (Thiessen, 1997; Dzvinka, 2002; Williams and Round, 2008; Williams *et al.*, 2011). Moreover, in relation to Ukraine few commentators have sought to evaluate the validity of the contrasting theorisations of the informal economy (Williams, 2007; Williams and Round, 2008; Williams *et al*., 2011a; Williams *et al*., 2011b) and none of the commentators have considered the issue of contemporary *blat* in Ukraine.

However, without understanding the nature and motives of the informal economy, it is difficult to design effective policies to tackle it. For example, when tackling informal sector entrepreneurship, policymakers might erroneously choose solely a deterrence approach. By doing so, authorities can push entrepreneurship further into the shadows or even eradicate it (Williams and Round, 2009). Yet to do so is to fail to recognise that informal sector entrepreneurship is the main seed-bed out of which entrepreneurial ventures arise in Ukraine. The result is that governments will end up stifling with one hand through their policies towards the informal sector precisely the entrepreneurship and enterprise culture that with another hand they wish to nurture.

Lack of qualitative research on the informal economy is not the only gap in the knowledge in this field. The other gaps include a lack of studies of particular regions, not enough empirical evidence for theoretical conclusions and no consensus on the theorisation of the informal economy. Importantly, moreover, there exist only a small number of publications about informal networks and contemporary *blat* is not explored in-depth. Furthermore, there exists no theoretical framework that explains the nature of

informal networking in post-Soviet countries. This thesis seeks to fill these gaps in the knowledge.

Therefore the objectives of this thesis are to analyse the extent and nature of informal work in general, and *blat* more particularly, in an urban area of Ukraine; to evaluate opinions and attitudes towards participation in the informal economy and *blat*; to evaluate existing theorisations of the informal economy; and to start to move towards proposing policy solutions to tackle informal work. Below, a more detailed explanation of each of these goals is given.

This objective may be broken down into the following sub-goals:

a) *To evaluate the prevalence and nature of the informal economy in general in an urban area of Ukraine*.

How many people participate in the informal work? Is this work their primary or secondary source of income? How many people are fully informal (do not have any formal source of income). Who are those people working informally? What is their age, income, gender? Do they conduct informal work as a waged employee or on an own-account/self-employed basis? What were their reasons for doing this work informally?

b) *To evaluate the prevalence and nature of the informal work used to complete domestic services in an urban area of Ukraine.*

How many people have participated in the informal work in the past 12 months? What did they do? How much were they paid? How was the activity remunerated (in money, in kind, mixture)? Do they conduct such work as a waged employee or on an own-account/self-employed basis? Who do they work for? Are their clients kin, friends, neighbours, acquaintances, previously unknown to them, or what? What were their reasons for doing this work informally?

c) *To evaluate opinions and attitudes towards participation in the informal economy.*

This will evaluate perceptions of working informally, the importance of informal sources of income, the perceived risks of being detected, the motives of both employees and employers and the role of current state policy.

d) To evaluate the prevalence of blat.

In what spheres is *blat* most widely used? Is this 'help' paid? How are *blat* and informal work connected? What groups of people use *blat* more widely (gender, age, social status, income etc)?

e) To evaluate opinions and attitudes towards blat

How do people perceive *blat*? Why and what do they use *blat* for? Is it possible to manage in various aspects of everyday life without the help of *blat*? Is the role of *blat* increasing or decreasing as a result of economic transformation?

f) To evaluate existing theorisations of the informal economy and blat; and to start to move towards proposing policy solutions to tackle informal work

What theory of the informal economy is most prevalent in the Ukrainian society? What theories are most applicable to each type of the informal work and *blat* identified by the research? Which policy directions could be chosen to respond to the heterogeneous character of the informal economy in Ukraine taking into consideration these theorisations?

1.2. Scope

This research is on the informal economy in general and *blat* more particularly as an integral part of unofficial activities. The informal economy is a very broad concept and therefore it needs to be defined precisely for the purpose of this research, carefully

delimiting what is included and excluded from the investigation.

1.2.1. The informal economy

At the outset, the subject of the research, the informal economy, needs to be defined in order to determine what is included within the scope of this thesis and what is not. The term ‘informal economy’ became popular in the 1970s and since that time has been amended and improved to include a diverse array of types and forms of informality. For many years there was no global consensus on the definition of the informal economy. Indeed, to date, three contrasting types of definition have been used, namely enterprise-, jobs- and activity-based definitions (Williams, 2009a). Nowadays international scientists and organizations came nearer to universally accepted definition. However, on the basis of the examined literature on the definitions of the informal economy, the conclusion can be made that there are two main semi-official definitions: by OECD and ILO. So the vast majority of existing definitions in most relevant sources belong either to OECD-‘camp’ (mostly European authors), or to ILO-‘camp’ (mostly third world authors). No other relevant comprehensive approaches to defining the informal economy were found.

Therefore it will be appropriate to divide this section into three parts:

1. ILO enterprise-job-based definition ‘camp’ (ICLS, Chen, Hussmanns, SIDA, WIEGO);
2. OECD activity-based definition ‘camp’ (OECD, CIS Statistical Committee, Schneider, Sepulveda, Pavlovskaya, Williams, Renooy);
3. Definition by Ukrainian authors (Ministry of Economy of Ukraine, State Statistical Committee of Ukraine, Mandybura, Motoryn and Motoryna).

ILO enterprise-job-based definition ‘camp’

One of the most widely-used definitions of the informal economy belongs to the ILO. Its evolution was traced in the Decent Work and The Informal Economy report (ILO,

2002). According to this report, the concept of the 'informal sector' was first popularised by the ILO in the 1970s. It was used to refer mainly to the survival activities of those working in the marginal or peripheral segments of the economy.

The 1991 Report of the Director-General to the International Labour Conference defined the informal sector as very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers or apprentices; which operate with very little capital, or none at all; which utilize a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it. This description failed to capture the various forms of informality and informalisation that have since grown in significance (ILO 2007).

In 1993, the 15th International Conference of Labour Statisticians adopted an enterprise approach to definition of the informal sector. According to 15th ICLS, employment in the informal sector comprises 'all jobs in informal sector enterprises, or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job'. This definition was also criticised for the different reasons among which was its inability to capture all aspects of the increasing informalisation of employment. For example, it excludes households employing paid domestic workers from the informal sector that is included by the17th ICLS.

At the 2002 International Labour Conference the broader term 'informal economy' was proposed instead of 'informal sector'. It included the considerable diversity of workers and economic units, in different sectors of the economy. The informal economy was defined as 'all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements' (ILO, 2002a: 53)

In 2003, the 17th International Conference of Labour Statisticians complemented the definition of employment in the informal sector with a definition of informal employment, as it refers to different aspects of the 'informalisation' of employment and to different targets for policy-making. The concept of informal sector refers to production units as observation units, while the concept of informal employment refers to jobs as observation units. These two concepts constitute the term 'informal economy'.

In order to provide a visual reference, a two-dimensional matrix has been developed, providing a possible framework for mapping the informal economy, in that it relates the statistical concept of 'employment in the informal sector' to the broader concept of informal employment (Hussmans, 2005).

Table 1.1. Conceptual framework: informal employment (Hussmans, 2005: 27)

Production units by type	**Jobs by status in employment**								
	Own-Account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises[(a)]	3		4		5	6	7	8	
Households[(b)]	9					10			

(a) As defined by the Fifteenth International Conference of Labour Statisticians (excluding households employing paid domestic workers).

(b) Households producing goods exclusively for their own final use and households employing paid domestic workers.

Note:

Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question.

Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs. Informal employment: cells 1 to 6 and 8 to 10.

Employment in the informal sector: cells 3 to 8.

Informal employment outside the informal sector: cells 1, 2, 9 and 10.

According to the 17th ICLS matrix, informal employment comprises:

i. own-account workers employed in their own informal sector enterprises (cell 3);

ii. employers employed in their own informal sector enterprises (cell 4);

iii. contributing family workers, irrespective of whether they work in formal or informal sector enterprises (cells 1 and 5);

iv. members of informal producers' cooperatives (cell 8);

v. employees holding informal jobs in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by households (cells 2, 6 and 10);

vi. own-account workers engaged in the production of goods exclusively for own final use by their household (cell 9).

Informal employment outside the informal sector includes:

i. employees holding informal jobs in formal sector enterprises (cell 2) or as paid domestic workers employed by households (cell 10);

ii. contributing family workers working in formal sector enterprises (cell 1);

iii. own-account workers engaged in the production of goods exclusively for own final use by their household (cell 9). (Hussmans, 2005: 26-7).

Since the last general discussion of the informal economy by the ILO at the 2002 International Labour Conference, no changes and additions to the definition have been made (ILO, 2007).

OECD activity-based definition 'camp'

OECD noticed an absence of a strict definition of the informal economy and the

existence of different approaches to defining the subject matter. They have noticed the co-existence of two major definitions: ‘undeclared work’ and ‘informal economy’. The latter is slightly broader and is preferred for use in developing countries (OECD, 2004). Moreover, apart from the core definition of the informal economy, authors suggest to include additional issues relating to the activities not included in the national accounts (social security fraud, VAT fraud, pilfering, theft, extortion, household production of services for own use, illegal production) to the broader definition of the informal economy.

The above reflections drew the OECD to determine two spheres of interest. First is what they call the ‘core’ definition of the informal economy. It consists of:

i. wholly undeclared work (employment status and earnings are concealed, in collusion with the employer);

ii. under-declared work (employee’s status is declared, part of earnings concealed in collusion with employer);

iii. black market work (work in a secondary job with earnings concealed in collusion with the purchaser);

iv. purely informal employment (no concealment, because no requirement to declare employment or earnings).

A particular feature is that all mentioned activities are included in GDP by different means as far as they can be counted.

Second is the broad definition of the informal economy. It consists of the core definition and is enhanced by including following phenomena into the study:

i. pure tax evasion on earnings that includes self-employment; earnings are concealed from tax authorities, but not in collusion with the purchaser;

ii. employment in illegal production – is concealed production, sale and consumption with typical employment status – employee or self-employed; this is included to GDP, but typically not published;

iii. employment in household production of goods (included to GPD) and services (not included to GDP) for own use;

iv. social security fraud, VAT fraud, pilfering, theft, extortion; these are quite influential factors, though they may appear on any level with any employment status and are hard to measure (OECD, 2004).

A number of authors employ an activity-based definition of the informal economy similarly to the OECD. Thus, Pavlovskaya (2004) created 'spheres of dichotomies', from which components of the informal economy can be identified. She divided the informal economy into four sectors distinguished by whether they are state or private, monetized or non-monetized.

i. state monetized: price subsidies in special stores, second economy, money resources and consumption, bribes, wages, profits;

ii. state non-monetized: barter exchange between enterprises, privileges and perks, non-money recourses and consumption, networks of political and economic elites;

iii. private monetized: rents, wages, help with money, profits, investments, money resources and consumption, buying goods and services;

iv. private non-monetized: Non-money resources and consumption, networks of family and friends, help with labour, help in kind, domestic labour (services, production, shopping).

The definition (what-is-included list) of Pavlovskaya correlates with the broad definition of the informal economy by the OECD. In addition, the author included a monetization/non-monetization parameter to the characteristics of the informal economy. This allows her to distinguish the notion of 'favours' – non-monetary exchange based on interpersonal connections. The notion is also considered by Smith and Stenning (2004) using the terms *blat*, 'reciprocity', 'economy of regard', 'arranging of matters'.

The article of Pavlovskaya (2004) presents an innovative approach to the classification of employees. Financial difficulties (the official inability of a state to provide work places and satisfy the needs of its citizens) created a phenomenon of multiple identities i.e. a person's activity is divided into several roles connected with income earning. So one person can be employed at different jobs and be classified differently. This issue is also examined by Smith and Stenning (2004). They explored multiple job strategies which are employed by workers and families in order to maintain income security and access to a range of in-kind benefits through their primary employment and high levels of remuneration and access to wider social (capital) networks through secondary, informal employment. They argue that the 'informal economy under emergent capitalism represents a form of self-exploitative social relations, appropriating one's own labour to sustain a livelihood, often in conjunction of course with other economic practices' (Smith and Stenning, 2004: 6).

One more interesting point related to the informal economy in the work of Smith and Stenning (2004) is the phenomenon of the 'multicoloured' economy. The authors differentiate economic practices into those involving market relations, those involving non-market relations and those concerning alternative market relations, akin to Gibson-Graham (2006).

Sepulveda and Syrett (2007) agree with Schneider (2002) that the informal economy includes both illegal and legal activities, monetary and non-monetary transactions (this is similar with the broad definition by the OECD). Legal activities include unreported income from self employment; wages, salaries and assets from unreported work related to legal services and goods (monetary); employee discounts, fringe benefits, barter of legal services and goods, all do-it-yourself work and neighbour help (non-monetary).

Illegal activities include trade with stolen goods, drug dealing and manufacturing, prostitution, gambling, smuggling and fraud (monetary); barter of drugs, stolen goods, smuggling, production or growing drugs for own use, theft for own use

(non-monetary).

Williams and Renooy (2009) used one of the most widespread definitions from the OECD Handbook 2002 (OECD, 2002), where it is defined as all legal production activities that are deliberately concealed from public authorities to avoid the following:

i. payment of income, value added or other taxes;

ii. payment of social security contributions;

iii. having to meet certain legal standards such as minimum wages, maximum hours, safety or health standards, etc;

iv. complying with certain administrative procedures, such as completing statistical questionnaires or other administrative forms.

This activity-based definition includes informal income in the formal job (envelope wages) which is excluded from job-based definitions. It was accentuated that criminal activities and unpaid work ('unpaid community work' if a household member engages in unpaid work for a member of a household other than their own, or 'self provisioning' if a household member engages in unpaid work for themselves or another member of their household) are excluded from the definition (Williams and Renooy, 2009; Williams and Round, 2008; Williams, 2009a).

Smith (2007: 5) agrees with Schneider and Enste (2000: 78-9) who employed an activity-based approach and defined the informal economy as 'unreported income from the production of legal goods and services, either from monetary or barter transactions, hence all economic activities that would generally be taxable were they reported to the tax authorities'. This definition is also similar to the OECD definition.

Current definitions by Ukrainian authors

There are two major influential policy-making institutions in Ukraine that also define the phenomena of the informal economy: the Ministry of Economy and the Statistical Committee. This approach is widely recognized among Ukrainian authors who seem to prefer staying within these boundaries (Motoryn and Motoryna, 2001; Mandybura,

1998). According to the official Ukrainian definition of the informal economy, employed by the Ministry of Economy of Ukraine, the informal economy includes:

i) illegal production, including:

a. production of goods/services prohibited by the law;

b. activity permit (if necessary according to the law);

ii) concealed production that includes legal but undeclared activity with the aim of:

a. tax evasion;

b. inobservance of standards: wage level, working hours, safety instructions;

c. statistical reporting and questioning evasion;

iii) Separately distinguished is the informal sector based on entities characterized by:

a. low level of organizational structure;

b. employment originating from family or social connections, other than formal employment agreements.

Self-provisioning is not included except for production of food, construction and repairs.

This definition looks like an unsystematic mix of different approaches: the 1st paragraph is based on the parameter of legality/illegality, the 2nd is the activity-based definition and the 3rd is entity-based which includes informality of the employment factor. The other confusing element is self-provisioning: food, repairs and construction are included while all other self-provisioning is not. However for statistical purposes, the OECD definition is used by the Statistical Committee of Ukraine (as well as by other state statistical committees of CIS members).

To conclude, the variety of particular approaches to defining the informal economy is slightly confusing and complicates possible discussions. This variety also represents the complexity and diversity of the nature of the informal economy. One has to choose the most suitable definition for any particular case.

In this thesis, the intention is to adopt the OECD approach to defining the informal economy and therefore to use the activity-based definition which defines such activity as ‘any paid activities that are lawful as regards their nature but not declared to

the public authorities' (Williams and Renooy, 2009: 4). Thus the scope of the research excludes illegal goods and services and unpaid work. Two possible components of the informal economy, that are included in this broad definition by OECD, self-provisioning and illegal activity, should not be considered because self-provisioning is not paid and illegal activity is not lawful according to the core definition. This sub-section provided the definition of the informal economy. We now move to the next sub-section, where the definition of *blat* is discussed.

1.2.2. *Blat*

The second and more particular focus of this thesis is the phenomenon of personal networks - *blat*. This term has become possibly outdated today presumably due to the changes in the 'socio-economic system' (Arnstberg and Boren, 2003: 23). It is rarely used in popular parlance in Ukraine today and is viewed as an out of date and old fashioned term that does not capture the realities of present-day life. Therefore its synonyms, namely 'personal connections', 'informal networks', 'pulling strings', 'znakomstva' (acquaintances), 'sviazi' (connections), are often used in various studies rather than the traditional phrase of *blat.* However, this phenomenon deserves separate careful study for two reasons. Firstly, 'personal networking in former socialist societies differs from the West in terms of how extensively it is rooted and activated in social and business life and how business success is influenced by the quality and cultivation of personal relationships' (Michailova and Worm, 2003: 509). Secondly, *blat* does not fit into the informal economy definition above as it is not paid activity and as such, discussion of Ukrainian informality will not be comprehensive without taking into consideration this peculiarity.

Here, the definition of *blat* needs to be discussed. To begin with, 'there is no unified, agreed meaning of *blat* and the term cannot easily be translated into English' (Michailova and Worm, 2003: 509). Indeed, different authors define *blat* differently. The major Russian *blat* commentator, Ledeneva (2006: 1), defines *blat* as 'the use of personal networks for obtaining goods and services in short supply and for

circumventing formal procedures'. Meanwhile, Arnstberg and Boren (2003: 23) consider *blat* as 'informal everyday methods of obtaining goods and services' or 'a system of redistribution of public resources in favour of those who are a part of one's personal network of relatives, friends, neighbours and colleagues'. Michailova and Worm (2003: 510) agree with another *blat* definition of Ledeneva (1998) as 'an exchange of favour of access in conditions of shortages and a state system of privileges where the favour of access is provided at public expense'. Despite the variety of definitions, these do not contradict each other.

One should take into account that these definitions apply to *blat* in its traditional meaning (i.e. as it was understood in the Soviet times). In the post-Soviet period, the meaning of *blat* has been transformed as a result of political, social and economic changes and therefore a new term and definition of the phenomena should be suggested. In this thesis, in consequence, *blat* will be defined as the use of personal networks for obtaining goods and services in a beneficial way for the individual and for circumventing formal procedures. It also should be noted that for the sake of clarity the term *blat* (although outdated) will be used in this thesis.

This section has focused on the scope of the research: what is included into the informal economy and *blat* and thus what is going to be examined. The next section provides an outline of the thesis including a brief description of each chapter.

1.3. Outline of thesis

Following this introductory chapter, Chapter 2 includes the literature review on the informal economy and in particular empirical research on (i) who does informal work (e.g. populations socio-economic groups, economic sectors) (ii) who receives informal work and (iii) why they engage in informal work (i.e., motives/rationales). The above is analysed for (i) the third world countries, (ii) developed countries (iii) post-socialist countries in general and (iv) Ukraine in particular. Speaking about Ukraine and other

post-socialist countries, publications about *blat* phenomena will be also examined and gaps in the knowledge will be identified. These gaps are: insufficient empirical evidence for theoretical conclusions about the informal economy and *blat* in Ukraine; lack of any in-depth qualitative research and profound understanding of the nature and causes of the informal economy and *blat* and, therefore, a lack of the theorisation of the informal economy and *blat* in Ukraine

Having identified the gaps in the literature on the informal economy in Ukraine, Chapter 3 then develops a methodology for filling in these gaps. Possible methods, both direct and indirect, are discussed and justification for the semi-structured face-to-face interviews method is given. Following this, the questionnaire and sampling procedure are elaborated. Finally, the chapter focuses on the characteristics of Mykolayiv, the urban area chosen for the fieldwork.

On the basis of the methodology developed in Chapter 3, in Chapters 4 and 5 the collected data is analysed both quantitatively and qualitatively. The findings are interpreted and the questions in the Aims and Objectives section of Chapter 1 are answered and the theories of the informal economy and *blat* in Ukraine are evaluated with regard to the findings. Chapter 4 is divided into two sections focusing respectfully on the informal economy in general and informal work used to complete domestic tasks in particular. Chapter 5 examines *blat* and the various forms of *blat* which have emerged as a result of social and economic transformation.

Chapter 6 then draws together the main conclusions and implications of the research as well as theoretical implications and practical policy suggestions as to the way forward. Afterwards it identifies the limitations of the thesis, the need for further research and the overall conclusions with regard to the aims and objectives set out in the Chapter 1.

2. LITERATURE REVIEW

The aim of this chapter is to discuss the theories, nature and extent of the informal economy in Ukraine and in the rest of the world. Firstly, the contrasting theorisations of the informal economy will be explained. Secondly, empirical evidence to support these theorisations will be analysed. Thirdly, the nature and extent of the informal economy will be reviewed including its relationship with globalisation, approaches to classification, regional peculiarities and *blat* (as a feature of the informal economy in Ukraine and other post-Soviet countries).

2.1. Contrasting theorisations of the relationship between formal and informal work

This section provides a review of the literature on theories of the relationship between the formal and informal economy. Williams and Round (2008) have produced a classification of existing theorisations. They distinguish four different theoretical approaches that consider informal employment as a residue; a by-product of the formal economy; a complement to the formal economy; and an alternative to the formal economy. They suggest however, that universal theorisations are not possible due to the diverse nature of the informal economy. This can be viewed as the fifth post-structuralist perspective.

2.1.1. Residue theory (dualistic approach)

The first perspective, residue theory, is based on the assumption that the informal economy is a leftover from an earlier mode of production and consumption and will disappear as a result of economic advancement. This theory corresponds with the theory of binary oppositions by Derrida (1967) where the two elements are in hierarchical relationship with each other: one is considered superordinate, while the other is subordinate. Informality is subordinate and considered a negative phenomenon

which is associated with underdevelopment while the formal economy is superordinate, positive and connected with progress (Williams and Round, 2008).

In the middle of the last century, there was a belief that industrialization would pull workers in developing countries from the unproductive informal sector towards a modern industrial formal sector (Willman-Navarro, 2008; Moser, 1977). This theory stemmed from 'the experience of rebuilding Europe and Japan following World War II, and the expansion of industrialization in the United States and Britain' (Willman-Navarro, 2008:369). However in the 1970s, the informal sector around the world was still growing and these expectations were not borne out. The empirical data showed that development policies were slow to trickle down and that the formal economy could not absorb the large pool of unemployed (Willman-Navarro, 2008; Swaminathan, 1991).

However, the actual growth of the informal economy is not the only reason to criticise this residue theory. Potts (2008) sees the main problem of the dualistic conceptualisations (residue theory) of less developed economies in the fallacious view of 'disconnection' between the two sectors. She accuses the colonisers and the 'modern' society of the restrictive framework they imposed on the 'backward' sector hindering the 'transformation'. To display this, Potts provides examples of polices adopted in southern African societies that were led by this misleading theorisation. One of the examples is that land was massively alienated from indigenous people and restrictions on agricultural production were imposed while subsidising settler farmers. Another example of inadequate policies is that colonisers invested little in non-extractive sectors of economy disregarding 'comparative advantage' as 'employment and productivity at 'home' were the key imperatives of the colonial state'. (Potts 2008: 152). These and many other developments based on the residue theory were of great importance for southern African societies. Therefore, Potts (2008) concludes that the residue theory 'has descriptive value but is dangerously misleading if translated into policy that is founded on an idea that the sectors are functionally separate' (Potts, 2008: 152-153).

On this issue of indisputable fallacies, the view of the informal economy as a residue has 'resurfaced' in a vast range of studies. For example, Chen *et al.* (2004) argues that the residue theory has to be rethought due to the fact the informal economy not only grew but also emerged in unexpected places and in various forms. She summarises the main differences between the 'old' and 'new' concepts of the informal economy (Table 2.1).

Table 2.1. Old and new views of the informal economy (Chen et al., 2004: 20)

The old view	**The new view**
The informal sector is the traditional economy that will wither away and die with modern, industrial growth	The informal economy is 'here to stay' and expanding with modern, industrial growth.
It is only marginally productive.	It is a major provider of employment, goods and services for lower-income groups. It contributes a significant share of GDP.
It exists separately from the formal economy	It is linked to the formal economy—it produces for, trades with, distributes for and provides services to the formal economy.
It represents a reserve pool of surplus labour.	Much of the recent rise in informal employment is due to the decline in formal employment or to the informalisation of previously formal employment relationships.
It is comprised mostly of street traders and very small-scale producers.	It is made up of a wide range of informal occupations—both 'resilient old forms' such as casual day labour in construction and agriculture as well as 'emerging new ones' such as temporary and part-time jobs plus homework for high tech industries.
Most of those in the sector are entrepreneurs who run illegal and unregistered enterprises in order to avoid regulation and taxation	It is made up of non-standard wage workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation; and most informal wage workers would welcome more stable jobs and workers' rights.
Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy	Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses, and informal employment includes not only self-employment but also wage employment. All forms of informal employment are affected by most (if not all) economic policies.

Indeed, although earlier this 'old view, or the formalization thesis, was widespread and commonly accepted, today a growing amount of literature refutes this theory. The reason for its defectiveness is seen in 'a widespread recognition that the informal economy is not some weak and disappearing realm but strong, persistent and even

growing in the contemporary global economy' (Williams and Round, 2007: 32)

2.1.2. By-product theory (structuralist approach)

The second theory, the by-product/globalisation/marginalisation approach, akin to the residue theory, represents the informal economy negatively, but in contrast to the latter, views this sphere as an integral part of the formal economy. The informal economy is here seen as emerging in late capitalism and as a result of an increasingly deregulated global economy in which labour standards are ever lower with the aim of cost reduction. Here, marginalised population's acceptance of the exploitative work conditions is just a part of their 'survival strategy'. These first two theories tend to focus upon waged informal employment and also necessity-driven informal self-employment (Williams and Round, 2008). According to Chen *et al.* (2004), waged informal employment includes workers without worker benefits or social protection who work for formal or informal firms, for households or with no fixed employer, including employees of informal enterprises, other informal wage workers (casual or day labourers, domestic workers, unregistered or informal workers, some temporary or part-time workers), industrial outworkers (also called 'homeworkers').

The International Labour Office (2007), adopting a by-product approach, negatively depicts informal work and promotes formal employment as decent and progressive. For example, in sub-Saharan Africa, where the formal economy employs not more than 10 percent of labour, addressing the informal economy and poverty reduction are intertwined. In Latin America as well, the informal sector is very large absorbing 75 percent of workforce and contributing around 40 percent of the region's GDP. Here the informal economy is viewed as an urban phenomenon, which was a result of rural-urban migration caused by 'burdensome regulations and lack of recognition of the property rights and capital of informal operators' (ILO, 2007: 5) Focusing on the development of decent work in this region, the ILO adopted the policy of 'progressive formalization of the informal economy'. In Asia, the ILO (2007) argues,

the main representatives of informal workers are micro-entrepreneurs and homeworkers at the lower end of global supply chains. They are 'unrecognized, unprotected and lack access to basic services and rights'. As the ILO (2007: 18) puts it:

> 'The main benefit of formalization should be considered in terms of increased economic and social security that builds a platform for investment and enables informal operators to take a longer perspective on their future than day-to-day survival allows'.

Another example of the by-product theory can be found in Williams and Round (2007). They studied work practices of households in Ukraine and found that the formalisation thesis is not applicable there. Instead, informal work in Ukraine can best be described using a by-product approach due to two main findings. Firstly, over a quarter of households mainly rely on the informal economy. This shows that the informal sector is not a disappearing residue from pre-capitalism. Secondly, for those engaged in the informal work the main motive is to 'eke out a living'. However the commentators argue that the by-product thesis is not the most accurate approach to depict Ukrainian reality (although the closest one). They argue that the informal economy in Ukraine is rather 'a core integral component of contemporary work organization' (Williams and Round, 2007: 38). This is explained with the fact that the majority of those still in the formal economy heavily rely on the informal economy to secure their livelihood.

One more example of the by-product approach is the work of Smith (2006), who considers the informal economy as 'constitutive outside' of neo-liberalism. The author also employs the example of post-socialist countries in the transition period. He sees it as

> 'a response to reductions in social benefits and as a way in which poor households sustain livelihoods in the face of falling incomes. Recourse to informal work provides an additional income stream to sustain that has been

reduced because of neoliberal austerity measures' (Smith, 2006: 11).

This correlates with the 'survival strategy' theory. However the author also mentions the reciprocal nature of non-market informal labour, when informal activities imply being a part of community. Here, Smith adheres to the post-structuralism view (discussed below) of the informal 'as part of a diverse economy of post-socialism constituted by a range of forces, not only those corresponding to capitalist induced austerity' (Smith, 2009: 53). The author suggests that informal practices cannot be seen just 'as the "survival strategies" of the poor, but as complex cultural and socio-economic phenomena'. Some informal economic activities are not just profit earning, they have a particular social and cultural significance for the participants – it is the way of being a valuable member of your community, 'the "glue" that enables "held togetherness" of societies in traumatic times' (Smith, 2009: 62). The idea can be illustrated by reciprocal exchange of goods and labour: self-build housing construction, household food self-production, etc. in Soviet and early post-Soviet (the tough 90's) epoch. In addition, Smith (2009) questions an applicability of the 'survival strategy' theory to self provisioning arguing that food production for household consumption on domestic plots of land (which is very common part of informal economy in post-socialist countries) is a prerogative of not the poorest population.

Finally, Varnaliy (2007) portray the informal economy ('shadow economy') in Ukraine as having a 'negative impact on all social-economic processes'. They mention that the 'shadow sector constantly expands connections with the legal one, compete with the latter and supplants it from the most regulated spheres of economy'. On the basis of this depiction of the informal economy as a negative phenomenon and as intertwined with the formal, one can assume that here the informal economy is also considered as a by-product of the formal.

2.1.3. Complementary theory

In the third theory, the relationship between the formal and informal economies is complementary with both growing and declining in tandem, rather than substitutive as in the by-product approach. Akin to the by-product approach, nevertheless, both spheres are again seen as intertwined with each other, albeit in a mutually iterative relationship rather than one arising as a consequence of the other. Moreover, although inclusion into the formal economy is retained as a 'path to progress', the informal economy is viewed more positively than in the residue and by-product approaches. Economic development implies not only formal economy development, but also informal development. Both economies are growing and declining in tandem and those who are better-off have more opportunities to generate informal income while deprived households are less involved in the informal economy (Williams and Round, 2008). In order to obtain a better understanding of this relatively new approach to the informal economy as a complement to the formal economy, the various studies referring to this theoretical approach will be here discussed.

Williams and Marcelli (2009) argue that 'besides profit-motivated market-like informal work there exists informal work that is conducted under economic relations more akin to paid mutual aid' (2009: 228). They list the following positive characteristics of the informal economy: it enhances social cohesion through mutual aid and reciprocity; it enables the provision of goods and services to those in need; it helps cement and develop social networks of material support; and it extends the range of opportunities available to individuals and families to cope in situations of deprivation.

Williams and Round (2008) support this theory with the example of Ukraine. They found that higher income households give and receive some 41 percent more paid favours than the average household while the lowest income households account for just half of the paid favours of the average household. This displays 'how this informal work reinforces the disparities produced in the formal economy' (2008: 382). Paid favours here include domestic tasks conducted for kin, friends and neighbours. This work is done not only for profit motives, but also to help close people and/or

reinforce social ties. The study of English localities (Williams, 2010a) revealed a similar situation. Here, own-account work for closer social relations can take various forms from profit motivated informal self-employment undertaken for more distant acquaintances to the work performed solely for social motives.

Another piece of evidence supporting this theorization of the informal economy as a complement to the formal economy is provided by a study of rural Pennsylvania (Jensen and Slack, 2009). This study refutes common assumptions that formal and informal economies are substitutes; in other words, that informal work is a survival strategy and participation in the informal economy is inversely related to family income. This builds on the fact, that the total number of formally employed members is positively related to participation in the informal economy. Households with the members in stable, well-paid jobs are more likely to participate in the informal economy (e.g. entrepreneurial moonlighting) than those with low-paid household members. This implies that 'good' jobs provide more opportunities for on-the-side earnings and informal work is a complement to formal work. In addition, Jensen *et al.* (1995) found that although the prevalence of the informal activities declines with rising income, households with the lowest incomes were the least likely to report informal activities. These findings therefore correspond with the informal-as-complement theory.

One of the attributes of the complement theorisation, namely a close connection of the informal and formal economies, is shown by Dzivnka (2002) and Adam and Ginsburgh (1985). Using the money demand method, Dzvinka (2002) displays that

> 'there is no a significant adverse effect of the informal economy on the formal one. These two are rather complements than substitutes. Economic agents have formed preferences on what share of activities to report or hide. The preferences look remarkably stable; only major policy shocks are likely to break these preferences in favour of the official economy'.

Adam and Ginsburgh (1985) evaluated the effects of the informal economy on the

formal one. They applied their analysis to Belgian economy and found that there was a positive relationship between the growth of the informal and formal economies.

2.1.4. Alternative theory

The fourth theory which views the informal economy as an alternative to the formal economy is advocated mostly by neo-liberals (De Soto, 1989; Schneider and Enste, 2000; Maloney, 2003). They consider over-regulation of the economy as very negative and argue that 'the real problem is not so much informality as formality'. The solution is to liberate the labour market from intervention, and informal employment exemplifies how formal employment could be organized if it were deregulated. In this approach, which is more commonly applied to a third world context, the normative hierarchy of the residue and by-product discourses is inverted. The conventional normative portrayal of economic development as a process of formalization is countered with an alternative inverted view of development as a process of informalisation. In this approach opportunity driven informal self-employment is discussed. These are mostly micro-entrepreneurs that prefer informality due to the cost-, time- and effort-consuming registration (Williams and Round, 2008).

For example, Cross (2000) argues that informal sector takes over where the formal sector fails. This is the 'micro-business' sector that absorbs part of increased unemployment, tempering negative social effects of economic downturn. Therefore the view of the informal sector as 'a bad copy of the formal' is seen to be erroneous. Furthermore, the author criticises the projects for informal micro-business development. He argues that imposing formal rules to informal businesses undermines their success factors. 'From engaging in a flexible and evolving economic activity focused on family subsistence needs…, they are sucked into a rigid set of rules that they can barely understand…' (Cross, 2000: 44). It is further suggested that in order to encourage entrepreneurship, micro-firms should be allowed to remain unofficial at least until there is more sense to become formal in order to protect their capital. Thus, this

perspective can be put into the alternative theory.

Maloney (2003) while criticising dualism compares informal work and self-employment in micro-enterprises with the official employment and presents alternative views of informality on the basis of a survey conducted in Latin America. The survey showed the core of informality in Latin America is self-employment which is preferred due to dignity/prestige and autonomy/flexibility/comfort rather than due to necessity. The author supports his theory concluding that 'it may be the attractiveness of informal self-employment that causes dualism rather than a segmented market causing informality' (Maloney, 2003: 4). Moreover the Latin countries' informal sector is seen here as a 'healthy, voluntary small firm sector' (2003: 14). This can be viewed as an alternative theory as well.

Williams *et al.* (2011) supported the alternative theory of the informal employment by the example of Ukrainian own-account workers. In order to define which theory is more applicable to this type of worker, they analysed the motives for being informal in terms of voluntariness of participation in the informal work. The survey revealed that informal self-employed can be divided into three groups: those who voluntarily exit the formal sector (57 percent of all self-employed), those who are excluded from the formal sector (20 percent) and those who have both exit and exclusion reasons for being informal (23 percent). Who are then those self-employed exiting the formal economy and the most likely to fit the alternative theory? They are mostly the higher-income informal self-employed driven by the extra-earnings opportunities from their formal job. This includes, for example, plumbers, electricians, builders and even lawyers whose motive is just to 'top up' their formal incomes. The other major motive for performing informal work is to avoid informal taxation and administrative corruption that are characteristic to Ukraine. They positively perceive informality due to the belief that the taxes they pay are being stolen by the officials.

2.1.5. Post-structuralist theory

Analysing these four theories, Williams and Round (2008: 383-384) conclude that 'each theory is talking about very different forms of informal employment (e.g. neo-liberals largely discuss informal self-employment while by-product theorists discuss informal waged employment)'. They then assert that 'although evidence can be found to support nearly all these theories by looking at specific types of informal employment, no one theory accurately depicts informal employment as a whole'.

The relationship between formal and informal employment, positive/negative perception, and what forms of informal economy is discussed in each theoretical approach is rendered by the authors in the following scheme:

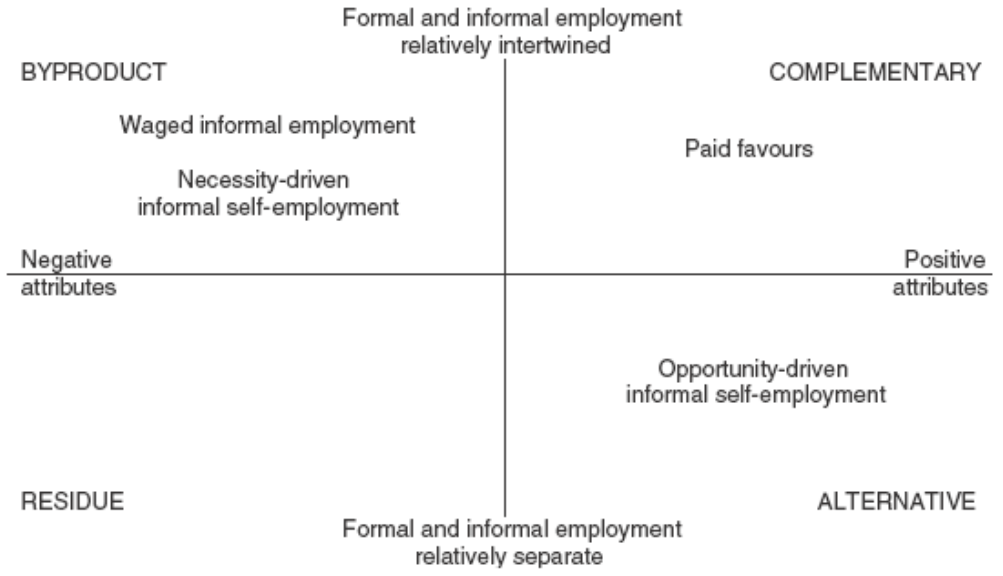

Figure 2.1. The relationships between formal and informal employment (Williams and Round, 2008: Figure 1)

Indeed, one might see this approach of Williams and Round (2008) and Chen *et al*. (2004) as a fifth perspective; what might be termed a post-structuralist perspective. The term 'post-structuralist' is used to recognise the economic plurality and diversity inherent in the 'economy' writ large and these post-structuralist commentators argue that each form of the informal economy seeks to allow the plurality of economic forms

in existence to have a voice. The literature on this approach is briefly discussed below.

First of all there is a 'diverse economies' perspective that is grounded in the work of Gibson-Graham (2008). He suggested a diagram (Table 2.2 below) that groups 'the huge variety of economic transactions, labour practices and economic organizations' (Gibson-Graham, 2008: 3). It should be noted that this diagram is an 'open-ended work in progress' and could be potentially supplemented with other columns.

Table 2.2. A diverse economy (Gibson-Graham, 2008: 4)

TRANSACTIONS	LABOR	ENTERPRISE
MARKET	WAGE	CAPITALIST
ALTERNATIVE MARKET Sale of public goods Ethical 'fair-trade' markets Local trading systems Alternative currencies Underground market Co-op exchange Barter Informal market	ALTERNATIVE PAID Self-employed Cooperative Indentured Reciprocal labour In kind Work for welfare	ALTERNATIVE CAPITALIST State enterprise Green capitalist Socially responsible firm Non-profit
NON-MARKET Household flows Gift giving Indigenous exchange State allocations State appropriations Gleaning Hunting, fishing, gathering Theft, poaching	UNPAID Housework Family care Neighbourhood work Volunteer Self-provisioning labour Slave labour	NON-CAPITALIST Communal Independent Feudal Slave

The work of Pavlovskaya (2004) bases her study of post-Soviet households in Moscow on the post-structuralist concept of diverse economies as well. She analyses three theoretical approaches in terms of existence of capitalist/non-capitalist forms of economy in capitalist society. Firstly, she argues about the existence of multiple economic forms within capitalism. This approach is post-structuralist. In the frames of

this theory, the post-Soviet economy may be identified ‘as consisting of multiple economies instead of its generalized characterization as ‘post-socialist’ or ‘market-based’’ (Pavlovskaya, 2004: 334). Secondly, she claims the existence of non-capitalist forms of labour in modern capitalist societies. And finally, she argues mixed capitalist and non-capitalist economic institutions can exist together, when socialism and capitalism are not mutually exclusive.

The similar, diverse (multicoloured) economies concept is developed and proved in Smith and Stenning (2006). They argue that ‘capitalist development in post-socialist societies should be seen as one part of a diverse economy’ (2006: 1) and that that the informal economy is articulated with other types of economies in different geographies – both local and global. Speaking about informal work the authors connect it with ‘forced flexibilization’ of workforce and emergence of ‘portfolio workers’- caused by the retrenchment of formal labour markets i.e. they adopt a by-product approach. Being unemployed or employed part-time the workers had to find new sources of income (mostly self-employment), often several at a time in order to provide decent standard of living. They suggest, however, that the informal work conducted for the family members is not always financially motivated and that affluent households have more opportunities to receive informal income and therefore are even more engaged in the informal activities that less well-off households. Poor households usually engage in ‘defensive’ informal practices while the informality of ‘elite’ is ‘entrepreneurial’ in their practices.

Supporting the views of the post-structuralists, Chen (2007: 5) found that ‘informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses’. She also mentions each theory suits different types of informal work. Based on these assertions she divides informal employment into two big groups. In the first group is self-employment in informal enterprises. It is when people work in small unregistered or unincorporated enterprises. They may be employers or own account operators (both heads of family enterprises and single person operators) or unpaid family workers. In the second group is wage employment in informal jobs

without social benefits and protection.

Mandybura (1998) reviewed different shades of the informal economy: from bloody black (criminal activity) to light-grey (mostly informal activity of households) and different timeframes: from the 1970s in the Soviet era to the first decade of Independence. The author explains the light-grey economy as a positive phenomenon, which helps people to survive and achieve satisfactory levels of income during the transition period. In particular he mentions that food production for household consumption on domestic plots of land is of great importance for households' survival in developing and transition countries. However, as mentioned above, Smith (2009) proves that these agricultural activities were a prerogative of not the poorest population according to the research in Russia and Slovakia in 2002. According to Mandybura one more positive impact of these light-grey activities on the economy is that they enforced 'marketisation' of the transitive economy. The author does not describe the interaction between the light-grey and white economies (his theoretical implications concern mostly illegal, 'black' economy). He argues that each component of the informal economy should be considered individually, which also correlates with the modern 'diverse economies' approach.

To conclude, among the five perspectives discussed above, the most popular and up-to-date is the post-structuralist thought, which can also be called a 'diverse economies' approach because it recognises the plurality of economic practices in post-socialist societies and the fact that capitalism is not yet hegemonic. However, there is no consensus yet about the theorisation of the informal economy. Commentators persist who advocate each and every one of these rival theoretical perspectives.

Having discussed the existing theories of the informal economy, we now move to the next section that aims to test the validity of these theories in terms of empirical data on different places and societies.

2.2. Mapping the informal economy in global perspective

The homogeneous nature of the informal economy as a residual, negative and discriminating phenomenon is no longer so popular among scientists. The extensive nature of the informal economy and consequently its persistence is already acknowledged by the majority of commentators (Chen *et al.*, 2004; Williams and Windebank, 1998; Marcelli *et al.* (2004); Schneider and Enste 2000; Esim, 2001; Wallace *et al.*, 2004; Smith and Stenning, 2006). 'Most observers now accept that informal employment is a feature of modern capitalist development, not just a residual feature of traditional economies' (Chen *et al.*, 2004: 13)

However, there is no consensus yet on the theorization of the informal economy. Williams and Round (2008) systematise existing theorisations of the informal economy. As discussed above, they distinguish four different theoretical approaches that consider the informal economy as: a residue, a by-product of the formal economy, a complement to the formal economy, and an alternative to the formal economy. Chen (2007) collates corresponding schools of thought regarding the informal economy: dualism, structuralism and legalism. Williams (2010) identifies two general opposing perspectives: modernization thesis and globalisation thesis. All these theorisation approaches are summarized in Table 2.3.

The objective of this section is to test the validity of these theories in relation to different groups of countries and to Ukraine separately on the grounds of the empirical data available and to conclude what approaches are applicable to different groups of informal workers in different parts of the world.

Table 2.3. Theorisation of the informal economy

#	Chen (2007)		Williams and Round (2008)	Williams (2010)	Main features
1	Dualism		a residue of pre-capitalist society	modernisation thesis	- binary hierarchy of formal, a superordinate, and informal, subordinate; - informal work is in a long-term decline; - formal and informal are not linked; - informal is primitive, marginal, weak, negative; - informality is an exclusion.
2	Structuralism		a by-product of the formal economy	globalisation and marginal theses	- informal work is in a long-term growth; - informality is an exclusion; - formal and informal are intertwined; - informality is negatively viewed; - informality is a survival strategy; - informality is a result of deregulation and globalization.
3	Post-structuralism		a complement to the formal economy		- informality is positively viewed; - informal is in direct relation with formal; - informality is a result of social networking; - informality is an exit.
4		Legalism (neo-liberalism)	an alternative to the formal economy		- formal and informal are relatively separate; - informality is positively viewed; - informality is an exit; - deregulation is promoted and bureaucracy criticized.

2.2.1. Globalisation and informality

Before discussing different countries and global regions, it is worth mentioning globalization and its influence on informality all over the world. Williams (2010) employs the term 'globalization thesis' arguing that informal work is universally growing (Williams 2010, Schneider and Enste, 2000; Tiessen 1997; Rodgers, Williams and Round, 2008; Esim, 2001; Glovakas, 2005). One of the most exciting ideas of the globalization thesis refers to the neo-liberal project of deregulation. 'Economic globalization refers to a dangerous cocktail of deregulation and increasing global competition that produces an expansion of informal work' (Williams, 2010: 13). Here informal work is seen as a new form of advanced capitalism.

Other advocates of the globalization thesis, Schneider and Enste (2000), analyse the sizes and tendencies of informal employment all over the world and found that informal economy rose dramatically over the past two decades, regardless of the estimation method. The authors identified the following main economic causes of the increase: the burden of tax and social security contributions, intensity of regulation, social welfare system, overregulation and labour costs in the official labour market, which it should be noted are factors associated with the alternative or neo-liberal theorisation of the informal economy. However they also argue that

> 'economic factors can only partly explain the increase. Micro-sociological and psychological approaches can provide interesting additional insights in the decision making process of individuals choosing to work underground. In an interdisciplinary approach (as undertaken in economic psychology), variables such as tax morale and acceptance and perceived fairness of the tax system are considered' (Schneider and Enste, 2000: 82).

The variables cited lead to the inevitable conclusion that informal work can only be reduced by de-regulating the economy. This, therefore, must be attributed to the alternative theory. To the non-economic factors influencing the extent of the informal

economy in particular regions, historical traditions and social relations in particular regions also may be added.

The 'globalisation' thesis is opposed to the 'modernization' thesis which dominated in earlier literature and viewed informality as slowly disappearing. However both theses are universal theories, and in order to study informal work more accurately a more context-bound approach should be employed.

ILO (2002) also sees the informal economy growth within past several decades. Its view of globalization is mixed. ILO recognizes positive changes caused by globalization due to transnational corporations that create new official working places and new markets for the self-employed deploying production in developing countries. However, globalization tends to be favourable for large formal companies and to disadvantage micro-entrepreneurs in the Third World. As ILO (2002: 34) puts it

> 'there can be no greater contrast in terms of market access, power and competitiveness, than that between the woman who produces clothes at home for local markets and the brand-name retail firm that markets fashion clothes in the United States or Europe. The impact of global competition also encourages formal firms to shift formal wage workers to informal employment arrangements'.

The idea of large firms employing informal workers due to increased international competition in the global environment is supported by many observers (ILO Pakistan Office, 2009; Maloney, 2004; Meledendez *et al.*, 2010)

Interestingly, globalization penetrates even the least developed countries, '…vendors are becoming linked to multinational corporation chains, with companies such as Unilever selling their soap through them and with Coca-Cola renting out kiosks' (Carr and Chen, 2001). Evidently, such trading activities may be completely or partially informal. ILO gives the following comments regarding the growth of informality caused by globalization:

> ‘where the informal economy is linked to globalization, it is often because a developing country has been excluded from integration into the global economy. It is the failure or inability of countries to participate in globalization processes (whether because of their own domestic policies or because of international barriers), rather than globalization per se, that contributes to preventing these countries from benefiting from trade, investments and technology’ (ILO, 2002: 34).

Another consequence of globalization is the apparent concentration of informal work in global cities performed by immigrants/ethnic minorities. Domestic informal work in London may be taken as an example. Cox and Watt (2002) argue that globalization resulted in both middle class spending power increase due to development of global cities as financial centres and growth of immigrants from developing countries that cannot work officially because of immigration status or language difficulties and therefore are ready to work as domestic workers for less. These two factors caused an increase of unofficial paid domestic work as more and more professionals can now afford and obtain domestic help. The analogical case can be found in Waldinger and Lapp (1993) article where the increase in informal employment in the garment industry in New York is discussed. However, the commentators admit that not only marginalized populations are involved in informal work, but also self-employed professionals and landlords.

Though most authors advocate the general growth of the informal economy, which correspond with the globalisation thesis, Williams (2010) notes that posing this as a universal generalisation is misleading for two reasons. Firstly, the informal economy is not always and everywhere growing. Secondly, informality is not everywhere an outcome of neo-liberal economic globalisation, ‘…a fuller understanding will derive only from a socially, culturally, and geographically embedded consideration of this sphere’ (Williams, 2010: 13).

This sub-section provided a review of literature addressing the issue of the

informal economy in the context of globalisation in general. The next sub-sections provide a more detailed examination of the existing literature on empirical aspects of the informal economy in particular regions and countries.

2.2.2. Third World countries

The informal economy is often called a traditional economy (Zapotoczky, 1995; Chen *et al.*, 2004; Flodman Becker, 2004) when speaking about Third World countries. Indeed, the informal sector plays a fundamental role in their economic structure. This sector is growing very fast here, and the globalization thesis is accepted by the majority of the observers (Zapotoczky, 1995; Flodman Becker, 2004; Chen *et al.*, 2004; Muza, 2009). The issue of informality is also closely connected with Third World countries' poverty problem. For every nation, engagement in informal activities is a 'survival strategy' in the very literal sense of the word. However, even in these countries, by-product theory is not the sole applicable theory. Zapotoczky (1995: 245) speaks in support of alternative theory and the importance of cultural compatibility. He argues that the informal economy is useful and necessary (especially for developing countries) due to economic and cultural reasons and supports this point of view with the examples of Indonesia and Peru, where 'the informal sector seems to harmonize well with the different local cultures, while the almost totally bureaucratized formal sector contradicts the local cultural peculiarities and in the long run brings along partly exorbitant contradictions'. The author accentuates the necessity of the particular cultural compatibility of economic institutions. Besides, he argues that in developing countries the majority of employment opportunities (and consequently poverty reduction) may be created only in the informal sector. However, he does not comment on the methods of formalisation of informal activities while this is also very important for the development and poverty control. In support of the above, De Soto (1989) should be mentioned and his neo-liberal (alternative) theory that the underground economy is part of the solution, not the problem. If this entrepreneurial spirit were legalized and nurtured rather than

fettered and suppressed a burst of competitive energy would be released.

Speaking about the proportion, nature and reasons of informality in developing countries one may argue that they bear a great resemblance to each other. According to Chen *et al.* (2004: 14):

> 'the largest occupational categories within the informal economy, in most developing countries, include casual day labourers in agriculture and construction, small farmers, forest gatherers, street vendors, domestic workers, workers in EPZ factories or small unregistered workshops, and industrial outworkers who work from their homes (also called homeworkers)'.

There exist a number of publications focusing on the informal economy in particular Third World countries. For example, in Botswana, the informal sector increased by 72 percent during the past decade. Informal businesses are mostly found in cities/towns and urban villages than in rural areas. Majority of informal businesses are operated by females (67.6 percent). Education has a marked effect on operators of informal businesses: those with no or less education more likely to run an informal sector business. The results further indicated that the majority of informal sector business operators are engaged in Wholesale & Retail Trade at 40.5 percent, followed by Construction at 20.3 percent (Republic of Botswana Central Statistics Office, 2009). However, the results of a June 2002 to August 2003 survey according to Kapunda and Mmolawa (undated) showed the inverse statistic concerning the education level of informal workers. They argue that the informal sector is represented both with educated (60 percent) and uneducated (40 percent) persons.

According to a nation-wide household income and expenditure Survey (HIES) carried out from June 2002 to August 2003, the first reason given by 40 percent of the respondents was that they joined the informal sector because they were unemployed and had to take self-employment/ informal business as the last resort, 25 percent expressed that they needed a better income than what they used to have as well as to

supplement their monthly salaries (confirmation of the by-product theory). 35 percent had a keen interest in self employment and wanted to be their own bosses (alternative theory). Before that they were mostly formally employed or students.

The informal economy in Zimbabwe is analysed by Muza (2009) in the context of poverty reduction. In Zimbabwe, the nature of informal work is similar to other Sub-Saharan countries. However, the situation is aggravated by droughts and 5-year economic crisis resulting in 94 percent of unemployment rate. Therefore rural dwellers indulged in agriculture have to seek for informal employment not just in urban areas but also overseas: South Africa, Botswana, Mozambique and Zambia. The most qualified and experienced consider work opportunities in Australia, United Kingdom, New Zealand and United States of America. The survival strategies to offset agricultural income shortfalls include illicit diamond mining in the absolutely indecent working conditions. At the same time informal sector remains unattractive due to high vulnerability and risk.

Flodman Becker (2004) also commented that the first ILO employment mission in 1972 to Africa, Kenya, observed that the informal sector, described as activities that are unrecognised, unrecorded, unprotected or unregulated by public authorities, was not confined to marginal activities but also included profitable enterprises. This allows us to conclude that not only by-product theory is applicable to developing countries in Africa, but also alternative theory.

In Latin America the character of the informal economy is somewhat different. Maloney (2004), supporting his views with De Soto's neo-liberal theory of informal economy, concluded from the surveys in Latin America that informality there is not a 'disadvantaged residual' but unregulated micro-entrepreneurial sector. He rejects the dualistic view (residue theory) that the firms facing international competition try 'to reduce legislated or union induced rigidities and high labour costs, particularly through subcontracting production out to unprotected workers' (2004: 1). He found that 'of those workers who started in the formal salaried sector but move into informal self-employed sector 15 months later, two-thirds report moving voluntarily, citing a desire

for greater independence or higher pay as the principal motives' (2004: 2). It supports the results of interviews in 1970s with Monterrey workers that discovered their endeavour to be one's own boss. Furthermore, movements into self-employment from official waged employment often represented an improvement in job status. The same was revealed in Argentina: '80 percent of the self-employed had no desire to change jobs and under 18 percent saw self-employment as a temporary activity before they found a 'real' job'. In Gran Buenos Aires only 26 percent of self-employed were dissatisfied with current position. In Paraguay, this percentage constituted 28 and even the share of informal workers, who seem to be the most disadvantageous – only 32 percent. According to Maloney (2004: 4),

> 'if firms must pay 'efficiency' or above market clearing wages to dissuade their workers from opening their own firms, this creates a segmented market. It may be the attractiveness of informal self-employment that causes dualism rather than a segmented market causing informality…Though informal salaried workers always earn consistently less, this may be due to the fact that they are often related to the owners of the enterprises where they work and thus may receive unobserved payments in kind (food, lodging). Further, to the degree that the sector appears to play a job training role for young workers, some fraction of the salary may be deducted to cover implicit training costs'.

Maloney (2004: 6) also challenges the view of the informal economy as an absorbent for officially unemployed workforce. The surveys in Mexico and Argentina showed that

> '75 percent of the unemployed in Mexico and 64 percent in Argentina were informal previously. And although their unemployment spells are 30 percent lower than those of formal sector workers, it is not the case that they instantly find new informal jobs. So the sector is not simply or even primarily absorbing the unemployed from the formal sector'.

Another important fact mentioned by Maloney is that in Argentina and Mexico there is interdependence between education level and formality. As the education level increases, the probability of movement from the formal to informal sector decreases. 'More educated workers will have higher productivity in firms than in self-employment'. People with mature children are more likely to move to risky informal self-employment, as their children 'provide a hedge against the risk'. Those who are going to be self-employed also hedge themselves against risks offered by informality staying in formal job until the enterprise is safely established.

Women, being discriminated in sub-Saharan Africa and Pakistan in the household informal work, in Latin America participate in the formal sector in the highest proportion. This mostly refers to single women without children. Those who have children and are burdened with household duties prefer the informal sector due to its flexibility. For younger people, who recently obtained school education, the informal sector serves as job-training site even for more apprentices than the formal education system.

Speaking about developing countries in general, Ruffer and Knight (2007) divide informal activities into 'voluntary' (a result of exit) and 'involuntary' (a result of exclusion) chosen. Voluntary informality is a response by small enterprises to over-regulation by government bureaucracies, and the result of a decision that the cost of being informal is lower than that of being formal. For example, Latin America, Maloney (2004) investigated the case of Latin America, namely, Mexico, Argentina, Brazil, Paraguay countries in details and concluded, that two-thirds of informal workers are highly qualified, mature people, well-connected and experienced. They exit the formal economy explaining it with higher-income possibilities. These facts give evidence concerning the alternative theory of the informal economy.

Meanwhile, informality as a result of exclusion is an only way out when the rate of unemployment is very high and is characterized by lower wages, indecent work conditions and high vulnerability. It prevails in China and South Africa. In China, rural

dwellers cannot obtain formal jobs in the city because of the residence registration, which restricts rights of migrants from rural areas and protect urban dwellers against the competition. Therefore, rural-born people may obtain only informal, discriminatory jobs. In South Africa, the labour force grew by 4.6 million over the eight years, wage employment by 1.3 million, self-employment by 0.7 million, and unemployment by 2.6 million. The figures imply that the economy is unable to provide enough working places for the growing workforce. Those who could not obtain wage jobs entered self-employment or open unemployment. As a result, the wages of the self-employed are falling much more rapidly than formal wages (Ruffer and Knight, 2007). Here, by-product theory may be applied.

The nature and extent of informal work in South Asia is unsurprisingly different. During the regional consultation of ILO in Pakistan on home based workers in South-East Asia, it was reported that 80 percent of the total working population is engaged in informal work, of which 50 percent are women (ILO Pakistan Office, 2009). Among the working women in the informal sector, 80 percent are home-based workers, which is a huge part of the whole Pakistan economy. Though the consultation was aimed at home-based women rights support, relevant facts on the informal economy were also reported. Home-based women workers in Pakistan are mostly illiterate and belong to a poor income background. Most of women are piece-rate workers involved in embroidery, carpet weaving, wood work, handicrafts, gem cutting and embroidering for multinational companies. Here, the globalization thesis may be employed (informal work in developing countries as a part of transnational companies' supply chain) and the reasons and nature of informality fit the by-product theory.

2.2.3. Developed countries

In developed nations, informal economic activity is also diverse. According to Williams and Windebank (1998), the complementary theorisation is the most relevant for understanding the informal economy in developed countries. People are engaged in

the informal economy in order to develop and maintain social networks. The more affluent is the household, the better opportunities it has to conduct self-provisioning, unpaid community exchange and paid informal work (Williams and Windebank, 1998; Slack and Jensen, 2010). The situation with the unemployed is different even in developed countries: for them, informality is necessity driven, a strategy to get by. The examples are benefit fraudsters who obtain unemployment benefits being informally employed and migrants without work permit. At the same time for those in employment, informal work is mainly beneficial, which is proved by direct surveys conducted in developed nations. Therefore, the marginality thesis has been largely refuted so far (Williams 2010).

Pfau-Effinger (2009: 83) found that 'in generous welfare states, the chance that a part of work is organized in terms of undeclared work is rather lower than in less generous welfare states'. The commentator asserts that this contradicts the alternative theory which states that the main reason for undeclared work 'is the result of over-regulation and heavy state intervention in the economy through tax and social security system contribution systems'. Herewith, Pfau-Effinger advocates the diversity of informal work and inconsistency of a unique theory explaining such work. She states that 'there are different types of undeclared work that vary with respect to the way in which they are embedded in societal contexts and in terms of the factors that influence the way in which they develop' (2009: 83). Therefore, the author developed a typology of undeclared work to systematize possible combinations of motives and strategies of both suppliers and consumers, which will be discussed later in this chapter.

United States

Analysing the 'globalisation thesis' particularly widespread in the United States Williams (2006: 35) found that informal work is 'especially prevalent in global cities and among immigrant/ethnic minority populations'. This type of informal workers ('day labourers') was examined by Melendez *et al.* (2010) is obviously related to the by-product theory. These workers are primarily immigrants from Mexico, Central America

and South America and mainly work in construction and manufacturing. Some 95 percent of them are male and only 26 percent have documents or work permit. Such informal work allows enterprises to reduce labour costs employing flexible and cheap labour. For the day workers, it is involuntary informality, for many the only chance to get by (Meledendez *et al.*, 2010).

However, the research in California in 2004-2006 commented by Marcelli (2010) showed that the popular account of informality as a survival strategy of uneducated, low-skilled workers who live in urbanized areas, is doubtful. Firstly, it is because the proportion of informal jobs tends to be higher in non-metropolitan and small-metropolitan areas. Secondly, though informal work is mostly performed by workers with only high school education, some highly informal jobs include a sizable proportion of college graduates. The results of survey reconfirm that a singular universal theorization is not possible even in developed countries.

The research conducted in rural Pennsylvania by Slack and Jensen (2010) revealed that one of the peculiarities of this rural economy is the shortage of all the necessary services at hand. Another is the availability of land and other natural resources. So, for example, cutting and selling firewood is very popular in rural Pennsylvania. The interviews conducted in this region showed that two main reasons of being informal are ‘to help out neighbours and relatives’, which is characteristic for better-off households and ‘to make ends meet’, which was cited mostly by lower-income interviewees. The above means that, again, a universal theorisation is impossible. Here, the by-product and complementary theorisations are both relevant, albeit for different population groups.

Canada

Fortin and Lacroix (2010) discussed two large surveys in the Quebec Province in Canada that were conducted in 1985 and 1994. The surveys discovered approximately the same as in Pennsylvania. The most interesting findings are:

- on the supply side of the market nearly 4 percent of the adult population is

involved in informal work. On the demand side, the proportion constitutes 17.5 percent (this discrepancy set the readers thinking about the reliability of the survey data);

- mostly young, relatively educated men are engaged in part-time work in urban areas; welfare recipients, unemployed, underemployed are also largely represented in informal economy;
- the higher the participant's formal income is, the smaller is his/her informal income and the bigger are his/her informal expenditures. This indicates that informal markets perform complex redistributive function;
- and finally, what is also rather disturbing, when asked about perceived prevalence of informal work, most participants reported that it is widespread. This is in conflict not only with the survey results concerning the extent of informal work but with the same respondents' answers that very few people in their neighbourhood work informally.

To conclude about the USA and Canada, two concepts of informal work prevail: by-product theory (relating to low-income households or illegal immigrants undertake informal jobs to get by) and complementary theory (referring to social network creation and maintenance by well-off households).

Germany

In Germany, the size of the informal economy is higher than in other developed EU-countries. Pfau-Effinger and Magdalenich (2010) distinguish two main types of informal work in Germany: 'poverty escape' and 'moonlighting'. The first type is as usual represented by low-skilled workers in construction, transportation and restaurant industries. A substantial part of such work is located in private households, where the typical employer is an employed upper-middle-class couple and the typical domestic worker is a formally unemployed working class housewife or female migrant. Interestingly, female migrants act not only as breadwinners for their families, but contribute to trans-nationalization of lifestyles, communication and consumption. The

second type is a strategy to earn additional income to that earned through formal employment. Moonlighting is mainly associates with native population in the fields of construction, repair and renovation. The main aim is to increase disposable household income to purchase desired goods and services. While 'poverty escape' group obviously corresponds with the by-product thesis, the explanation of 'moonlighting' may be rather problematic. The observers challenge neoclassical theory arguing that 'strong state regulations and relatively high social security taxes have had a rather ambiguous effect on informal employment in Germany'. Though these factors may influence moonlighting activities, the effect may be mitigated or enhanced by cultural factors: immanent to Germans low trust in public institutions and relatively high cultural acceptance of informality.

Pfau-Effinger (2009) advocating the heterogeneity of undeclared work suggests three types of such work on the basis of empirical studies:

1. *The 'poverty escape' type* of undeclared work is defined as 'undeclared work that is supplied by workers with the immediate aim of avoiding extreme poverty and as such provides their main source of income' (Pfau-Effinger, 2009: 84). As an example, female immigrants without work permit that are informally employed by 3.4 million of households in Germany which is 11 percent of German households' total number.
2. *The 'moonlighting' type* is represented by the self-employment or small businesses of qualified employees with the aim of getting extra-income without paying taxes to afford themselves luxury items. This type is mostly prevalent in prospering economies with full employment. The main prerequisites of moonlighting are high taxes, large quantity of affluent middle-class consumers and the last, but most important – a cultural acceptance of this type of undeclared work.
3. *The 'solidarity orientated' type* includes exchange of services among friends, neighbours, relatives rather for developing social networks and mutual support than for monetary gain. This type of undeclared work has much in common to

unpaid mutual help.

Therefore, Pfau-Effinger (2009) raises two important questions. The first question is why in such close social networks services are paid at all. Williams and Windebank (2005) explain this by firstly, the unwillingness of people to feel that they owed others a favour and secondly, a distrust or doubts that the favour will be returned. The second is why this paid mutual help cannot be registered. According to Pfau-Effinger (2009), this is because there is a public perception of this type of activity as private, into which the state should not intervene. Table 2.4 below summarises the main features of each type of informal work: the nature and the motives of suppliers and consumers.

Table 2.4. The main types of informal work (Pfau-Effinger, 2009: Table 1)

	Description of field of employment	Supply side motive	Demand side motive
Type 1: Poverty escape type	— based on dependent employment (or precarious forms of self-employment) as main income basis of the workers — used by firms and private households	— Strategy of workers to escape poverty who are restricted from entering regular employment that is based on income above the poverty line	In firms: — cost-saving strategy of firms seeking undeclared work for tasks that require relatively low skills In private households: — strategy of affluent households to get affordable support for the dual-earner arrangement
Type 2: Moonlighting	— Self-employment as side job in addition to standard employment — mainly private households as contractors, in some parts also small businesses	— Fulfilment of 'luxury-item' wishes without paying taxes and social security contributions	— Cost-saving strategy of private households and firms as reaction to craftsmen or professionals seeking side job
Type 3: Solidarity based form	— Mutual support in social networks, based on money or payment in kind	— support given to others in social networks, more than the monetary gain — low degree of acceptance of the obligation to pay taxes for support in social networks	— get help from others within social network

United Kingdom

According to Williams (2010a), the survey of household work practices in affluent and deprived rural and urban areas showed that different meanings of informal work occur in different geographical contexts. In order to explore geographical variations of the nature and extent of informal work, data was collected through 861 face-to-face interviews between 1998 and 2003 in 11 English localities. The survey corroborates the conclusions of previous studies that informal work is not concentrated in deprived populations, which challenges the marginalisation thesis. It has been found that those who live in affluent areas consume and supply informal work to a greater extent than those living in deprived areas. Moreover, higher-income population receive a disproportionate share of the income from such work.

As for motives, in affluent areas, informal work consumption is mostly motivated by financial gain and is mostly acting as a substitute for formal employment. Such work is conducted by friends and neighbours for gifts to develop closer social bonds and by pre-adult children to redistribute cash and teach them the value of money. In deprived areas the majority of informal work is undertaken by friends, neighbours and kin with the object of building social capital and redistribution (i.e. helping others out as by giving them money). Similar to customers, suppliers of informal work in affluent urban areas are motivated by financial gain, while in lower-income areas informal workers undertake such work for the purpose of developing social networks and/or redistribution.

To sum up, even in the developed countries the diversity of informal economies may be found including disadvantageous informal employment of marginal populations. However, complementary and alternative theories prevail here and social and cultural factors play an even more important role when people choose informality.

2.2.4. Ukraine and other post-socialist countries

Post-socialist economies (other than Ukraine)

The informal economies of post-socialist countries are sometimes purported to be similar compared with other countries. According to Chavdarova (2003), during the 1990s, the informal economy in these countries grew faster than anywhere in the world. Indeed, according to Schneider (2003) the informal labour force percentage of working-age population was significantly higher in transition countries compared to OECD countries. In 2000-2001, the size of the informal economy in percentage to GDP amounted to 44.8 percent in average in the former Soviet Union countries and 29.2 percent in the Central and Eastern European transition countries, while in the OECD countries only 16.7 percent. Chavdarova explains such results for the transition countries as being due to the fact that during the process of transformation, the old system institutions were destructed quicker than the new market economy institutions were established. This led to filling up the formal institutional vacuum with informal institutions. Thus, the informal economy became a central element of economic and social systems of post-socialist countries. Chavdarova (2003) argues that Bulgaria is not an exception: the informal economy in early nineties reached 34.4 percent. It fell down to 21.9 percent since 1997-1998 after economic stabilisation and trade liberalisation. It was found that 'the increase in the informal economy and that of GDP are negatively correlated' (Chavdarova, 2003: 218)

The most common way to take part in the informal economy is to work on a fake labour contract (some 22 percent of total number of contracts in 1996). Such informal employment can mostly be found in construction and trade, in private firms in regional centres. In 1996, 6.8 percent of employees reported that they worked without any contract. These totally informal jobs are most typical for agriculture and trade in villages and small towns (Chavdarova, 2003).

Chavdarova (2003) recognises the plurality of informal work forms, which corresponds with a post-structuralist perspective of the informal economy. For instance, she distinguishes between employment on a non-labour or fake labour

contract, employment and self-employment without any contract, domestic production for own consumption and social exchange of products and labour. Moreover, she underlines that the informal economy contributes to social inequality. For example, workers with only one informal job are as a rule underpaid and socially unprotected, whereas self-employed moonlighters, for whom informal earnings on the side are not a survival strategy, are usually well-paid and socially protected being formally employed at their main workplace.

The situation with the informal economy in Romania is not unlike other post-socialist countries. Albu and Nicolae (2003) analysed the survey of 1996 and found that the share of informal earnings constitute 20.4 – 26.2 percent in the structure of total households' income. Both high and low income households participate in the informal economy; however their motives are different. The poor are excluded from the formal economy ('subsistence' motive), while the rich are exiting the formal economy ('enterprise' motive). The other reasons for participation in the informal economy mentioned in by Albu and Nicolae (2003: 210) were 'persistent crisis in the formal sector, legislative incoherence, feeble penalty system, corruption, over-bureaucratization, etc.' Thus, the authors employ by-product and alternative approaches to the informal economy.

According to Mroz (2005) in 2004 nearly 21 percent of economically active population were involved in the informal activities. The highest proportions of the informal work are found among the unemployed participants and workers in private businesses (27 and 18 percent respectively). Rokicka and Ruzik (2010) reported that the informal economy in Poland was in decline between 1998 and 2004. In 2004, some 9.6 percent of workers were involved in the informal activities, which differ to the numbers provided by Mroz (2005). Rokicka and Ruzik (2010: 12) found that the main reasons for working informally were: 'the need to have any kind of income, the lack of jobs opportunities in the formal sector, and the aspiration to have higher income than in formal jobs'. The informal work is the most widespread in the construction and repairs, trade, private tutorial, and child care sectors. Some 60 percent of informal workers

reported that the informal work was their main source of income.

Esim (2001) describes in detail the informal work of women in Central and Eastern Europe. In his paper, informality is depicted as a strategy to escape poverty during the transition to market capitalism and global economic integration. Analysing informal trends in Central and Eastern Europe, Esim is inclined to the by-product theory of the informal economy. He argues that the intense informalisation since the transition was the result of impoverishment of households and their survival strategy.

However, the informal workers have never been confined to marginalized, low skilled and uneducated population. Doctors, teachers and lawyers are unemployed or have substandard below the cost-of-living wages. As a result, many have to take secondary employment in addition to their current jobs cleaning houses, teaching at home, engaging in cross border trade, or temporary migration. 'This is resulting in a sense of indignation and frustration among many professionals who have to engage in informal employment to support their families' (Esim, 2001: 4).

Among the key areas of the informal economy in which Central and East Europeans (mostly women) were engaged, Esim (2001) mentions cross-border trading or *suitcase trade*, *'shuttle trade'*.

> 'Suitcase trade is used to describe the informal cross-border trade carried out by mainly women 'tourists' visiting Turkey, Greece and Italy mainly from Eastern and Central European countries like Lithuania, Bulgaria, Ukraine and Romania in the 1990s. These cross-border traders buy large amounts of consumer goods, mainly food products, textile and apparel, and household goods. According to the official balance of payment figures reported by the Turkish Ministry of Finance, revenues from suitcase trade were US$8.84 billion in 1996' (Esim, 2001: 7)

Other observers also identify the diversity of economies in which people are engaged in order to get by. Wallace *et al.* (2004) used the outcomes of New Democracies Barometer survey as a database of their research of the informal economy in East-

Central Europe. The authors categorize the economies (based on monetization/non monetization and integration/autonomy with the main formal economy) in the following way:

- the formal economy (work or benefits from the public formal economy);
- the household economy (production for household consumption);
- the social economy (dependence upon favours and help from friends and relatives);
- and the cash or black economy (additional monetized activities).

Wallace *et al.* (2004) argue that all three forms of the informal economy were necessary for the survival of the majority of households (almost 90 percent of all households were involved in at least one of the informal economy forms). Furthermore, most of the post-Soviet households developed a 'portfolio of economies', combining different formal or informal economic activities in order to survive. The corresponding view of a 'portfolio of economies' or 'multiple economies of households' may be found in Smith and Stenning (2004) and Pavlovskaya (2005). Wallace *et al.* (2004) developed a table in order to structure these findings.

Table 2.5. Relationships between different economies (Wallace at al., 2004: Table 1)

	FORMAL SECTOR		INFORMAL SECTOR	
	I State economy	II Formal market economy	III Informal market economy	IV Household economy and non-monetized
Primary sector (agriculture)	Collective/state farms	Independent farmers	Sale of surplus agricultural products at roadside and markets	Food, pigs etc. for household consumption (15% of NDB families)
Secondary sector (industry)	Many main industries	Some privatised industries	Sweat shops, industrial home working	Production of goods e.g. clothes, housing by the household
Tertiary sector (services)	Education, health	Financial services, banking, restaurants, plumbers, doctors, teachers, prostitutes in official private sector	Plumbers, carpenters, prostitutes not paying tax, moonlighting doctors and teachers, many migrant workers	Housework, care of elderly, childcare (if monetized can be done by migrant workers)

Quartiary sector (Information/ Culture)	State media, opera, cinema	Cable TV, satellite, private radio stations	Black market CDs and computer software, videos	Internet communications, shareware etc., virtual migrant communities

The table represents a classification of economic activities according to industrial sectors and types of 'economies' (by economic logic) to which they belong. Firstly, the *state economy* and *formal market economy* are understandable and are not further discussed here. Secondly, the *informal market economy,* or cash economy is represented by the informal sale of agricultural products, illegal forms of industrial employment (perhaps evading labour market regulations as found, for example, in the sweatshop industries) and services such as the work of plumbers, carpenters as well as doctors and teachers 'on the side'. In the last sector, there is the bootlegging of various kinds of cultural products as well as the black market in computer software. Finally, the *household and social economies* include all kinds of economic activities, which are not for profit but are exchanged on an informal basis. The household sector, Wallace *et al.* (2004) argue, is increasing in post-industrial societies rather than declining as more and more domestic services are commercialised and technologies are miniaturized in such a way that they can be incorporated as part of the household economy (e.g. the computer, consumer electronics etc). Production of clothes (as self provisioning in the household economy and as self-employment in the informal market) was very popular in the Soviet period because of scarcity of the fashionable clothes available to ordinary people. A lot of Soviet women sewed or knitted clothes themselves or had a personal seamstress. Evidently, people did not declare these activities. In transitional period, the market of clothes dramatically improved with years, however the reason for household clothes production became poverty (especially in 90s). Later by 2000's more cheap and fashionable clothes brands entered the market and economic position of many households improved which caused a decrease in seamstresses' services demand; however handmade clothes remain popular as quality, exclusive and/or comparatively cheap.

Pavlovskaya (2005) explored survival strategies of post-socialist cities during the period of transition to a market economy. She explored Moscow households and their multiple economic activities. The households' informal practices are seen here as a constituent part of 'a conceptual model of multiple economies' (Pavlovskaya, 2004: 335), which is illustrated in Figure 2.2 below.

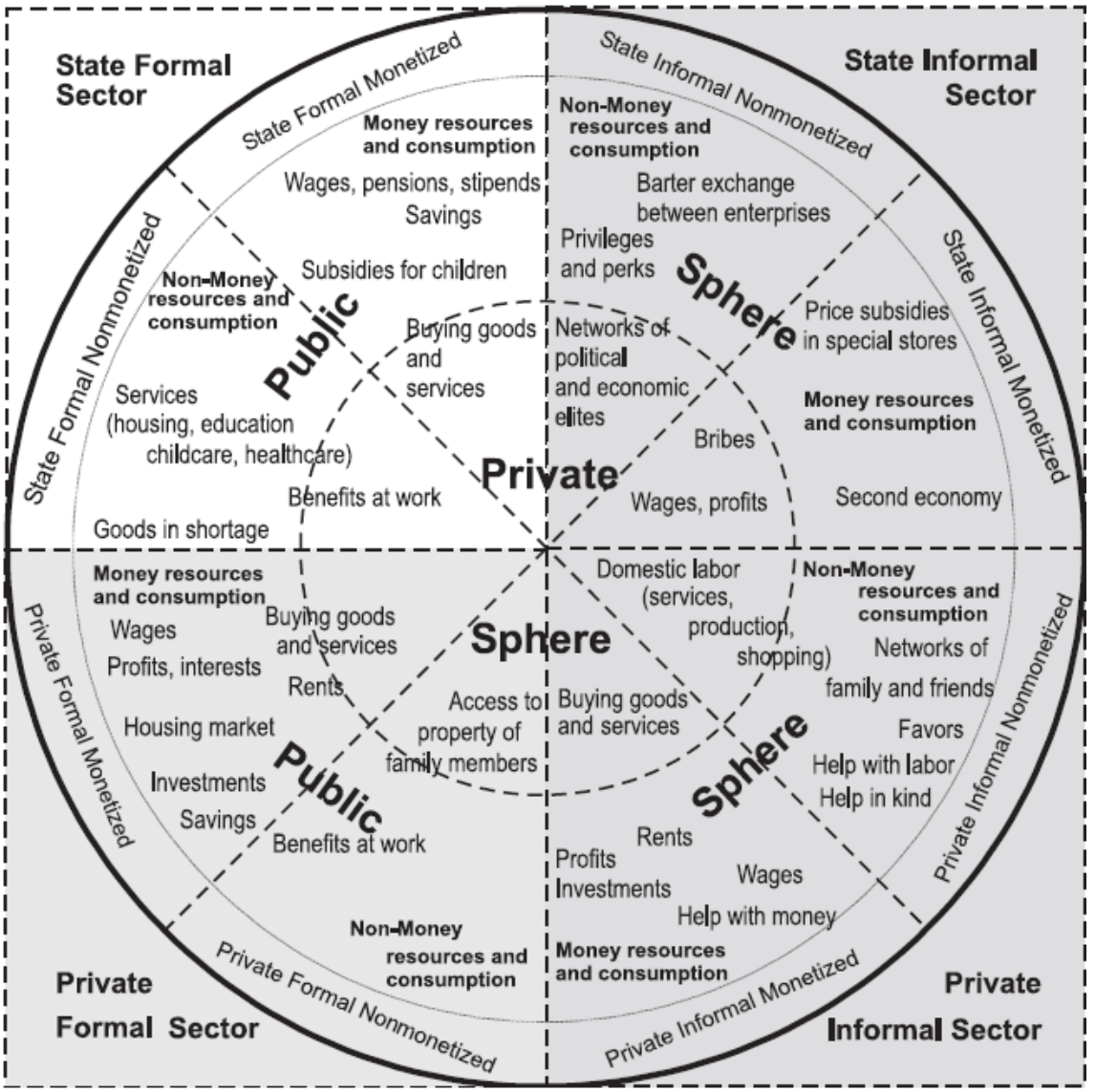

Figure 2.2. Multiple economies in the post-Soviet society (Pavlovskaya 2004: 335)

This model of multiple economic spaces of post-socialist households is constructed on the basis of four dichotomies: formal and informal economies; monetised and non-

monetised economies; state and private sectors; and public and private spheres. Pavlovskaya (2004) emphasizes an important role of the informal economy both in the Soviet and transition periods. She found that before the transition nearly 12 percent of workers earned informal income and this income constituted up to 40 percent of total households' income. During the transition period the informal economy amounted to 46 percent of GDP and 69 percent of households were engaged in various economic activities. This can be complemented with the finding that during the transition the number of households, where formal activities are the primary source of income has decreased, while the importance of second and informal activities has sharply increased. She argues that although the economy in the area surveyed has significantly grown, new goods and services were unaffordable to ordinary households and this lead to a greater reliance on informal resources and consumption. This included both monetised and non-monetized informal activities (private informal sector in Figure 2.2 above). Private monetised informal sphere includes rents, profits, investments, help with money and purchasing goods and services. Private non-monetised informal sphere consists of networks of family and friends, favours, help in kind, help with labour and domestic labour.

Similarly to Pavlovskaya, Smith and Stenning (2006) argue that post-socialist economies are diverse and the informal economy plays an important role in economic life of households.

> ''Black' and 'grey' economies were significant parts of the economy of shortage of Soviet systems. Popular images still prevail of the illegal street selling of jeans in the Soviet Union, or the black market exchange of foreign currency. Since the collapse of the Soviet systems the role of 'black' and 'grey' economies has continued, intensified and even developed into new forms' (Smith and Stenning, 2006: 11).

One of the most important characteristics of the informal economy in post-socialist

countries is ‘envelope wages’, which formally registered employees receive in addition to their formal salaries. These informal, ‘envelope wages’ are hidden from tax authorities by employers with the aim to reduce costs of paying taxes and social contributions (Kedir *et al*, 2011). Until now, very few publications exist exploring this issue, however ‘envelope wages’ are very widespread in East-Central European countries. For example, the study of ‘envelope wages’ in Moscow by Williams and Round (2007) showed that almost two thirds of wages are paid ‘in the envelope’. Some 76 percent of full-time workers and 61 percent of part-time workers received part of their salaries informally. The proportion of their total wages received ‘in the envelope’ ranges from 20 to 80 percent. In Lithuania, according to Woolfson (2007) 17.2 percent of respondents reported that they currently received ‘envelope wages’, another 8.0 percent received ‘envelope wages’ in the past. It is argued, that the employees’ attitudes towards this type of earnings are ambivalent. While some people are dissatisfied with ‘envelope wages’ and losing some part of their social benefits, others view it as an opportunity to reduce their income tax payments gaining in a short-term perspective. In Estonia the proportion of employees displeased with their ‘envelope wages’ equals 45 percent; 55 percent reported that they would be unemployed if they refuse to receive their wages ‘in the envelope’. This is explained with the fact that the employee’s gain from hiding his/her salary from tax authorities is very small: from 6 to 12 percent of the average income of fully official workers (Staehr and Meriküll, 2010).

Williams (2009b) analysed the results of the survey of the 27 EU member states in 2007 carried out in 2007. The survey showed that ‘envelope wages’ are more prevalent in East-Central Europe compared to Continental and Nordic countries. In East-Central Europe, on average, 12 percent of waged employees surveyed received ‘envelope wages’. The highest rates of employees with ‘envelope wages’ were found in Romania (23 percent), Latvia (17 percent) and Bulgaria (14 percent) and the lowest - in Czech Republic (3 percent), Slovenia (5 percent) and Slovakia (7 percent). In countries where ‘envelope wages’ are more prevalent, it is paid more for regular working hours and constitutes nearly a half of employees’ gross income. In countries with less

widespread ‘envelope wages’, it is paid more for overtime/extra work and averages to around a quarter of employees’ gross income.

The informal economy in Ukraine

Ukraine is one of the world’s leaders in terms of informality and corruption. According to recent data from the Monitor Group, in different sectors with different economic structures, 30 percent to as much as 80 percent of the overall economy is in the informal economy. Ukraine shares with Russia and Zimbabwe the 146th place among 180 countries in the Corruption Perceptions Index published by Transparency International (2009). Schneider (2002) calculated the share of the informal economy in Ukraine using the currency demand, the physical input and DYMIMIC approach at the level of 52.2 percent for the year 1999/2000, being the third largest after Azerbaijan and Georgia among 23 transition countries.

Analyzing the results of the first activity-based survey in Ukraine in 2005-2006 Williams and Round (2008) distinguish three broad categories of informal work: informal waged employment, informal self-employment and paid favours for kin, friends and neighbours. Informal waged employment is not the dominant type of informality in Ukraine, though it also can be found here. The most prominent type of informal employee is somebody who receives two wages from their formal employer. The first is the official wage that the employer declares to the government and the second is the informal wage or ‘envelope wage’ paid in cash. 30 percent of employees receive ‘envelope wages’ and normally have the lowest income among the surveyed. ‘Envelope wages’ are also widespread in other post-socialist nations which have been discussed in the previous sub-section on post-socialist economies (other than Ukraine).

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> ‘The prominence of such a practice is important. It displays how formal and informal employment are inextricably intertwined as well as how informal employment has become part and parcel of contemporary capitalism with employers reducing costs by paying their formal workers informally, and blurs

> the very distinction between formal and informal employment' (Williams and Round, 2008: 378).

About 38 percent of all informal waged employees engage in informal employment for businesses in which they do not hold a formal job. These informal employees are also concentrated in the lowest-paid of all informal employment: construction and consumer service sectors in jobs such as labourers on building sites, taxi drivers, market stall workers and waiters and cooks. Informal employment is mainly a result of exclusion. Waged informal employment here fits the by-product thesis that accurately depicts the nature of waged informal employment. Especially as informal wages and employment are the result of the exclusion of the surveyed. Informal self employment is represented by two main groups: the lowest income (poorly paid work, such as selling flowers outside street markets, cigarettes outside stations or providing routine domestic services) and the highest income (informal work arises out of opportunities from their formal employment or self-employment). The first group is excluded from formal economy and chooses informality as their survival strategy. The second group motive is to avoid tax bribery and endless bureaucratic procedures.

> 'In sum, although lower-income informal own-account workers reinforce the byproduct thesis of marginalized groups engaged out of necessity in this work, higher-income own account workers reflect the 'alternative' thesis as a chosen alternative to a failing, bribe-ridden and corrupt formal economy' (Williams and Round, 2008: 381).

The complementary theory is also applicable to Ukraine: some 55 percent of all informal employment was conducted for kin, neighbours and acquaintances chiefly for reasons other than making/saving money. This type of informal employment includes domestic services such as home maintenance and improvement work, routine domestic tasks (e.g. cleaning, cooking, gardening) and the provision of caring services.

On the one side the reciprocity that is a basis for such favours helps to create and cement social networks and on the other side it reinforces economic disparities as more affluent households have more opportunities for these reciprocal exchanges than deprived ones. Finally, universal theorization is not possible – evidence can be found to support each theory. Williams *et al.* (2011: 21) supplementing the findings of the 2005-2006 survey in Ukraine suggest that:

> 'What is perhaps now required are richer more qualitative accounts of people's explanations for participation in order to tease out some of the more nuanced context-bound understandings of what leads different population groups to engage in informal employment. Not least, the theoretical and methodological issue that 'exit' and 'exclusion' are not neat dichotomous terms needs to be unravelled along with how the meanings of 'exit' and 'choice' vary across population groups. For example, the opportunity structures within which an individual is operating his/her 'choice' to exit the formal economy will vary considerably across groups and this will be important to explore'.

Indeed, there are no studies in relation to Ukraine that qualitatively explore the motives and circumstances for being excluded from or exiting the informal economy.

Rodgers *et al.* (2008) connect the informal economy with the huge economic recession after the collapse of the Soviet Union and with the Soviet system 'traditions'. They argue that such informality, both employers' and employees', in post-Soviet Ukraine was defensive by nature - without it survival would not be possible. And in general this survival thesis (by-product/structuralist/marginal theory) is supported by the observers regarding some types of informal activities in transition countries of CEE including Ukraine, though at the same time this thesis is included by them into the diversified conceptualization (Williams and Round 2008; Esim, 2001; Wallace *et al.*, 2004; Smith, 2006). The nature of the informal economy in post-Soviet countries is particular for several reasons. Firstly, the official state ideology of the Soviet Union

came to be used to legitimise stealing from it. Secondly, social connections were very important in order to access deficit necessary goods while money had little meaning (Glovakas, 2005; Smith and Stenning, 2004)

> 'Rather the system relied on networks of favours whereby if you needed a good that could be procured informally then you would owe a favour to the person that could obtain it for you. Therefore, the success of the household was dependent on being able to operate in both the formal and informal economy' (Rodgers *et al.*, 2008: 669).

This reciprocal favours phenomenon in the post-Soviet countries is caused by both economic necessity and socio-cultural peculiarities. Informal exchanges of services are an integral part of the post-Soviet communities, they have a particular social and cultural significance for the participants – it is the way of being a valuable member of your community. As a result consideration of informality not only as a by-product, but also as a complement to formality is applicable here. Thirdly, within the systems of 'economic involution' after the USSR collapse 'it was very difficult for the state to develop legislation to provide effective support for workers, and small and medium enterprises' (Rodgers *et al.*, 2008: 670). Besides, 'those who controlled the country's major firms became the new political elite. Therefore, legislation was extremely pro big business and very little employee protection was developed'. Because of such 'chaotic capitalism' (Lane, 2008: 179) in spite of Ukraine's economy certain recovery since the 1990s, the scale of informal economy remains among the highest in the world.

The overregulation and ineffective, inconsistent legislation are also mentioned by Thiessen (1997), who commented on the surveys of Ukrainian private and state-owned firms and household's participation in the unofficial economy conducted by the World Bank in 1993-1995. The findings of this survey were the following. 70 percent of those who were employed in the state-owned firms were also involved in unofficial employment; such employment generated more than 50 percent of their income. The

reasons for informal activity were: regulation of trade, foreign exchange dealings and domestic trade, high inflation, a heavy tax burden and frequent changes in tax regulations.

Interestingly the next reasons were not confirmed by the survey: the complicated procedures for registering firms, labour law requirements, motivation and qualification problems on the part of employees, and infrastructural inadequacies. And of course wide spread bribes to public authorities were discovered by the survey. 'Small and medium-sized firms mentioning such payments put their value at between 10 percent and 25 percent of turnover' (Thiessen, 1997). Thiessen (1997: 24) also argues that

> '…the growth of the unofficial economy was particularly strong in the early years of transition. While the loosening of foreign trade regulation in 1994 and 1995 served to dampen unofficial economic activity, this was offset by other factors (such as the tax burden, inflation, administrative barriers), so that the underground economy continued to account for a substantial proportion of GDP*'.*

Hence, the results of this survey maintain the alternative theory of the informal economy concerning small and medium enterprises. To sum up, Ukrainian informal sector is extremely diversified: it includes marginalized population striving to get by (informal economy as a by-product of formal), entrepreneurs suffering from corruption, inadequate regulations, tax burden (informality as alternative to formal); favours, informal networking, importance of social connections since the Soviet period (informal economy as complementary to formal).

The study by the World Bank (2005) based on statistical analysis of the Ukrainian Longitudinal Monitoring Survey data assesses the labour market performance in Ukraine, identifies key constraints to job creation, and suggests policies that will foster job creation and productivity. It revealed that the growth of the informal economy in Ukraine during the years 1998-2004 has both positive and negative

features. On the one hand it helps the jobless to escape poverty creating informal work places. On the other hand the informal sector provides little employment security and social benefits. It narrows the tax base which causes higher tax rates and distorted competition. Furthermore, informal firms usually remain small which negatively influences economic growth and development in general.

Another interesting finding by the World Bank is that salaries in the informal sector are 10-15 percent higher compared to formal salaries. This suggests that 'workers are not only pushed into the informal sector by lack of job opportunities but also pulled into it by better earning prospects' (World Bank 2005: 2). However informal work is usually of low productivity. Unskilled blue-collar workers constitute one-third of informal sector employment and only one-fifth of the formal one. Besides, they are concentrated in trade, agriculture, construction – industries with relatively low productivity.

The World Bank researchers also argue that payroll taxes are the major factor of the growth of the informal economy. Therefore they suggest decreasing the tax rate which will provide incentive for the informal firms to formalize and therewith increase the tax base. The other suggested policy options include decreasing the number of regulations (permits, licences, customs procedures) and improving access to finance (e.g. promoting competition in banking sphere and developing microfinance schemes). These measures are expected to encourage informal firms to come out of the shadow and reduce the size of the informal economy.

In the article of Wallace and Latcheva (2006) the informal economy in Central and Eastern European post-socialist countries is discussed. The research is based on the New Democracies Barometer (NDB) data that was carried out in 1991, 1992, 1994, 1996, and 1998 in 12 transition countries including Ukraine. These countries are divided into three groups. In the first group are those countries where the informal work is used for improvement of household incomes (e.g. Serbia and Croatia). The second group includes the countries where the household or social economies prevail (e.g. Ukraine and Romania). Third group are the countries with the formal economy

predominating over the informal one (e.g. Czech Republic and Hungary). It was found that household and social economies in Ukraine are 'a social safety net for the poor, the elderly and those in rural areas' (Wallace and Latcheva, 2006: 81) in the conditions of weak social provision and collapse of labour market. This signifies that commentators consider Ukrainian informal economy from the structuralist point of view (by-product theory). Another interesting finding of the article is that trust in political and public institutions depends on respondents' perception of corruption. This can confirm the assertion that the level of trust in government in Ukraine is very low and can be the major reason for the firms and individuals for staying informal.

2.2.5. Summary

The informal economy all over the world is diverse: partially legal low-skilled immigrants working in global cities, highly-skilled professionals moonlighting in affluent areas, reciprocal favours exchange between households, teachers and doctors striving to survive in post-Soviet countries, unemployed in the periods of economic crises, street traders in Sub-Saharan Africa selling Coca-Cola. All these and many more activities can be approached using the existing theories: the informal economy as a residue, by-product, complement or alternative to formal. In each country and global region, evidence for each theory may be found. The exception here might be a residue theory which lacks supporting evidence. However, informality as a residue of pre-capitalist society might be applicable to subsistence households in rural Ukraine seeking to live off their smallholding/dacha. Nowadays the members of such households are mostly older people because the young have gone to the city to work in the formal or the informal economy. The case might be related to the by-product theory as it is also a survival strategy of rural population, however this type of the informal economy is in the long-term decline, not linked with formal economy and not connected with deregulation or globalisation, therefore should be referred as a residual of pre-capitalist society.

While in the most developed nations informality as a complement is strongly pronounced and alternative and by-product approaches are less popular, for Third World countries by-product approach is more characteristic, and for transition economies all the theories are important. However, this generalization is rather rough. Informality is greatly influenced by socio-cultural factors (Schneider and Enste, 2000; Pfau-Effinger and Magdalenich, 2010) such as low trust in public institutions in Germany or *blat* traditions in post-socialist countries. When analysing the nature and choosing theoretical approach to each case of informality, these factors should be born in mind. The thesis therefore seeks to find which theory is most strongly pronounced in transition economies and notably in Ukraine.

To sum up, the nature of multiple informal economies is similar in all post-socialist countries including Ukraine. Therefore, here the diverse theorisation of informality, as was discussed for Ukraine, is applicable. However the discussion of the informal economy in Ukraine is not comprehensive without taking into consideration a specific type of informal networking – *blat* – getting things done through personal connections. Until now, this has not been discussed with reference to Ukraine in any of the studies conducted on the informal economy. This issue is addressed in the next section.

2.3. *Blat*

Informal networks/blat/connections/pulling strings is *an* integral part of the informal economy of post-socialist countries. It is worth discussing here the etymology, origins, prerequisites for and meaning of *blat*, common *blat*-usage in the Soviet period, and finally, further transformations of this phenomenon. As a result different theoretical approaches to *blat* will be reviewed. Although the number of studies of *blat* is very limited, they answer the most important general questions and allow conclusions to be drawn on different theorisations of *blat*.

2.3.1. Origins of *blat*

Michailova and Worm (2003: 515) argue that the origins of *blat* are to be found in both 'pre-revolutionary Russian traditions of patronage and self-interested giving' and the methods of 'everyday 'fixing" encountered in that society. Ledeneva (1998:11) states that *'blat* is an old word which developed a new meaning at the very beginning of the Soviet era'. It was found that there are different versions of its origin: the Polish *blat* meaning 'someone who provides an umbrella or cover', which in turn is taken from Jewish *blat* which means 'close, familiar'; the prerevolutionary meaning of *blat* which was referred to criminal activity meaning 'thieves'; and the most improbable folk version from the surname of Brezhnev's minister of trade *Blat*ov (Ledeneva, 1998; Michailova and Worm, 2003). However, its genuine origin and exact age cannot be established for sure.

2.3.2. What were the prerequisites for *blat*?

Ledeneva (1998: 118) argues that *blat* emerged in the state centralised regimes that 'produce not only conditions of shortage but also, for the majority of people, limitations on the level of individual needs'. She defines four different types of needs *blat* was used for:

1. regular needs such as foodstuffs, clothes, household goods, and housework and hobby materials;
2. periodical needs (holidays, health resort stays, and travel tickets);
3. life cycle needs (birth clinics, kindergartens, schools, escape from compulsory military service, high schools, jobs, flats and hospitals);
4. the needs of others (the needs of one's family, kin, friends).

The last one is the most interesting because asking for help on behalf of someone rather than asking for oneself was very common in the Soviet culture.

To explain the origins of the *blat*-phenomenon, Arnstberg and Boren (2003: 33) state that 'using one's social capital for *blat*-exchanges was a relevant way to adapt to

peculiarities of the Soviet system'. Indeed, having friends in strategic places was very important, as it was not money that posed the main problem, but the shortage of goods and services, access to which could be opened using personal connections: a 'prerequisite that underpinned the system of *blat* was the fact that almost every employee had some type of 'asset-access', which could be used in *blat*-relations' (Arnstberg and Boren, 2003: 23). To sum up, the phenomenon of *blat* was a result of shortages, uncertainty, system constraints and open access to public funds. To respond to the system limitations, '*blat* networks channelled an alternative currency — an informal exchange of favours — that introduced elements of the market into the planned economy and loosened up the rigid constraints of the political regime' (Ledeneva, 2009: 257). Thus, *blat* in its traditional meaning is positively viewed by scholars as it helped people to cope with the inefficiencies of the system. A similar view can be seen in the neo-liberal studies of the informal economy, where informality is viewed as an answer of the entrepreneurs to overregulation and therefore considered a positive phenomenon.

2.3.3. What are the main characteristics of Soviet-era *blat*?

Researchers of *blat* found that a comprehensive comparison of *blat* with the similar phenomena of the Soviet and post-Soviet countries (bribery, fiddling, corruption, informal work, mutual help) (Ledeneva, 1998) as well as paralleling Soviet *blat* and Chinese *guanxi (*Mikhailova and Worm, 2003; Ledeneva, 2008) help to understand this complex concept more in-depth.

In the first place, the most basic characteristics of *blat* should be mentioned. They are informality, non-materiality, reciprocity, personal basis of relationships and cultural grounding (Ledeneva, 1998; Ledeneva 2008; Arnstberg and Boren, 2003).

Among the features identified by Mikhailova and Worm (2003) the most dramatic are 'social resourcing', 'continuity of relationships' and 'coexistence of trust and cooperation on the one hand and power and domination on the other'. Speaking

about *social resourcing*, the authors mean that even when *blat* seems to be of a dyadic nature: '…exchange is often embedded in or influenced by actors outside the dyad. Thus, obligatory relations may extend to people whom one does not know directly or will never meet' (2003: 511). They also argue that informal connections with relevant authorities or individuals are of greater importance for Russians than the quality of goods or services and expertise offered by their business. Continuity of *blat* relationships stems from the inclination of Russians 'to develop close long-term personal relationships' when they enter into a business collaboration in order 'to establish trust, confide and to share information'. Moreover, 'the person doing the favour does not expect an immediate return: reciprocation usually takes place later or much later' (2003: 512). Discussing the coexistence of trust and cooperation on the one hand and power and domination on the other, Mikhailova and Worm (2003) argue that friendship was a necessary prerequisite for initiation of business relationships in collectivistic society. There was a confident belief that it is more probable to have *blat* without friendship than friendship without *blat*. As for power and domination, 'the more rank and power one has, the more *blat* one normally possesses' (2003: 513). Furthermore, Russian society views *blat*, influence, pulling strings, and the ability to take care of friends as important status symbols.

Ledeneva (1998) as well as previous commentators emphasize the emotional involvement of participants in *blat* relations. Indeed, Arnstberg and Boren (2003: 24-25) state that 'helping a friend was more than just obtaining additional income'. In addition to this, *blat* had its peculiar ethics. Ledeneva (2008: 129) lists six ethical rules of *blat* relations:

1. The obligation to help—help your friends unselfishly and they will come to your aid;
2. Do not expect gratitude but be grateful;
3. Look to the future—long-term reciprocity;
4. Keep within limits—ask within limits;
5. Know the contexts in which the informal friendship code has priority over formal

legal codes;

6. Socially ostracize those who follow the letter of law.

To sum up, *blat* relations are argued to be in no way profit motivated. Instead they were based solely on social motives such as building reciprocity and trust. This view has much in common with the view of the informal economy as a complement to formal, when the participants of paid informal exchange are found to have non-monetary motives.

2.3.4. The distinctiveness of *blat* relations in Ukraine

When discussing *blat*, authors do not identify any peculiarities of this phenomenon in different post-Soviet countries. They often refer to Russia or the former Soviet Union in general (Ledeneva 2008, Mikhailova and Worm, 2003; Ledeneva 2009). Moreover, Wanner (1998) exploring post-Soviet Ukraine does not separate *blat* in Ukraine and in Russia. The author emphasizes the importance of trust and the role of 'svoi ludi/svoi chelovek)' (translated as 'one's own people/one's own person') in *blat* networks. ''Svoi chelovek' means someone who can help you navigate through the maze of life in the Soviet system' (Wanner, 1998: 56). Here the author even notes that

> '…although one could say this in Ukrainian (svoya liudyna), Ukrainian speakers quite simply use the equivalent Russian expression when speaking Ukrainian to underline the close connection between the concept and the Soviet system' (1998: 56).

This assumes that *blat* in Ukraine does not have any characteristics that distinguish it from the conventional concept of *blat*.

However, societal arrangements similar to *blat* exist throughout the world. The importance of the use of personal networks for getting things done and the existence of idioms to define it is found by scholars in China (guanxi), Arab World (wasta) and Brazil

(jeitinho) (Ledenva,2008; Mikhailova and Worm, 2003; Smith *et al*., 2011; Ardichvili *et al*., 2010; Hutchings and Weir, 2006). Guanxi is an attribute of Chinese culture that is 'composed of interpersonal linkages with the implication of a continued exchange of favours' (Mikhailova and Worm, 2003:510). Wasta belongs to Arab World and means 'a process whereby one may achieve goals through links with key persons' (Smith *et al.*, 2011: 3). According to Hutchings and Weir (2006: 143) 'wasta involves social networks of interpersonal connections rooted in family and kinship ties and implicating the exercise of power, influence, and information sharing through social and politico-business networks'. Jeitinho is 'a hermeneutic key for the Brazilian culture' and represents 'a special way of managing obstacles in order to find a way out of bureaucracy' which is 'a result of the attempt to satisfy the dictates of bureaucratic rules while still finding ways to accomplish business goals' (Ardichvili *et al.*, 2010: 3).

In this section, the focus is on a comparison of *blat* and *guanxi* as the latter has the most similarities with the former (Ardichvili *et al.*, 2010). Indeed, both *blat* and *guanxi* emerged in the socialist systems (though substantially different) under the pressure of shortages and overregulation (Ledeneva, 2008) while *wasta* and *jeitinho* are of another origin. Before comparing *blat* and *guanxi,* they may be contrasted to the networking in the West. Michailova and Warm (2003) outlined six key differences between *blat/guanxi* and networking in the West (Table 2.6).

Table 2.6. Key differences between *blat*/guanxi and personal networking in the West (Michailova and Warm, 2003: 510)

Blat/guanxi	Personal networking in the West
Based largely on collectivism/relationships	Based primarily on individualism
Vitally important; often a matter of survival	Important
Highly frequent exchanges	Exchanges are discrete in time
Exchanges take place at the workplace	Exchanges take place outside the workplace

Extended relationships/mediated exchanges	Dyad-based relationships/direct exchanges
Exchanges are usually personal	Exchanges are usually non-personal

Another explanation of the distinctiveness of *blat* is provided by Ledeneva (2008: 123). She refers to the four different types of needs, discussed in Section 2.3.2:

> 'In market democracies only certain life cycle needs such as jobs and honours are likely to require "pulling strings," but in state centralized economies guanxi and *blat* were required to satisfy all four types of needs. Their pervasive use as a "safety-net" or "survival kit" made involvement in informal practices compulsory rather than voluntary'.

This shows that although informal networking is widespread all over the world including developed countries, *blat* possesses a special status. This is due to its vital importance not only for people, but even for the functioning of the regime itself. Indeed, as Rehn and Taalas (2007: 243) put it:

> 'Were it only a system used in the private life of citizens it could be grasped as a method of survival in a repressive structure, but as it was entangled in most of economic life it instead seems to have been a structure on a par with the command economy, a flexible scaffold for a rigid edifice'.

These characteristics of *blat* make it very similar to Chinese *guanxhi*. There are also other similarities of *blat* and *guanxi* identified by Michailova and Worm (2003): social resourcing, continuity of relationships, and coexistence of trust and cooperation on the one hand, and power and domination on the other. Social resourcing means that *blat* and *guanxi* networks imply participation of more than two actors in the exchanges. Continuity of relationships is needed to establish effective exchange mechanisms that are based on tacitly understood norms and rules. The establishment and dissemination

of these norms and rules takes a long time. Another aspect of continuity of *blat/guanxi* relationships is that the favours must not be returned immediately. A reciprocal favour may take place much later. Therefore the investment of time and effort into the building of personal relationships can be paid off only if this relationship is long-term. Coexistence of trust and cooperation and power and domination implies that emotional trust is prevalent in both countries. This can be contrasted with cognitive trust when the reason to trust is a proof of reliability, knowledge about the person's competence and integrity. Where emotional trust prevails, friendship is valued much more than the contract and it may be a prerequisite for developing business relations. At the same time, every network is built into hierarchical social structures where different actors have different power and influence. In Russia, pulling strings and taking care of friends are important status symbols. In Chinese 'patron-client' relationships the subordinate is always advantaged having greater rights than the superior (Michailova and Worm, 2003).

Discussing the similarities between the personal networking in the two countries, Ledeneva (2008) stated that both *blat* and *guanxi* had contradictory effects on political, economic and social spheres. On the one hand, they supported state centralised systems by compensating for their defects. On the other hand, they undermined the systems by ignoring formal rules. According to Ledeneva (2008: 126)

> '…similarities between *guanxi* and *blat* testify that people tend to develop similar practices … in order to survive in state centralized economies characterized by shortages, a state distribution system, and ideological predicaments'.

Although the similarities between *blat* and *guanxi* are striking, there are a number of variations between these two concepts (Table 2.7).

Table 2.7. Differences between *blat* and guanxi (Michailova and Worm, 2003: Table 2)

Guanxi	*Blat*
Neutral origin of the term	Negative origin of the term
Helping friends through connections is a moral and social obligation	Helping friends through connections is a pleasure
Losing face/guanxi is perceived as having drastic negative personal consequences	Losing *blat* is perceived as a matter of life and death
Dominating holistic approach	Prevailing analytical approach

The word *blat* originates from criminal jargon while *guanxi* 'is derived from the kinship ethics and popular Confucianism, and propagates respect and harmony, imposes a duty of moral and proper reciprocity, and makes a gift an object that serves a ritualized relationship' (Ledeneva, 2008: 127). Russians see helping friends as a pleasure, while for Chinese it is an obligation. Moreover *guanxi* practices are codified and predictable and *blat* practices are rather opportunistic and ambiguous. The consequences of loosing *guanxi* are much more serious than failure to maintain *blat* relations as the Chinese have always been very sensitive to loosing face and prestige. The holistic approach leads to broader networking while analytical approach generates dyadic relationships (Michailova and Worm, 2003).

2.3.5. What happened to *blat* after the collapse of the Soviet system?

According to Ledeneva (1998) and Arnstberg and Boren (2003), the shift from the planned to the free market economy, privatisation of state property, marginalisation of do-it-yourself activities, ever-growing value of money, collapse of social security system guarantees – all these post-Soviet changes contributed to the restructuring of the *blat* economy and transformation of *blat* phenomena itself:

> 'While during the Soviet period access to scarcely supplied goods was crucial, with the development of a market economy one can buy formerly deficit goods without routine queuing and without the use of personal networks' (Arnstberg and

Boren, 2003: 39).

There are several points of view regarding what *blat* transformed into. These views do not contradict with each other, but rather complement each other. Arnstberg and Boren (2003) argue that though the ethics and principles of informal 'arranging matters' remained the same, it is as corruption rather than *blat*. In the free market environment

> 'the goods obtained were no longer for personal consumption, but rather for business needs. Therefore, the benefits gained through access to a bank loan or to the privatisation of a state enterprise could be measured and reimbursed in the form of money. A counter-service might not be adequate any more. If seen in this way, it could no longer be friendly help. As both of the involved parties were accumulating significant amounts of wealth, and could do it because they often occupied crucial places in the state system, their activities were perceived as corruption' (Arnstberg and Boren, 2003: 41).

Indeed, according to Ledeneva (2008) the main purpose of using connections is now satisfaction of business needs through dealing with authorities who are in charge of tax, customs, banking and regional administration. Mikhailova and Worm (2003: 517) also consider that *blat* has become 'explicitly related to economic interests and the conduct of business, whereas in the socialist period it was mainly associated with political considerations and private consumption'. The authors also argue that

> '*blat* is losing its warm, human face and becoming increasingly 'materialized'. The transformation of its nature from being based on moral and ethical considerations to having an explicit financial expression is a phenomenon in itself'.

The same idea of *blat* 'monetisation' is introduced by Ledeneva (2008). She states that 'money has become the focus of 'shortage' and the driving force by which *blat*

connections become reoriented. Such 'reorientation' has undermined the non-monetary nature of the *blat* exchange of favours' (Ledeneva, 2008: 132). Indeed, Smith and Stenning (2006) argue that a result of transformation processes, Russian society became monetised:

> 'Whereas in the previous system workplace relations and activities were more likely to be used to develop social capital networks for favours and access, market transactions have become key as opportunities for cash earnings are now seen as of primary importance' (Smith and Stenning, 2006: 6).

Though the term *blat* is still understood, it becomes increasingly outdated today and acquires an increasingly negative meaning especially among young educated people (Arnstberg and Boren, 2003; Ledeneva, 1998) and the terms *connections, acquaintances, pulling strings, networks* are more widely used today.

To conclude, modern *blat* has lost its traditional meaning: *blat* relations are now more profit than socially motivated and often turns into illegal corruption practices, while in the past social motives prevailed. Furthermore, today's *blat* is argued to be used for business purposes when arranging matters with authorities, while earlier the main purpose of using connections was personal consumption.

The literature reviewed in this section does not, however, raise theoretical issues in relation to *blat*. In the next section an attempt is made to find the ways of theorising *blat* by linking them to theories of the informal economy.

2.4. Potential ways of theorising *blat*

This section attempts to set out how the theories applied to the informal economy could be applied to informal networking (*blat*). The existing literature on *blat* will be fed into the theories of the informal economy: residue, by-product, alternative and complementary. It will be also discussed whether modern *blat* can be approached from

the fifth, post-structuralist perspective.

2.4.1. Residue theory

According to the literature reviewed in the previous section, in recent years *blat* became transformed and monetised (Ledeneva, 1998; Arnstberg and Boren, 2003; Mikhailova and Worm, 2003). This is no more a friendly help or reciprocal favours in the conditions of shortages connected with private consumption, but rather 'arranging matters' for business purposes, where favours are now rewarded with money. This means that the old-fashioned *blat* is viewed as a residue of a pre-capitalist society being substituted with the modern *connections*. Theorisation of the *connections (blat* in its modern meaning) as a residue would be erroneous because the profit-motivated use of connections is found to be neither primitive, weak and marginal, nor in the long-term decline. *Blat* did not disappear. Instead, it became 'transformed', 'reoriented', 'monetised' and stayed widespread. Ledeneva (2009) found, that in December 2007 in response to the question about their opinion concerning the prevalence of *blat*, 66 percent of participants answered that it is widespread or rather widespread. Only 13 percent said that *blat* is not very widespread and only 7 percent reported that it is practically absent. Therefore, contemporary *blat* is by no means a marginal activity existing in few minor areas. It is rather an important part of the post-Soviet households' economy. This allows the conclusion that residue theory can be rejected due to the findings of previous research.

2.4.2. By-product theory

Rehn and Taalas (2004: 241) argue that *blat* can be grasped as a survival strategy in repressive system, rather than opportunistic economic activity: "instead of securing hefty profits or a company to call one's own secures a decent living – an entrepreneurship whose opposite is not a day-job but death or even famine". However they admit that survival, law breaking, and entrepreneurship became intertwined and it becomes increasingly hard to draw clear boundaries between them. Ledeneva (2008:

123) argues that *blat* was used as a 'safety net' and 'survival kit' and participation in it was rather compulsory than voluntary. *Blat* allowed satisfying very basic needs of people:

> 'The needs satisfied with help of guanxi and *blat* practices typically did not exceed the level of modest personal consumption, at least by Western standards'.

However, the by-product theory implies that the informal economy is a survival strategy of marginal populations excluded from formal economy. Obviously, *blat* is voluntarily used across a vast swathe of the population and marginalised populations are excluded from *blat* relations. Moreover, Arnstberg and Boren (2003) argue that in the post-Soviet times *blat* participants dealt with significant wealth and often held influential posts. Indeed, Michailova and Worm (2003) state that the higher the social status of the person was, the more opportunities he/she had to participate in *blat*. This, apparently, by no means relates to low-income marginalised populations excluded from formal economy. Therefore the by-product approach cannot be applied here. Are there therefore complement or alternative theories that can explain the modern *blat* phenomena?

2.4.3. Alternative theory or complementary theory?

While *blat* in its traditional meaning was based solely on social motives, which corresponds with the view of the informal economy as a complement to the formal, new monetary relations are still the result of personal networking but are profit rather than socially motivated both for the supplier and consumer (Mikhailova and Worm, 2003; Ledeneva, 2008; Arnstberg and Boren, 2003). Connections are no longer used to obtain goods for private consumption, but rather to satisfy business needs, for example, to obtain a bank loan or a licence. Often the favours are rewarded with money instead of reciprocal favours. Therefore when one of the participants of *blat*

relations occupies a significant public position, his/her abuse of authority is often considered as corruption (Arnstberg and Boren, 2003). Finally, as already mentioned in the previous section, *blat* is losing its human face and becomes increasingly materialised (Mikhailova and Worm, 2003). Thus, the modern *blat* financial orientation does not fit complementary theory of the informal economy as it implies the inclusion of social motives into economic relations. Besides, the need in *blat* relations stems from a bureaucratic, non-transparent and overregulated system (Arnstberg and Boren, 2003). This allows us to relate this view of the informal networking to the alternative perspective.

However, in their study of ethical business practices Ardichvili *et al.* (2010) argue that managers are inclined 'to consider the exchange of favours with their informal network of business connections (*blat*) as part of standard and ethical business practices'. This contradicts with the statement above that business related favours are mostly profit motivated and rewarded with cash. Even though business oriented, reciprocal favours done for closer social relations are still in place in the post-Soviet countries. Therefore, the complementary theory of *blat* should not be refuted at this stage.

Another argument to support complementary theory is that households with higher social status and income have better access to *blat.* Indeed, Mikhailova and Worm (2003: 513) state that 'the more rank and power one has the more *blat* one normally possesses'. This means that those who succeeded more in the formal realm have more opportunities in the informal one. Similar finding was reported by Batjargal (2007) who studied the influence of personal networks on financial performance. He concluded that network ties help to mobilize financial resources, such as negotiated loans, which positively impacts firm's revenues. This is in line with the complementary approach.

In addition, while the complementary theory implies that formal and informal economies are relatively intertwined, the alternative approach sees them as relatively separate. These are official businesses and state officials who participate in the

informal networking (Mikhailova and Worm, 2003; Ledeneva, 2008; Arnstberg and Boren, 2003) and apparently informal and formal economies are closely connected here. A good example is provided by Yakubovich (2005), where the role of connections for getting a job is explored. It was found that 'the information and influence that are transferred through social relationships do matter in the labour market'. This also supports the appropriateness of the complementary approach to *blat* theorisation.

To sum up, it is still problematic to determine which theorisation could be the most applicable to the modern *blat* relations described in the existing literature. Therefore, the post-structuralist perspective might be of use for theorising *blat.*

2.4.4. Post-structuralist theory

While the literature discussed above reveals that modern *blat* is mostly (if not solely) represented by corruption, Ledeneva (2009: 265) argues that the nature and functions of *blat* are diverse.

> 'The ambiguity of informal practices is an important theoretical assumption that allows us to differentiate between the functions of networks and to analyze their multivector functionality: from sociability, safety nets, survival kits, and forms of social capital to means of access, diversion of resources, bridging formal organizations, and subverting formal procedures, thus blocking the effectiveness of governance'.

This means that *blat* can also be variously theorised depending on its functionality. For instance, *blat* used for sociability and safety nets is a positive phenomenon and can be theorised using a complementary approach. In contrast, *blat* used for subverting formal procedures and diversion of resources can be negatively viewed and even associated with illegal practices and first of all, corruption. Indeed, contemporary *blat* does not only exist in the form of paid favours connected with arranging business matters. The services where *blat* is most commonly used include medicine, education, employment,

and the traffic police (Ledeneva, 2009).

To conclude, the existing research on *blat* tends to explain the origins, prerequisites, characteristics and history of *blat*. However, no spatial variations are taken into consideration and the connection of *blat* and informal practices is not explored in-depth. Moreover, it would be reasonable to supplement existing studies with the statistical data since no quantitative methods were used in previous studies. Finally, no literature examines possible ways to theorise *blat*. This thesis therefore is aimed at bridging these gaps in the knowledge and determining which theorisation of the informal economy could explain modern *blat* the most comprehensively. Indeed, this is one of the major contributions to knowledge of this thesis.

The literature on the informal economy, *blat* and possible theorisations of these phenomena discussed above revealed that there are quite a number of different informal practices. The next section of the literature review chapter will look at various approaches to the classification of these informal practices.

2.5. Approaches to informal work classification

The literature reviewed describes a vast variety of different types of the informal activities that require sorting and classifying. Speaking about the classification of activities, it is impossible to overlook Taylor's (2004) and Williams' (2009) developments of Glucksmann's (1995) theory of the Total Social Organization of Labour (TSOL) that describes 'the manner by which all the labour in a particular society is divided up between and allocated to different structures, institutions and activities' (Glucksmann, 2000: 67). On the basis of the TSOL, Taylor (2004: 31) suggested a conceptual model for the 'relational and interconnected nature of different forms of work in different spheres'. Explaining Table 2.8, the author states that 'private and public and formal and informal aspects of work relations can be situated along a continuum, rather than in mutually exclusive spheres, and divided by a vertical axis signifying paid and unpaid work' (Taylor, 2004: 39). From six types represented in the table, only two are discussed in this thesis namely *informal economic activity* and

household family work. They both are considered as paid informal work, the former belonging to public sphere and the latter to private one.

Table 2.8. A framework showing the organization of labour (Taylor, 2004: 39)

	PAID	
Formal paid employment in public, private and voluntary sector e.g. paid accountant or care assistant	Informal economic activity e.g. paid babysitting for friends or neighbours	Household/ family work e.g. paid babysitting within the family
PUBLIC	PUBLIC	PRIVATE
FORMAL	INFORMAL	INFORMAL
e.g. unpaid accountant or care assistant	e.g. unpaid care for sick or elderly neighbour	e.g. unpaid care for sick or elderly relative
Formal unpaid work in public, private and voluntary sector	Informal unpaid work	Private domestic labour
	UNPAID	

Building upon the framework above, Williams (2009c) elaborated the typology of forms of community engagement in the TSOL (Table 2.8 below). The author explains that

> '…this portrays a continuum of forms of economic activity along a formal-to-informal spectrum on the x-axis divided by whether it is paid or unpaid on a vertical y-axis. The result is a series of eight zones with fuzzy boundaries that when moving from left to right, shift from more formal to more informal economic activities. The hatched boundaries dividing each zone signify that these are not discrete activities but that they blur into one another. The shaded zones in this conceptual framework represent the different zones of community engagement, and provide a finer-grained understanding of the array of types of community engagement in societies' (Williams, 2009c: 215-216).

As seen from Table 2.9, three of eight zones refer to paid informal work: *informal employment (type 2), paid community exchanges* (type 3) and *paid household/family work* (type 4). Type 2 is a legitimate undeclared employment, either wholly undeclared or underdeclared (e.g. undeclared paid overtimes or informal self-employment). Type 3 introduced by Williams (2009c) involves reciprocal exchanges with favours between friends, neighbours and acquaintances that are not-for-profit however paid. Type 4 includes paid household work by household members.

Table 2.9. Typology of forms of community engagement in the TSOL (Williams, 2009c: 216)

	PAID			
FORMAL	1. Formal paid employment in public, private and voluntary sector e.g. paid accountant or care assistant	2. Informal employment e.g. wholly undeclared waged employment; under-declared formal employment; informal self-employment	3. Paid community exchanges e.g. paid favours for friends and neighbours	4. Paid household/ family work e.g. paid exchanges within the family
	e.g. unpaid work in formal community-based group; unpaid internship	e.g. unpaid children's soccer coach without formal police check	e.g. unpaid kinship exchange, neighbourly favour	e.g. self-provisioning of care within household
	5. Formal unpaid work in public, private and voluntary sector	6. Informal unpaid work in public, private and voluntary sector	7. One-to-one unpaid community exchanges	8. Unpaid domestic work
	UNPAID			INFORMAL

Another important jobs classification, the International Classification of Status in Employment (ICSE) by ILO (1993), divides all employment statuses into six groups by the criteria of economic risk and/or the type of authority and at the same time it distinguishes between two main groups of employment: *paid employment and self-employment.*

Paid employment includes:

- *employees* (1) – those who are in employment 'which give them a basic remuneration which is not directly dependent upon the revenue of the unit for which they work'

Self-employment includes:

- *employers* (2) – 'those workers who, working on their own account or with one or a few partners, …have engaged one or more persons to work for them in their business as *employee(s)*'
- *own-account workers* (3) – 'those workers who, working on their own account or with one or more partners, …and have not engaged on a continuous basis any employees'
- *members of producers' cooperatives* (4) – those workers who are 'in a cooperative producing goods and services, in which each member takes part on an equal footing with other members in determining the organization of production, sales and/or other work of the establishment, the investments and the distribution of the proceeds of the establishment amongst their members'
- *contributing family workers* (5) - in a market-oriented establishment operated by a related person living in the same household, who cannot be regarded as a partner,

The last type is *workers not classifiable by status* (6).

This classification by ILO does not capture all possible types of labour and does not distinguish between public and private, formal and informal, monetized and non-monetized work. Therefore the approach based on the model of 'total social organisation of labour' adopted by Williams (2009c) will be used further in this thesis for the purposes of data analysis.

In this section possible approaches to informal work classification have been discussed. The next and the last section concludes on the Chapter 2, summing up the gaps in the knowledge identified as a result of the literature review.

2.6. Gaps in the knowledge

The literature review has shown that there is insufficient empirical evidence to presently allow comprehensive theoretical conclusions in respect to the informal economy in Ukraine. The only appropriate survey was conducted during the years 2005–2006 (Williams and Round, 2008; Williams *et al.*, 2011; Williams *et al.*, 2011a) but even this survey does not allow to obtain the deeper and richer understanding of nature of the informal economy and notably the motives and circumstances of being engaged in the informal economy (Williams *et al.*, 2011). In addition, the literature review reveals that in relation to Ukraine few commentators have sought to evaluate the validity of the contrasting theorisations of the informal economy (Thiessen, 1997; Williams, 2007; Williams and Round, 2008; Williams *et al*., 2011; Williams *et al*., 2011a) and none of the commentators have considered the issue of contemporary *blat* in Ukraine.

Furthermore, it is difficult to consistently trace the evolution of thought on the informal economy in Ukraine. Even reviewing official governmental documents, such as the President Order on Ukrainian economy deshadowisation measures (2002), only general causes of shadowisation of the economy such as tax burden, corruption and tax legislation instability can be found. No other theoretical issues have been touched upon in the literature by Ukrainian authors.

To sum up, the gaps in the literature on the informal economy in Ukraine are the following:

- insufficient empirical evidence for theoretical conclusions about the informal economy and *blat* in Ukraine;
- lack of any in-depth qualitative research and profound understanding of the nature and causes of the informal economy and *blat*, and therefore
- a lack of the theorisation of the informal economy and *blat* in Ukraine

My thesis therefore seeks to fill these gaps in the knowledge. It investigates the informal economy more directly and also *blat*, and as such provides a nuanced understanding of the nature of the informal economy in Ukraine. It also investigates Mykolayiv, an area of Ukraine that so far has not been investigated.

Chapter 2 was focused on literature review and identification of the knowledge gaps. Now we move to the Chapter 3 where methodological issues of the research aimed to cover these gaps are discussed.

3. METHODOLOGY

The aim of this chapter is to explain and justify the methodology used to evaluate the informal economy in Ukraine. For this purpose, the philosophical assumptions of the mixed method approach which will here be adopted are discussed first. Secondly, both direct and indirect methods of exploring the informal economy that have been used in previous studies are reviewed. Thirdly, the semi-structured face-to-face interviews used as a research technique are justified. Fourthly, the questionnaire used for the interviews and sampling procedure are described and explained. Fifth and finally, the economic, social, political and cultural characteristics of Mykolayiv, the Ukrainian city which was the site of the fieldwork, will be outlined.

3.1. Philosophical assumptions

As Bryman (2008, 13) puts it, 'an epistemological issue concerns the question of what is (or should be) regarded as acceptable knowledge in a discipline'. The central question in this respect is whether social science should adhere to the same paradigms as the natural sciences. In this context, there exist two contrasting general epistemological positions: positivism and interpretivism. While positivism advocates the use of natural science methods in the social sciences (though the concept is not limited to this principle), interpretivism suggests that people and institutions are too complex to be theorised by definite laws as is done in the natural sciences.

In social science, both qualitative and quantitative methods of research are recognised and researchers adhere to various epistemological positions. Each position has its strengths and weaknesses, for example qualitative research methods employed by social constructionists (e.g. critical ethnography) are criticised by positivists for lack of scientific rigour and subjectivity of data and the findings it produces (Hammersley and Atkinson, 1995). At the same time, Johnson and Clark (2006) question the possibility to neutrally collect empirical data from an independent reality. Gill and

Johnson (2002) argue that positivistic research methodologies suffer from deficiencies in ecological validity. Furthermore, qualitative researchers united by their advocating of subjectivity have their own philosophical disputes with each other. As a result, there are three schools of thought using qualitative methodologies – neo-empiricism, critical theory, postmodernism – based upon different combinations of epistemological and ontological assumptions (Johnson and Clark, 2006). These approaches are 'unified by their opposition to positivism and their commitment to study the world from the point of view of the interacting individual' (Denzin and Lincoln, 1998). The main arguments against the application of a positivist paradigm to management research is that 'social phenomena are quite distinct in character from physical phenomena' and 'the social world cannot be understood in terms of simple causal relationships or by the subsumption of social events under universal laws' (Hammersley and Atkinson, 1995). This is explained by the dependence of human actions on intentions, motives, beliefs and values.

According to Thietart *at al.* (1999) the co-existence of positivist, interpretivist and constructivist paradigms may be seen either as a sign of the immaturity of social science or as an opportunity for the researchers. They argue that although certain authors consider that a researcher must choose one paradigm and stick to it, others view the dialog between paradigms as possible and even desirable. For instance, Jill and Johnson (2002) consider that 'methodological triangulation' may overcome a bias intrinsic to a single-paradigm approach. Whereas Bryman (2008) argues, that from an epistemological point of view mixed methods of research are not possible as quantitative and qualitative research is based on incompatible epistemological principles.

Social research cannot be separated from questions of social ontology. Bryman (2008: 4) define ontological issues as 'ones to do with whether the social world is regarded as something external to social actors or as something that people are in the process of fashioning'. Positivist and interpretivist paradigms have contrasting ontological positions. The positivist ontological position asserts that 'there is only one

truth, an objective reality that exists independent from human perception' (Sale and Brazil, 2006: 57). As Hassard (1991: 277) puts it:

> '…society has a real, concrete existence and a systematic character and is directed toward the production of order and regulation. The social science enterprise is believed to be objective and value free. The paradigm advocates a research process in which the scientist is distanced from the subject matter by the rigour of the scientific method'.

From an interpretivist perspective, in contrast, social reality

> '…does not possess an external concrete form. Instead it is the product of intersubjective experience. For the interpretive analyst, the social world is best understood from the viewpoint of the participant-in-action. The interpretive researcher seeks to deconstruct the phenomenological processes through which shared realities are created, sustained and changed' (Hassard, 1991: 277).

The concept of *blat* and the informal economy can be viewed from the point of view of either positivism or interpretivism, yet interconnection between social actors and social reality should be considered. This interconnection means that people create the scope of morality, culture and customs, and these influence their behaviour. This also explains the evolution of the phenomena. People engage in the informal economy and *blat* relations because they have to, but also because they feel they wish to do so. Thus, either approach would be relevant for this thesis. Therefore, the mixed method approach will be the most relevant here, which is considered below.

In this doctoral research a mixed method approach is adopted. The use of quantitative and qualitative research in tandem helps to cope with issues each method confronts with. For positivist approach this is the lack of flexibility and insight into subject with regard to its complexity. Besides, according to Bryman (2008) the

connection between research and everyday life could be lost as a result of reliance on instruments and procedures. The main criticism of the qualitative approach refers to the issue of reliability and generalisability. Besides it is difficult to replicate and lacks transparency (Bryman, 2008).

Another argument for the use of the mixed methods approach is that pluralism of methods provides access to different facets of the same social phenomenon due to different strategies used in the research (Olsen, 2004). Indeed, the positivist method (survey) allows one to explore the extent and nature of the informal economy while the interpretivist approach (case studies based on the in-depth open-ended questions in the interview) helps to understand the motives of people's actions, their perspectives and opinions.

Taking into consideration the discussion above, the methodology of this thesis is based on critical realism. It can be viewed as a middle way between interpretivism and positivism. According to Alvesson and Sköldberg (2009: 16):

> 'Critical realists consider positivism and social constructionism as too superficial and non-theoretical in their way of doing research; analysis of underlying mechanisms and structures behind phenomena is what it takes to create theories that are not just concentrates of data'.

Critical realism ontology presupposes that the world is not what we think about it, and as follows, our knowledge is fallible (Sayer, 2004). According to Alvesson and Sköldberg (2009), critical realists focus on profound mechanisms generating empirical phenomena, rather than on predictable patterns. And those mechanisms operate independently of their discovery.

Epistemologically, the main stand of critical realism is that our knowledge is provisional as we do not have observer-independent access to the world. And methodologically, critical realism is focused on explanation and understanding rather than prediction and description (Mingers, 2004). It suggests that both qualitative and

quantitative methods are important. Indeed, according to Ackroyd (2004:137) critical realism

> 'allows research to be selective in their choice of investigatory tools. Insightful empirical research is a creative activity in which valuable insights cannot be produced by the routine use of particular research technique'.

Furthermore, the aim of critical realists is to produce a theory which accurately explains complex causal mechanisms. To achieve this aim multiple data is indispensible.

Having discussed the philosophical assumptions of the approach adopted in this thesis, the focus now turns to a review of the previous methods used to research the informal economy.

3.2. Previous methods used to research the informal economy

The methods used to research the informal economy can be divided into two main groups, namely direct and indirect methods. Direct methods involve contact with or observation of individuals, households or firms and include surveys and auditing of tax returns. Indirect methods measure the traces the informal economy leaves in the official statistics and includes research based on the differences between income and expenditure at household level, discrepancies in the national accounts, differences between officially measured participation rates and actual participation rates, monetary methods, and modelling (Pedersen, 2003).

3.2.1. Direct measurement methods

Direct measurement methods are micro-economic methods that are based on contact with or observation of persons and/or firms and mainly include surveys. Previously the lack of empirical directly collected data was met by indirect methods in order to

highlight the problem of the informal economy. Today, direct surveys are more popular among scholars as these methods provide more accurate and in-depth information and they can be tailored to meet the needs of the particular research problem being investigated (Pfau-Effinger, 2009; Schneider, 2002; Williams, 2007; Williams and Ram, 2009). As TNS Infratest, Rockwool Foundation and Regioplan (2006: 17) stated it:

> 'Direct surveys have their strong points in providing detailed information on the nature of undeclared work: the structure, prices, circumstances under which undeclared work takes place, norms and motives. Respondents who are involved in undeclared work – be it as supplier, be it as buyer – can be asked a broad variety of questions describing their sociodemographic background as well as the nature of the undeclared work and the motives for offering or buying goods or services in the undeclared sector'.

The detailed information direct surveys provide is important for deeper understanding of the informal economy and designing the policies aimed at tackling it.

However, there are a number of criticisms cited by various scholars with regard to direct methods. One of the major disadvantages of these methods is that people will be unwilling to reveal the magnitude and character of informal work and will not respond honestly (Baculo, 2006; Jones *et al*., 2004; Ram *et al*., 2002; Williams, 2004). Furthermore, participants may not know whether the money they paid for a good or service has been officially declared (Williams, 2007; Williams and Ram, 2009). While the unawareness of purchasers about the formality/informality of their suppliers might be really the case, the reluctance of respondents to talk about their unofficial activities has been refuted by a number of studies (Frey and Snyder, 2000; MacDonald, 1994; Snyder, 2003; Williams and Windebank, 2001; Williams, 2007). 'Just because it is an activity hidden from or unregistered for tax and/or social security purposes, does not mean that respondents are unwilling to discuss it with researchers' (Williams, 2007: 351). However, there remain two major characteristics of direct methods that lead to

some criticisms of this approach: a heavy emphasis on the household (mainly domestic services provision) rather than the business as the unit of analysis and the focus upon small-scale research of particular localities or sectors (Williams, 2007; Jensen and Slack, 2009). Moreover, the direct methods provide only snapshot estimates of the informal economy making it difficult to trace its development and growth over the time (Schneider, 2002; Alderslade *et al*., 2006).

3.2.2. Indirect measurement methods

Indirect methods are advocated by those who are sceptical about the credibility of data obtained using direct methods. Such commentators argue that the informal economy can be revealed at the macroeconomic level and/or seek to measure the magnitude of undeclared work, but not its characteristics and motives.

According to GHK and Fondazione G. Brodolini (2009), the key indirect methods to measure the informal economy are considered to be discrepancy methods, labour input methods, degree of participation method, Tanzi method, global indicators methods (electricity consumption), latent variable methods. These methods are divided into two types: indirect (general) and econometric. Econometric methods in turn include monetary, global indicator and latent variable methods that are discussed below.

Table 3.1. Classification of methods of measuring the informal economy (GHK and Fondazione G. Brodolini, 2009: Table 3.1)

Type of method	Sub-type of method	Individual methods
Indirect (general) methods		1.Discrepancy method
	Labour market methods	2.Labour input
		3.Degree of participation
Econometric methods	Monetary methods	4.Tanzi method
	Global indicator methods	5.Electricity consumption
	Latent variable methods	6.MIMIC/DYMIMIC

The first is the discrepancy method, which is based on the assumption that income can be hidden more easily than consumption. The difference between declared income and expenditures is expected to show the amount of undeclared income. The sources of data are usually household surveys, national accounts and taxation authorities (GHK and Fondazione G. Brodolini, 2009). Although this method has been employed in studies conducted in Germany (Petersen, 1982 and Langfelt, 1989), the UK (O'Higgins, 1981) and the USA (Paglin, 1994), the results it provides might be of questionable reliability (Thomas, 1999; Schneider, 2002; Williams and Ram, 2009). The problems of the method are connected with the accuracy of income and expenditure data it uses. The discrepancy between income and expenditure accounts may include not only informal activities, but other factors as well (e.g. errors and omissions). Moreover, according to Williams and Ram (2009), the studies using this method do not provide the breakdown of income by source (whether it is from criminal or just undeclared activities) and period (whether it was derived in the corresponding period or was accumulated earlier).

The second and the third methods are 'labour market' methods. The labour input method relies on the assumption that informal employees are less motivated to conceal the nature of their work than their employers. The substance of this method is

a comparison of data from the labour supply and demand sides. The difference in figures will reveal the extent of informal activities. The sources of such information are household and labour force surveys, ministries connected with finance, labour and social issues, and the social security system. As the method is based on the information from labour force surveys, the results may be distorted if the respondents are unwilling to reveal the truth.

The assumption of the 'degree of participation' method is that if the number of official work places is limited, labour will switch from formal to informal work. Thus, positive variations in labour force participation in the official economy are seen as negative variations in undeclared labour, and vice versa. This means that formal and informal economies are negatively correlated: when there is an increase in the formal employment, informal employment is decreased. The sources of information for calculation are household surveys and national accounts. The method has been used to measure the informal economy in Italy (Contini; 1981) and the United States (O'Neill, 1983). The drawback of this method is that the changes in the rate of participation can have other causes and formal workers may perform informal activities as well.

Methods 4, 5 and 6 are econometric. The Tanzi ('currency demand') method is a monetary econometric method and its key assumption is the solely cash basis of off-the-books transactions. The amount of undeclared money is estimated by measuring the sensitivity of the demand for money to tax pressure/ income level/ prices and interest rates or by measuring the ratio of total demand for money and total deposits. GDP and monetary variables are obtained from the national and regional accounts, central banks, and statistical authorities. The currency demand approach has been applied to many OECD countries (Schneider, 1997; Johnson, *et al.*, 1998). However it has been criticised for many reasons (Thomas, 1999; Schneider, 2002; Williams and Ram, 2009). Firstly, off-the-books transactions are not always paid in cash. They can involve cheque payments and barter. Secondly, while most studies consider only one factor (the tax burden) of the increase in the informal economy, other factors, such as tax morality and the impact of regulations also affect the size of the informal economy.

Thirdly, it is hard to determine how much of the currency is held domestically and abroad.

According to the fifth method of measuring the size of the informal economy, namely the electricity consumption (the physical input) method, the size of informal economy is the difference between the growth rate of electricity consumption (a proxy for the growth rate of total economic activity) and the growth rate of measured GDP. This yields an approximation of the growth rate of unrecorded income (Kaufmann and Kaliberda, 1996; Lacko, 1999). Although the methodology is clear and easy to implement, and the required data are usually easily accessible and reliable, it has significant weaknesses. The problem with this method is that some informal activities do not require significant amounts of electricity. In addition, the efficiency of production and electricity use grow over time which affects electricity consumption for both formal and informal activities. Finally, the elasticity of electricity/GDP across countries and over time is not taken into account (Schneider, 2002).

Finally, the sixth method, MIMIC (multiple indicators and multiple causes) or DYMIMIC (dynamic multiple indicators and multiple causes), is again econometric in approach. This assumes that undeclared work is an unobserved variable that influences observed indicators and is determined by observed variables. It includes, first, a search for determinants (e.g., real and perceived tax burden, the burden of regulation, tax immorality, etc.) and indicators (male participation rate, hours worked and growth of real GNP). Then, it calculates undeclared work with the aid of econometric tools. The DYMIMIC (dynamic multiple-indicators multiple-causes) model consists in general of two parts, the measurement model links the unobserved variables to observed indicators. Schneider (2002: 42-43) lists the causes and indicators of the informal economy used in the model. The causes are:

(i) The burden of direct and indirect taxation, both actual and perceived: a rising burden of taxation provides a strong incentive to work in the informal economy.

(ii) The burden of regulation as proxy for all other state activities: it is assumed that increases in the burden of regulation give a strong incentive to enter the informal

economy.

(iii) The tax morale (citizens' attitudes toward the state), which describes the readiness of individuals (at least partly) to leave their official occupations and enter the informal economy: it is assumed that a declining tax morality tends to increase the size of the informal economy.

The indicators are:

(i) Development of monetary indicators: if activities in the informal economy rise, additional monetary transactions are required.

(ii) Development of the labour market: increasing participation of workers in the hidden sector results in a decrease in participation in the official economy. Similarly, increased activities in the hidden sector may be expected to be reflected in shorter working hours in the official economy.

(iii) Development of the production market: an increase in the informal economy means that inputs (especially labour) move out of the official economy (at least partly); this displacement might have a depressing effect on the official growth rate of the economy.

Even though the method copes with the limitations of the previously discussed approaches and was employed in a number of studies (Giles and Tedds, 2002; Schneider 2001; Schneider and Enste, 2002; Tedds, 2005) it still should be used with caution. This is because there is no evidence that these causes and indicators necessarily lead to the existence and growth of the informal economy (Williams and Ram, 2009).

An in-depth review of the above methods completed by GHK and Fondazione G. Brodolini (2009: 26) identifies that indirect methods differ with respect to: data requirements; the possibility of breaking down aggregate national data by employment status of individuals, occupation, sex, etc.; and the potential for the method to provide data on undeclared work across sectors and/or countries and over time. The main advantages and disadvantages of each method found by GHK and Fondazione G. Brodolini (2009) are summarised in Table 3.2.

Table 3.2. Overview of the key methods for measuring the informal economy (GHK and Fondazione G. Brodolini, 2009: Table 3.2)

Method	Main strengths	Main weaknesses
1. –Discrepancy	-Good data availability -Harmonised data used	-Different sources used together, hence, the estimates problematic -Certain important sectors excluded
2. – Labour input	-Well established -Refined breakdown available -Harmonised data used	-Reliance on LFS results questionable (lack of representativeness in LFS(Labour force survey); dishonest responses to LFS) -Some countries lack data -Could be difficult to implement
3. – Degree of participation	Harmonised data used	-Example found only in RO -Assumptions questionable
4. – Tanzi method	-Easy to implement -Harmonised data used -Good data availability	-Focus on all non-observed economy (of which undeclared work is only one part) -Assumptions questionable
5. – Global indicator – electricity consumption	-Harmonised data used -Good data availability	-Requires a problematic initial estimate -No breakdown is available -Assumptions questionable
6. – Latent variable MYMIC/DYMIMIC	-Easy to implement -Harmonised data used -Good data availability	-Focus on all non-observed economy (of which undeclared work is only one part) -Requires a problematic initial estimate

The main problems with all these approaches is that they provide a vague estimation of the volume of informal economy and do not reveal important information on its structure, character, nature of development and motives of the participants. Moreover, the information these methods provide is not practicable for genuine policy conclusions (Pfau-Effinger, 2009; Renooy *et al.*, 2004; Thomas, 1999; Williams, 2004). As Thomas (1999: 387) puts it:

> 'The search for the magic number corresponding to the size of the black economy as a percentage of GNP without providing economic theories to explain the determinants and structure of the black economy has led economists into a blind alley in which the question of size has become an end in itself and more important issues are not addressed'.

To conclude, the direct method is the most appropriate approach for the collection of

data that answers the aims and objectives of this thesis, which is interested in the nature of undeclared work and the motives underpinning it. Indirect methods only provide the policy makers with the vague idea about the size of informal economy. However, in order to effectively combat with the informal economy, its nature and motives of participants should be thoroughly understood. Therefore indirect measurement methods cannot fulfil the objectives of the research and direct methods should be used instead.

In this section, the advantages and disadvantages of direct and indirect methods of measurement of the informal economy were discussed. In the next chapter, the method selected for this research will be explained in greater detail.

3.3. Method selected: explanation and justification

On the basis of the review above, semi-structured face-to-face interviews have been chosen as the data collection method to be used in this PhD thesis. They measure the character of informal work, which is important for answering the aims and objectives set out. This includes both closed- and open- ended questions and will be analysed both qualitatively and quantitatively. This will allow the lack of data available to be resolved and will explore in-depth the motives for and perceptions of staying informal. Even though the research in South-Eastern Europe revealed that people talk happily and openly about their informal activities (Williams, 2009a) this might be not the case in Ukraine. Different socio-political situations in different countries should be kept in mind. In Ukraine and especially in the Ukrainian provinces, people are not confident in the future and are frightened of the lawlessness of local and state authorities. Therefore, and regarding the questions about informal income in Ukraine particularly, the respondents may be threatened mainly by the potential consequences of their answers, even when they know that the questionnaires are absolutely anonymous.

The unit of analysis in this project is the household. This is because taking the business as a unit of analysis will result in the omission of totally informal businesses

and also people who operate enterprises from home, which might well be the vast majority of enterprises in Ukraine. Both the supply and demand sides of informal work are examined which will allow comparisons to be made between them. Firstly, the questions about the demand side are asked first due to their less sensitive nature because consuming informal services is viewed as more socially acceptable and is also less illegal (Williams and Ram, 2009). Afterwards, the supply side questions are posed. Such a gradual approach is applied throughout the whole questionnaire: starting with the less sensitive questions on the general socio-demographic background of the household members and the repairs done in the household and ending with second employment and using connections for personal purposes (*blat*). Such a gradual approach to posing personal questions detected a higher amount of informal activity than the direct one in a study comparing different techniques in the Netherlands (Kazemier and van Eck, 1992, cited in Williams and Ram, 2009).

The survey is carried out on a local population sample. The locality used for the data collection is Mykolayiv, a city in the South of Ukraine which is characterized below. The city was chosen as an average one (for example, Kyiv, the capital, might not be representative as a whole of Ukraine because the gap between Kyiv and the rest of Ukraine in terms of income and development levels is very large) and also the home town of the researcher.

After explanation and justification of the method selected for this thesis, we now move to the ethical issues of the research.

3.4. Ethical issues

When using direct methods for evaluating informal work, the relative sensitivity of the topic should be taken into consideration. Johnsen and Jehn (2010: 313) define sensitive issues as ‘those topics about which people are generally unwilling to disclose information because the issues are intimate, private, threatening, and/or incriminating’. Therefore informal work could be characterized as ‘sensitive topic’ – it is often

associated with hiding income from tax authorities and viewed as incriminating. However, the previous research on this topic suggests that the topic should be positioned at the margins of 'sensitive issue' for several reasons.

Firstly, most of the population view informal transactions positively due to the fact they do not see it as an offence but rather as a generally accepted practice. Secondly, informal work is often done for kin, friends and neighbours with the motives of strengthening social bonds and is not prosecuted by tax authorities. Finally, none of previously conducted studies resulted in requests by the authorities to disclose the names of respondents who reported informal work. To sum up, there is no potential threat for the research participants. This research project respects the rights and privacies of the participants and also contributes to the public good by exploring the nature and reasons of informal work in order to assist in public policy improvement towards tackling the worst aspects of the informal economy.

In this project due attention is paid to Research Ethics Policy Note no. 4 of Ethics Policy of the University of Sheffield 'Principles Of Anonymity, Confidentiality And Data Protection'. This highlights how the Data Protection Act 1998 (DPA) includes under its definition of 'sensitive personal data' the 'commission or alleged commission by him, or her of any offence'. To meet the requirements of the DPA this research project will meet the first condition of Schedule 2 of the DPA by ensuring that the 'data subject has given his/her consent to the processing' and will meet the first condition of Schedule 3 by ensuring that 'the data subject has given his explicit consent to the processing of personal data'. Informed consent will therefore be used. A consent form and information sheet is included in the Appendix D.

To obtain informed consent potential participants were given information in writing, sufficient time to consider whether or not they wish to participate and then their oral consent will be sought. The fact that they engage in the interview also displays that they have given their implicit consent. Continuous reiterations were made throughout the interview of their ability not to have to answer any questions and of their ability to be able to withdraw at any time, especially before sensitive questions such as on their

supply of informal work.

To ensure confidentiality of personal data the following measures were put in place. Firstly, no response on the data-base includes personal details or the address or contact details of any respondent. All data is anonymous, as is analysis and reporting. All interviewees were given pseudonyms. After collating the data onto the SPSS data-base and qualitative analysis, all interview questionnaires were shredded.

3.5. Questionnaire and sampling procedure

The questionnaire consists of seven sections: general information; coping practices used by households (demand side); work undertaken for others (supply side); acquiring goods; using connections (demand side), using connections (supply side) and secondary employment.

General information (section 1) includes questions on the length of time the respondents have lived in this city and in this particular house/flat. Afterwards the information about each household's membership follows in terms of their gender, age, employment status and employment history. This section also included a question on monthly income, for which the ranges were provided, as well as a question to identify the first and second most important means of livelihood. The possible livelihood sources were suggested (please, refer to Table 2 of Appendix A).

Section 2, *Coping practices used by households (demand side)* investigated 27 different domestic tasks (see Table 3.3).

Table 3.3. The list of domestic tasks investigated

REPAIRS (last 5 years)
1. Painting
2. Wallpapering
3. Tiling
4. Replace a broken window
5. Maintaining and/or installing domestic electric appliances
6. Windows / doors installation
7. Plumbing
8. Heaters / boilers installation
9. Electrical mounting
ROUTINE HOUSEWORK (LAST MONTH)
10. Cleaning
11. Shopping
12. Washing / ironing
13. Cooking
14. Dish washing
15. Dacha work
MAKING AND REPAIRING GOODS (LAST YEAR)
16. Clothes making/ repair / fit
17. Shoes repair
18. House hold textile making/ repair
19. Furniture making / repair
20. Household appliances repair
21. Car repair
22. Computer repair
CARING ACTIVITIES (LAST 3 MONTHS)
23. Hairdressing
24. Manicure
25. Massage
26. Baby-sitting
27. Tutoring

It included questions about work done for the respondent and his/her household members: if the job was performed, who did it (how they are related to the respondent), if they were paid, if yes, how they were paid (cash/in kind/quid pro quo), if they were paid in cash, officially or unofficially (fully through a bank/till/ etc. or cash with receipt / cash without any documentation / partly cash partly through a bank/till/ etc.) and why they did the job rather than someone else.

Afterwards, in the section 3, *Work undertaken for others (supply side),* the same questions were asked about the same 27 types of domestic tasks that were completed by the respondent or his/her household members.

Section 4, *Acquiring goods*, was designed in order find out where and for how much people purchase day-to-day goods, what kinds of goods are purchased from the official retailers and which from the individuals/ black market etc. The list of goods is provided in Table 5a of Appendix A.

The next sections then deal with possibly more sensitive issues: using connections / *blat* (on both recipient and provider sides) and participation in secondary and / or informal employment.

The *using connections (demand side)* section starts with the question on the respondent's attitude towards *blat* (refer to Section 6.1.1). Afterwards the list of possible spheres of using *blat* is provided (please, refer to Table 6 of Appendix A) and the respondent is asked whether anyone helped him/her to solve the problems in these spheres; why the respondent asked for such help; if s/he rewarded this help and how; and what are the relations between the participators of *blat* relations. These are followed by the open-ended questions and the respondent was expected to give comprehensive answer: whether it is possible to achieve the same result without using connections; and if not, why.

The same questions were asked about providing help using own knowledge, position, privileges in the section *Using connections (supply side).* The same spheres of *blat are* suggested. This section differs from the previous one by the open-ended questions. Here, the respondents were asked to assess the importance of connections

versus money in the past and today giving examples if possible.

The last section, on s*econdary employment,* also includes open- and closed-ended questions. The closed-ended questions were aimed at gathering information on whether the respondent is involved in secondary employment; whether s/he is working officially/ unofficially; where his/her second job takes place; how important this job is for the family budget. The open-ended questions explore the problems that arise in connection with the unofficial activity; the benefits that the members of household receive from the state; and the motives for being formal or informal.

To select households for interview, a random spatial sampling methodology was employed (Rodgerson, 2006). 200 households were interviewed using a structured questionnaire schedule as described above. Following this, 30 of them were interviewed in-depth using a more unstructured approach. For comparison, for the research of Williams and Round (2008) in Ukraine 600 interviews were conducted in four different areas, the biggest of which was Uzhgorod with the population of 116,000 and 150 interviews conducted.

The number of households in Mykolayiv can be estimated as 190 000, given that population in Mykolayiv is approximately 500 000 and average number of people per household in Ukraine is around 2.6 (Population census, 2001). 20 households are surveyed in 10 districts using the random spatial sample in each district. The characteristics of Mykolayiv including its history, socio-economic and demographic situation are discussed in the next section of this thesis.

3.6. Characteristics of the fieldwork location: Mykolayiv

Mykolayiv is a regional centre in the South of Ukraine, its population is 498,700 people, its area is 253 sq km and density of population 1,980 people/sq km according to National Statistical Committee. In the Soviet period, Mykolayiv was a prosperous shipbuilding centre of the Soviet Union with three shipbuilding yards. Since the collapse of the Soviet Union, production volumes have decreased dramatically as well as the

population employed at these plants. The overview of Mykolayiv history, its current demographic and social-economic situation is provided in below.

3.6.1. History of Mykolayiv

According to Tronko (1981) Mykolayiv was founded during the Russian-Turkish War (1787-1791), when young Black Sea fleet was in an urgent need of naval vessels. The dockyard was founded by the Russian Governor General of Novorossiya, Prince Grigorii Potemkin at the mouth of the river Ingul. Around this dockyard the town began to grow. Potemkin named the town Nikolayev to commemorate the victory of Russian troops over the Turks in Ochakiv in 1788 close to the day of Saint Nikolay in the Russian Orthodox Church calendar.

The life of the city has always been closely connected to ship building and fleets. The Black Sea Fleet headquarters were stationed here for almost one hundred years. During the Crimean war (1853 – 1856) the city was a major logistics base of the Black Sea Fleet. The majority of enterprises founded in the city belonged to military-industrial complex and therefore was closed to foreign visitors for many decades. Even the first educational institution in the city – the Black Sea Navigation College founded in 1798 – was connected with the fleet.

This influenced the history, character and even the appearance of Mykolayiv. The town was built according to a specially developed plan of Russian architect Ivan Starov: broad straight streets and squares of the correct forms. This urban planning preserved its original appearance to this day and is a unique monument of the epoch of classicism.

In 1862, a commercial port was opened in the city. This helped Mykolayiv to become an important economic and trade centre. At the end of the 19th century, Mykolayiv was ranked third after St. Petersburg and Odesa in terms of trade with foreign countries. The city became an important industrial centre in the South of Ukraine – in 1890 there were 131 enterprises. At the end of the 19th century, foreign

companies start investing into the city's industries. In 1895-1897, the yards of Belgian and Russian corporations were built and in 1907 merged into the one yard 'Naval'. Today, it is the biggest shipyard in Mykolayiv – the Black Sea Shipbuilding Yard. By the end of the 19th century, Mykolayiv was one of the biggest cities of the Russian Empire in terms of its population.

At the beginning of the 20th century, the economic and political situation changed. Mykolayiv was closely associated with the revolutionary movement as its population mainly consisted of workers. During the revolution in Ukraine in 1917—1921, Mykolayiv was named 'Red Petersburg of Ukraine' due to the activity of the Bolsheviks (Institute of Society Transformation, 2002).

In 1911, the plant of Russian joint-stock company 'Russud' was built. In 1928, it was named in honour of murdered revolutionaries '61 Communards Yard' (Mykolayiv City Council, 2003).

During the Holodomor (famishment) in Mykolayiv, the big industrial centre, certain measures against the famine were taken, while the peasants were actually abandoned in the field to their fate and suffered. During World War II, Mykolayiv was occupied by Nazis for almost three years. In 1944 the city was liberated, notably due to the 68 sailors-paratroopers that were awarded the titles 'Hero of the Soviet Union', the majority of them - posthumously.

After the War, Mykolayiv was one of the biggest shipbuilding centres in the USSR. The ships were produced by three shipbuilding yards: Black Sea Shipbuilding Yard, 61 Communards Yard and the shipyard 'Ocean'. During a short historical period, a small shipbuilding wharf turned into the large industrial, political and cultural centre of Southern Ukraine.

On the 1st December 1991, Mykolayiv city and region citizens confirmed the Declaration of Independence of Ukraine at the National referendum with 89.45 percent of votes in favour of independence. In the 1990s, the economy of Mykolayiv and the whole state has suffered a number of significant, often negative, consequences of market liberalization and economic reforms.

After the collapse of the USSR, the shipbuilding industry in Ukraine inherited a powerful industrial potential: eight well-equipped, profitable shipyards, which made up about 30 percent of the shipbuilding capacity of the former Soviet Union. The first three of the eight most powerful in terms of production capacity shipbuilding yards are located in Mykolayiv. In 1992, the share of these three shipyards accounted for 68 percent of shipbuilding in Ukraine.

In the Soviet times, the shipyards were profitable and prosperous. They regularly paid taxes and salaries, had a developed social sphere, expanded production facilities and built housing. However, 65 percent of its production were warships and were made to the order of the government who financed their production.

After 1992, the construction was almost stopped as their Ukrainian ship-owners did not have enough funds to purchase new ships. Destruction of inter-sectoral links, inconsistent tax policy, numerous bureaucratic obstacles to the implementation of investment projects and unpreparedness of the enterprises for such a negative external environment changes resulted in overwhelming recession in this industrial sector. Thus the output at the Black Sea Shipyard in 1997 was just 29 percent of the level of 1992, at '61 Communards' shipyard – 27 percent and at the shipyard 'Okean' – 13 percent (Chornyi, 2009). Indeed, the output and the number of people employed in the Ukrainian shipbuilding sector decreased dramatically during the independence period according to the data of the Association of Shipbuilders of Ukraine (Table 3.4).

Table 3.4. The number of employees at the shipbuilding enterprises of Ukraine (Lysyckyi, 2010)

The number of employees at the shipbuilding enterprises of Ukraine (average for a year)		
Years	**Number of people**	**In percentage of 1990**
1990	150 000	100%
1991-94	no data	no data
1995	119 276	80%
1996	98 624	66%
1997	65 494	44%

1998	77 593	52%
1999	70 046	47%
2000	58 713	39%
2001	54 276	36%
2002	54 247	36%
2003	50 574	34%
2004	47 562	32%
2005	44 013	29%
2006	40 232	27%
2007	34 882	23%
2008	33 529	22%
9 months 2009	30 855	21%

Today, all three shipyards in Mykolayiv are in a critical situation. Other Mykolayiv plants that supplied machinery, equipment and spare parts to the shipyards are struggling as well.

3.6.2. Recent social and economic statistics

The most important industries of Mykolayiv are machinery, construction and shipbuilding. The enterprises of Mykolayiv region produce 40 percent of output of the Ukrainian shipbuilding industry, 90 percent of state output of gas turbines and 80 percent of aluminium oxide – a raw material for aluminium production.

The structure of GDP in Mykolayiv is the following: manufacturing industry accounts for 82.1 percent, electricity, water and gas production and distribution - 17.8 percent, mining industry – 0.1 percent of total GPD. The largest portion of production in manufacturing industry belongs to metallurgical production (31.3 percent), machinery construction (27.9 percent) and production of food and beverages (17.2 percent).

According to the statistical data, during the years 2006 – 2010 the number of entrepreneurs increased from 36,000 to 69,000. As of 01.12.2011, 1,000 legal entities and 51,000 individuals are registered in the State Register.

One of the negative socio-economic indicators is the arrears of wages at Mykolayiv enterprises that amount to 35.1 million hryvnias (US$4.4 million). Moreover,

the arrears of wages as of the 1st of November 2010 increased in comparison to the beginning of the year by 47.9 percent or by 11.4 million hryvnias (US$ 1.4 million).

Analysis of the labour market in Mykolayiv during 2007-2010 shows some improvements in the economy and thus in employment. In 2010, the approximate number of employees in the city of Mykolayiv was 213,300 people with a tendency to increase, 2,939 were registered unemployed. There se are official numbers that display inconsistency between the registered unemployed rate and nearly half of 500,000 total population of employment participation rate. There is an obvious discrepancy between registered unemployment and actual unemployment, which is shown in Table 3.5 below in detail. It should be noted, that according to the 2010 statistics, out of almost 598,900 population, only 62 percent is of active working age, while 25 percent are older than active working age and 13 percent – are younger. Therefore the amount of working age population is 309,318 people.

Table 3.5. The discrepancy between registered unemployment and actual unemployment

Total population	498,900
Active working age population, *percent*	62%
Active working age population	309,318
Officially employed population	213,300
Unemployed as a difference between active working age population and officially employed	96,018
Registered unemployed	2,939
Difference between registered unemployed and actually unemployed	93,079

This difference between registered unemployed and actually unemployed of 93,079 people constitutes 30 percent of total working age population and presumably may include housewives (or anybody involved in self-provisioning), people with disabilities and informal workers. There is no statistical data yet that sheds light on the share of informal workers in the 93,079 not in official employment.

Table 3.6 below shows that in 2009 unemployment level in Mykolayiv region

was 9.0 percent decreasing to 8.2 percent in 2010. The numbers are almost equal to the average Ukrainian.

Table 3.6. The level of unemployment of population in the age of 15-70 years. In percentage to the economically active population (State Statistics Service of Ukraine, 2010)

Region	**2009**	**2010**
Rivne	12.5	11.3
Sumy	10.9	10.5
Ternopil	11.0	10.2
Chernihiv	10.7	10.1
Cherkasy	10.6	10.0
Vinnytsia	10.5	9.9
Zhytomyr	10.5	9.7
Poltava	10.1	9.5
Kirovohrad	9.9	9.1
Transcarpathian	9.9	8.9
Kherson	9.4	8.8
Donetsk	9.3	8.7
Khmelnytsky	9.3	8.5
Chernivtsi	8.9	8.4
Volyn	9.0	8.4
Mykolayiv	**9.0**	**8.2**
Ivano-Frankivsk	8.8	8.1
Average for Ukraine	**8.6**	**8.0**
Lviv	8.3	7.8
m. Kyiv	7.8	7.3
Zaporizhzhia	7.7	7.2
Luhansk	7.4	7.1
Dnipropetrovsk	7.6	7.0
Kharkiv	7.6	7.0
Crimea	6.7	6.1
Odesa	6.6	5.8
m. Sevastopol	6.5	5.7
Kyiv	6.2	5.5

The average salary in Mykolayiv Region in 2010 was 2,122 hryvnias per month (approximately 267 USD), which is slightly lower than the average for Ukraine (Table

3.7)

Table 3.7. Average salary in Ukraine, by regions (State Statistics Service of Ukraine, 2010)

Regions	**Avarage salary in 2010, *hryvnias***
m. Kyiv	3,431
Donetsk	2,549
Dnipropetrovsk	2,369
Kyiv	2,295
Luhansk	2,271
Average for Ukraine	**2,239**
Zaporizhzhia	2,187
m. Sevastopol	2,167
Mykolayiv	**2,122**
Poltava	2,102
Kharkiv	2,060
Odesa	2,046
Crimea	1,991
Rivne	1,960
Lviv	1,941
Ivano-Frankivsk	1,927
Sumy	1,866
Transcarpathian	1,846
Cherkasy	1,835
Kirovohrad	1,815
Khmelnytsky	1,786
Zhytomyr	1,785
Vinnytsia	1,782
Chernivtsi	1,772
Kherson	1,733
Chernihiv	1,711
Volyn	1,692
Ternopil	1,659

Retail turnover (i.e. retail sales) of enterprises in Mykolayiv region in 2010 was 5,575.8 million hryvnias (US$ 697 million), its growth rate was 104 percent and it constituted 2 percent of Ukraine's total retail turnover (Table 3.8).

Table 3.8. Retail turnover of enterprises in 2010 (State Statistics Service of Ukraine, 2010)

Region	Retail turnover, mln hryvnias	Retail turnover, % to Ukraine's total	Retail turnover growth rate, %	
			2010 to 2009	2009 to 2008
Ukraine, total	274,599.6	100.0%	108%	79%
m. Kyiv	50,090.7	18.2%	106%	78%
Donetsk	25,092.3	9.1%	112%	73%
Dnipropetrovsk	24,531.2	8.9%	109%	75%
Kharkiv	18,406.2	6.7%	105%	78%
Odesa	17,573.6	6.4%	109%	88%
Lviv	14,904.9	5.4%	103%	86%
Kyiv	11,874.8	4.3%	107%	90%
Zaporizhzhia	10,628.6	3.9%	111%	77%
Crimea	10,117.6	3.7%	107%	78%
Luhansk	8,988.3	3.3%	113%	76%
Poltava	7,105.8	2.6%	106%	76%
Transcarpathian	5,849.5	2.1%	106%	80%
Mykolayiv	**5,575.8**	**2.0%**	**104%**	**80%**
Vinnytsia	5,563.5	2.0%	107%	76%
Cherkasy	5,356.1	2.0%	109%	83%
Kherson	5,243.9	1.9%	103%	83%
Khmelnytsky	5,111.2	1.9%	103%	76%
Ivano-Frankivsk	4,953.3	1.8%	104%	82%
Zhytomyr	4,939.2	1.8%	106%	82%
Volyn	4,594.1	1.7%	105%	79%
Rivne	4,415.9	1.6%	104%	83%
Chernihiv	4,394.2	1.6%	105%	81%
Kirovohrad	4,394.0	1.6%	109%	78%
Chernivtsi	4,102.0	1.5%	103%	88%
Sumy	3,917.7	1.4%	104%	78%
Ternopil	3,783.5	1.4%	102%	82%
m. Sevastopol	3,091.7	1.1%	116%	85%

3.6.3. Demographic situation

The Census of Population 2001 provides information about the regions in general. The total population in the Mykolayiv region was 1,265,000 people. The Urban population

amounted to 838,800 people (66.3 percent) and rural – 425,900 people (33.7 percent). The population growth rate in Mykolayiv region in comparison to 1989 was 95 percent (Table 3.9).

Table 3.9. The results of National Census 2001 (Population census, 2001)

Regions	National Census 2011					Census 2001, % of total Ukrainian population	Census 1989, thousand people	2001 to 1989, %
	Total, thousand people	Urban, thousand people	Rural, thousand people	Urban, %	Rural, %			
Donetsk	4,841	4,363.6	477.5	90	10	10.0	5,332	91
Dnipropetrovsk	3,568	2,960.3	607.3	83	17	7.4	3,881	92
Kharkiv	2,914	2,288.7	625.5	79	21	6.0	3,195	91
Lviv	2,627	1,558.7	1,067.8	59	41	5.4	2,748	96
Kyiv city	2,611	2,611.3	-	100	-	5.4	2,603	100
Luhansk	2,546	2,190.8	355.4	86	14	5.3	2,863	89
Odesa	2,469	1,624.6	844.4	66	34	5.1	2,643	93
Crimea	2,034	1,274.3	759.4	63	37	4.2	2,064	99
Zaporizhzhia	1,929	1,458.2	471.0	76	24	4.0	2,082	93
Kyiv	1,828	1,053.5	774.4	58	42	3.8	1,940	94
Vinnytsia	1,772	818.9	953.5	46	54	3.7	1,933	92
Poltava	1,630	956.8	673.3	59	41	3.4	1,753	93
Khmelnytsky	1,431	729.6	701.2	51	49	3.0	1,527	94
Ivano-Frankivsk	1,410	593.0	816.8	42	58	2.9	1,424	99
Cherkasy	1,403	753.6	649.3	54	46	2.9	1,532	92
Zhytomyr	1,390	775.4	614.1	56	44	2.9	1,545	90
Sumy	1,300	842.9	456.8	65	35	2.7	1,433	91
Mykolayiv	1,265	838.8	425.9	66	34	2.6	1,331	95
Transcarpathian	1,258	466.0	792.3	37	63	2.6	1,252	100
Chernihiv	1,245	727.2	518.1	58	42	2.6	1,416	88
Kherson	1,175	706.2	468.9	60	40	2.4	1,240	95
Rivne	1,173	549.7	623.6	47	53	2.4	1,170	100
Ternopil	1,142	485.6	656.8	43	57	2.4	1,169	98
Kirovohrad	1,133	682.0	451.1	60	40	2.3	1,239	91
Volyn	1,061	533.2	527.5	50	50	2.2	1,061	100
Chernivtsi	923	373.5	549.3	40	60	1.9	938	98
m. Sevastopol	380	358.1	21.4	94	6	0.8	395	96
Total	48,457	32,574.5	15,883	X	X	100.0	51,707	26

The population of Mykolayiv city has been in gradual decline during the last few years

(Figure 3.1). In the year 2010 it amounted to 498,900 people. The age structure of population reordered by the National Census is characterised by the decrease of the children share and increase of the retirement age people share. This considerably worsens the demographical situation in the region and causes population ageing. Such a demographic situation is similar throughout Ukraine.

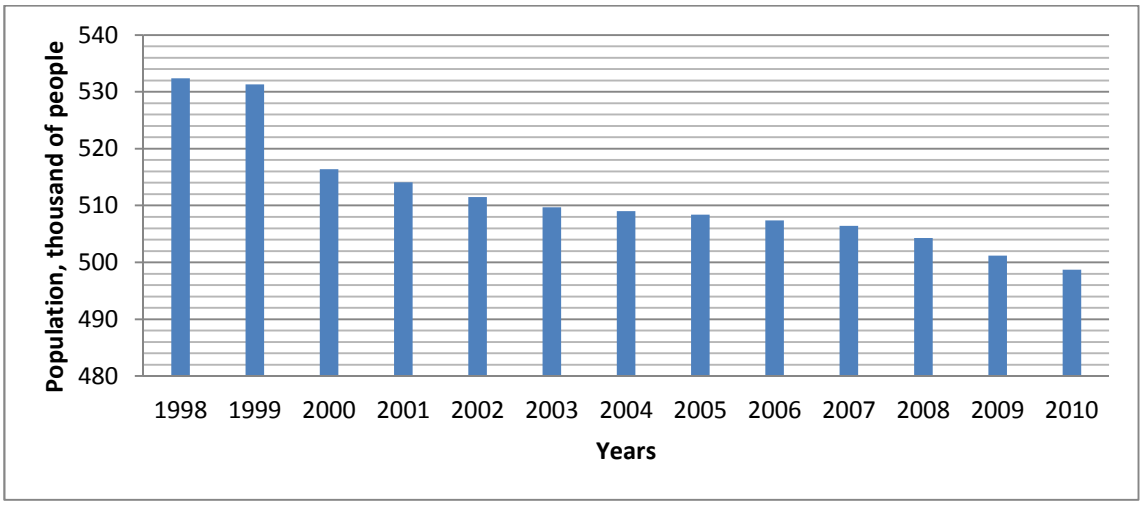

Figure 3.1. Population of Mykolayiv during the years 1998 – 2010 (Head Administration of Statistics in the Mykolayiv region, 2010)

According to the National Census 2001, in Mykolayiv region lived the representatives of over 100 nationalities. In the national structure of the region the vast majority are Ukrainian, whose number amounted to 1,034,400 people or 81.9 percent of the total population (Table 3.10).

Table 3.10. National structure of Mykolayiv region population (Population census, 2001)

Nationality	Amount, people	Amount, %
Ukrainians	653,015	78.2%
Russians	150,438	18.0%
Belarusians	5,807	0.7%
Bulgarians	4,921	0.6%

Moldovans	3,921	0.5%
Jews	3,197	0.4%
Armenians	2,911	0.3%
Others	10,802	1.3%
Total population	835,012	100.0%

The language structure of the population is the following: 69.2 percent of residents consider Ukrainian their native language and 29.3 percent views Russian as native. However according to the research of the Institute of Sociology of the Academy of Sciences of Ukraine in 2007, in the South and South-East of Ukraine only 5.3 percent of population speak exclusively Ukrainian and 7.3 percent mostly Ukrainian, whereas 35.7 percent speak exclusively Russian and 23.1 percent mostly Russian. The language situation in this region may be compared to other regions of Ukraine (Table 3.11).

Table 3.11. The language of communication in the family, by regions, in percent (May, 2007) (Vyshniak, 2009)

What language is spoken in Ukrainian homes? In percent.	**Ukraine as a whole**	**Western Ukraine**	**Center and North-East**	**South and South-East**	**Donbas and Crimea**
Exclusively Ukrainian	28.8	80.8	36.0	5.3	1.1
Mostly Ukrainian but sometimes Russian	8.7	7.7	14.9	7.3	2.1
Mixed language	19.7	6.6	27.2	28.4	8.6
Mostly Russian but sometimes Ukrainian	14.3	1.4	12.5	23.1	17.2
Exclusively Russian	28.0	1.7	9.5	35.7	70.2
Other language	0.6	1.7	0.0	0.2	0.8

The results of the Census reveal the improvement in education levels of population, the increase of number of people with higher and secondary education. This indicator is higher than those obtained in 1989 Census by 17.6 percent.

According to the Population Census 2011 the structure of Mykolayiv region

urban population by the sector of economy, employment status and activity group is similar to Ukraine as a whole. By employment status it mostly consists of waged employees (89.4 percent) and self-employed (5.6 percent) (Table 3.12).

The sectors of economy absorbing the largest amounts of human resources in the urban area of Mykolayiv region are manufacturing (22.7 percent), trade (15.9 percent), state governance and transport (both 8.4 percent) (Table 3.13). As for activity groups, the largest ones are specialists (19 percent), service and trade workers (15 percent), operators and assemblers of equipment and machinery (15 percent) and skilled tool workers (14 percent) (Table 3.14).

Table 3.12. Structure of urban population of Mykolayiv region and Ukraine by employment status (Population census, 2011)

Employment status	**Employed population of Mykolayiv region**	**Employed population of Ukraine**	**Employed population of Mykolayiv region, %**	**Employed population of Ukraine, %**
Waged employees, people	277,606	10,783,815	91.5	89.4
Members of cooperatives/collective enterprises	4,107	233,453	2.0	1.3
Employers	4,467	165,289	1.4	1.4
Self-employed	17,398	425,704	3.6	5.6
Unpaid family homeworkers	543	10,663	0.1	0.2
Not classified	6,373	165,079	1.4	2.1
Total	310,494	11,784,003	100.0	100.0

Table 3.13. Structure of urban population of Mykolayiv region and Ukraine by sector of economy (Population census, 2011)

Sectors	**Urban population employed in Mykolayiv region, people**	**Urban population employed in Ukraine, people**	**Urban population employed in Mykolayiv region, %**	**Urban population employed in Ukraine, %**
Agriculture, hunting and forestry	20,196	471,930	6.5	4.0

Fisheries	508	16,708	0.2	0.1
Mining	470	526,303	0.2	4.5
Manufacturing	70,624	2,628,188	22.7	22.3
Electricity, gas and water production	14,549	471,863	4.7	4.0
Construction	17,897	623,166	5.8	5.3
Wholesale and retail trade, motor vehicles trade, repair services	49,264	1,664,369	15.9	14.1
Hotels and restaurants	6,627	244,801	2.1	2.1
Transport	26,175	949,068	8.4	8.1
Financial activities	3,325	142,389	1.1	1.2
Real estate transactions and rent	16,752	535,273	5.4	4.5
State governance	26,042	861,116	8.4	7.3
Education	24,456	1,031,385	7.9	8.8
Health care and social assistance	23,146	1,014,510	7.5	8.6
Collective, public and personal services	9,575	416,580	3.1	3.5
Household services	760	43,015	0.2	0.4
Total employed population	310,494	11,784,003	100.0	100.0

Table 3.14. Structure of urban population of Mykolayiv region and Ukraine by group of activity (Population census, 2011)

Activity groups	**Mykolayiv, people**	**Ukraine, people**	**Mykolayiv, %**	**Ukraine, %**
Legislators, senior civil servants, managers	36,426	1,415,435	12	12
Professionals	32,848	1,649,870	11	14
Specialists	58,791	1,934,763	19	16
Technical employees	11,242	483,469	4	4
Service and trade workers	46,559	1,516,455	15	13
Skilled workers in agriculture and forestry, fish farming and fisheries	2,910	71,322	1	1
Skilled tool workers	42,655	1,674,892	14	14
Operators and assemblers of equipment and machinery	46,818	1,808,461	15	15
The simplest professions	32,218	1,188,895	10	10
Total employed population, thousand	310,494	11,784,003	100	100

To conclude, the statistics shows that socio-economic indicators of Mykolayiv region are average if compared to Ukraine as a whole. The largest portion of its population is employed in manufacturing and trade. In the Soviet times, Mykolayiv was a prosperous

shipbuilding city. However, after the restructuring caused by the collapse of the Soviet Union, Mykolayiv started to decline. One of the major obstacles on the way to recovery is corruption, which is discussed in the next sub-section.

3.6.4. Corruption

Corruption is closely related to the informal economy and informal networks, and the borders between these notions are often blurred. Therefore, it is important to shed light on the corruption statistics in Mykolayiv and Ukraine in general.

According to Neutze and Karatnycky (2007), Ukraine has been constantly challenged by corruption since its independence in 1991. It penetrates a significant part of its business, politics and society. Success in the struggle against corruption is one of the most important factors to the political and economic health of the country. Indeed, as Kovryzhenko (2011:11) states,

> 'Corruption remains one of the top problems threatening the democratic development of Ukraine. It can be characterised as a systemic phenomenon, which exists in all sections and all levels of the public administration. Furthermore, there is a high tolerance for corrupt practices throughout the society. Ukraine for years has been ranked low in Transparency International's Corruption Perceptions Index, as well as in other indices and reports produced by international organisations'.

This can be illustrated by Table 3.15 below. CPI is the Corruption Perception Index issued by Transparency International which ranks countries according to the perception of corruption in the public sector as determined by expert assessments and opinion surveys. The Global Integrity Index uses some 300 indicators to assess the existence and effectiveness of anti-corruption mechanisms that promote public integrity. They typically pair an indication of the 'in law' existence of a particular institutions with an 'in

practice' assessment of its functioning. Ukraine traditionally is in the bottom end of the rating. Freedom House's Nations in Transit indicates that since 2005 until 2010 Ukraine has not made any progress in tackling corruption. The World Bank (WB) 'Worldwide Governance Indicators' combine the views of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. Ukraine's scores for these six indicators have been low from the year 2005 to 2009.

Table 3.15. Assessment of Corruption in Ukraine: Some Quantitative Data (Kovryzhenko, 2011)

	2005	2006	2007	2008	2009	2010
CPI, rank among the countries considered/ Score on the scale of 10 (where 0 means perceived to be highly corrupt, 10-perceived to be highly clean)	107th of 158/ 2.6	99th of 163/ 2.8	118th of 179/ 2.7	134th of 180/ 2.5	146th of 180/ 2.2	134th of 178/ 2.4
Global Integrity Index	-	-	68 of 100 (weak)	-	58 of 100 (very weak)	-
Freedom House, Nations in Transit, 'Corruption' Indicator, 1 – the highest level of democratic progress, 7 – the lowest	5.75	5.75	5.75	5.75	5.75	5.75
WB 'Voice and Accountability' Indicator, percentile rank 0-100	34.6	46.2	46.2	47.1	47.4	-
WB 'Political Stability' Indicator, percentile rank 0-100	38.0	47.6	51.4	47.4	34.4	-
WB 'Government Effectiveness' Indicator, percentile rank 0-100	36.9	33.5	30.0	29.0	23.8	-
WB 'Regulatory Quality' Indicator, percentile rank 0-100	39.5	35.6	38.3	35.7 3	1.4	-
WB 'Rule of Law' Indicator, percentile rank 0-100	29.5	23.8	26.7	29.2	26.4	-
WB 'Control of Corruption' Indicator, percentile rank 0-100	32.0	31.6	27.1	26.6	19.5	-

The survey by the European Research Association and Kyiv International Institute of Sociology (2011) provides comprehensive statistics on corruption in Ukraine including the comparison of the years 2007, 2009 and 2011. According to the survey in 2009 and 2011 Mykolayiv region corruption perception index was lower than average in Ukraine. However, the index increased significantly in 2011 in comparison to 2009 (Figure 3.2). The Corruption Perceptions Index (CPI) is calculated based on respondents' answers to the question of how widespread they believe corruption to be within Ukraine's

governing bodies and among public officials. The more respondents believe that corruption is widespread across the 20 different functions and sectors, the higher the CPI value (which ranges from 100 – the highest perceived corruption to 0 – the least perceived corruption).

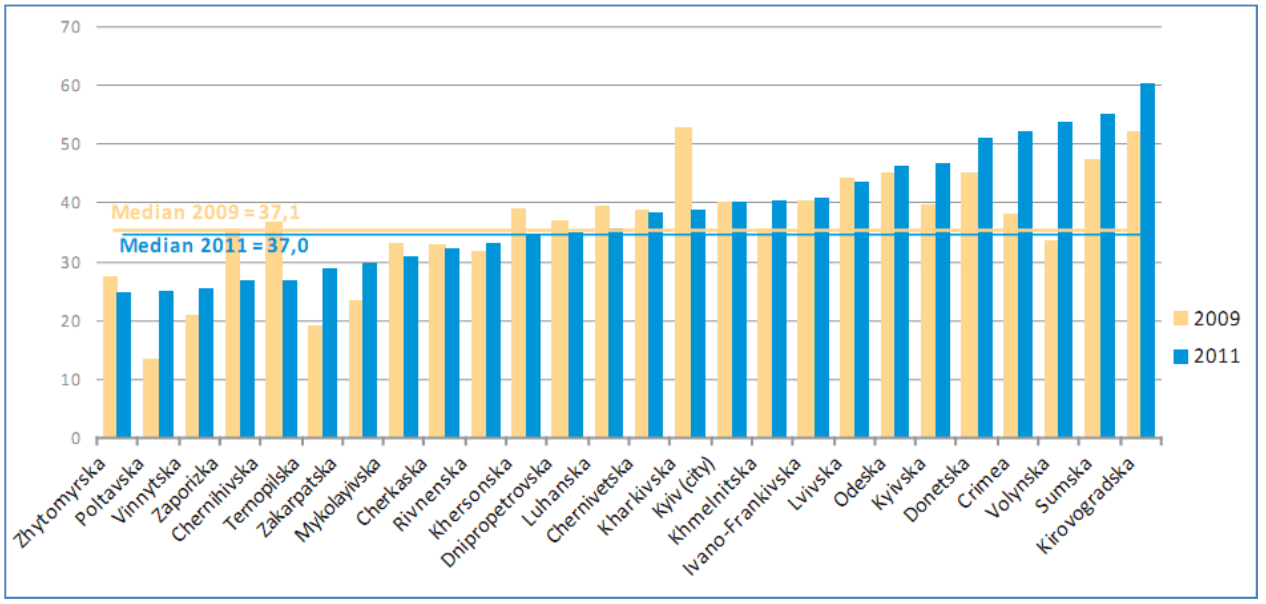

Figure 3.2. Corruption perception index, by regions (European Research Association and Kyiv International Institute of Sociology, 2011)

In addition, the survey distinguishes between voluntary and extorted bribes. The findings on the prevalence of both types of corruption in different services and institutions for the year 2007 are shown in Figure 3.3 below

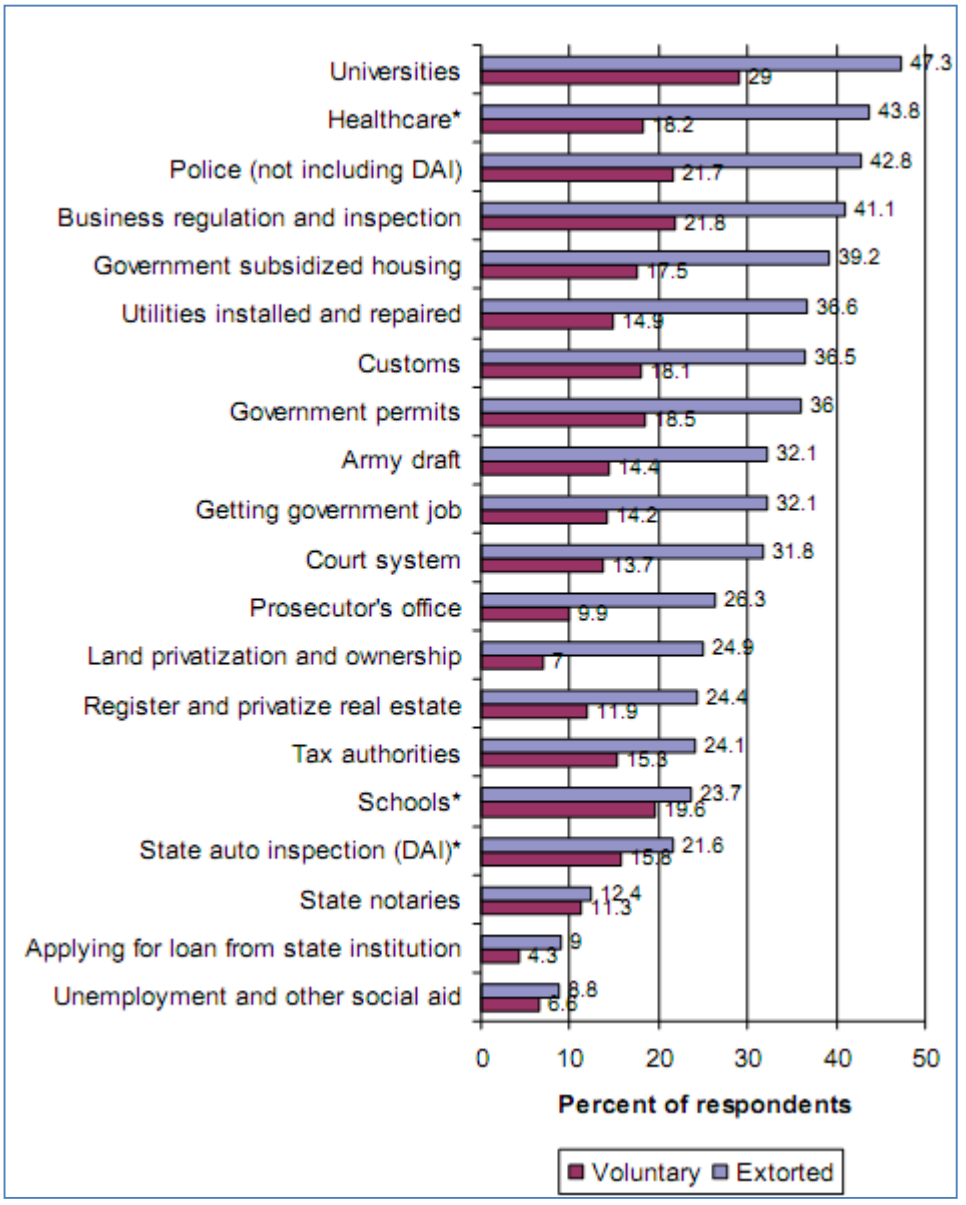

Figure 3.3. Bribes extorted and given voluntary (European Research Association and Kyiv International Institute of Sociology, 2011)

The survey showed that the extortion of bribes by officials (25 percent) is twice as prevalent as voluntary bribe-giving (11 percent). The institutions where the biggest share of participants were extorted money are universities (47.3 percent of respondents reported the extortion), healthcare (43.8 percent), police (42.8 percent) and business regulation and inspection (41.1 percent).

Figures 3.4a and 3.4b below compare extortion and voluntary bribe giving for

the years 2007, 2009 and 2011. Here, the sectors are sorted by changes in extortion experiences (from the highest decrease to the highest increase). No statistically significant decrease was recorded in any of the sectors.

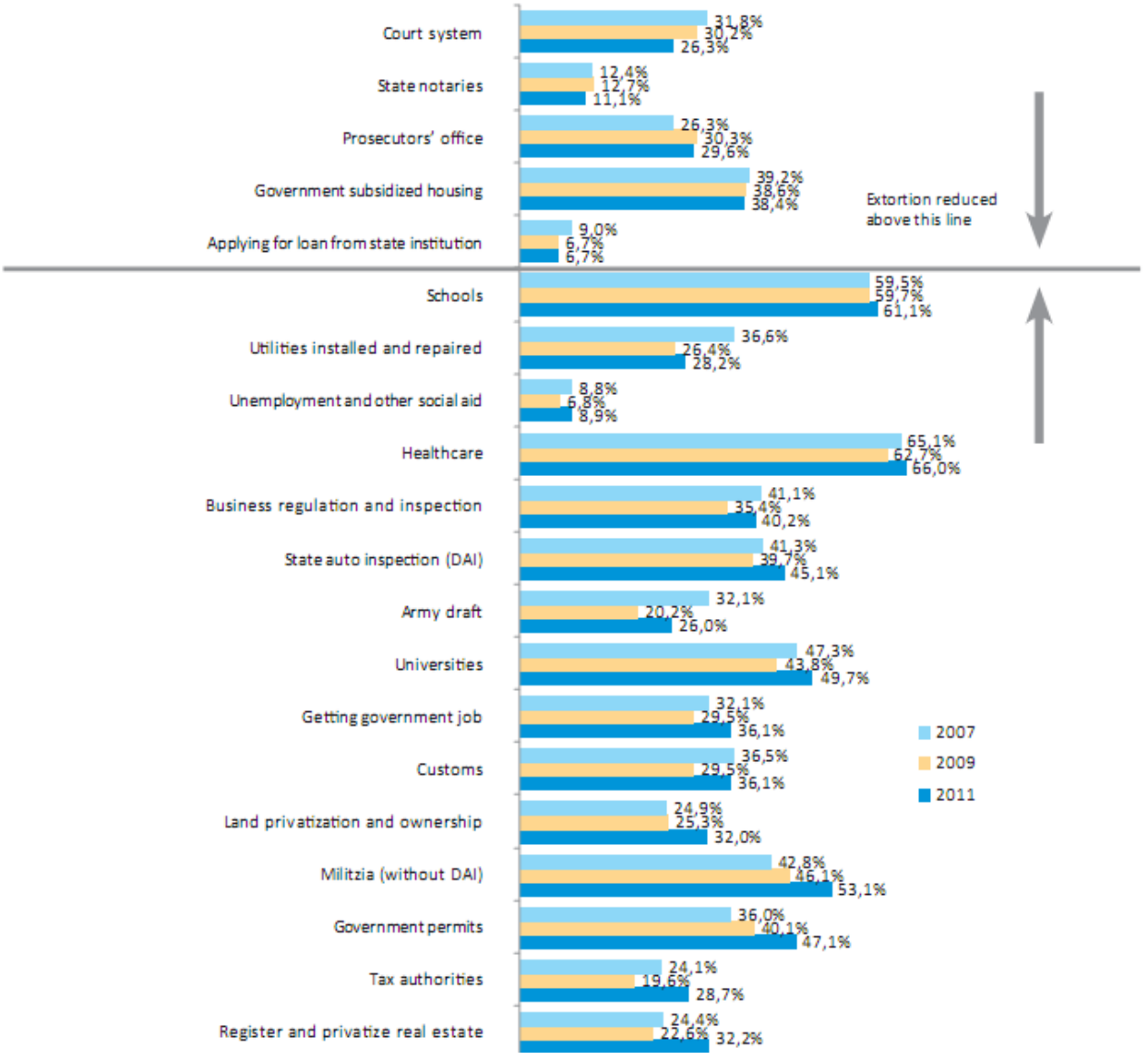

Figure 3.4a. Bribes extorted, percent of respondents who had contacted respective state institutions (European Research Association in cooperation with Kyiv International Institute of Sociology, 2011)

The share of those who offered voluntary bribes decreased by an average of two percentage points since 2009 (from 42.6 percent to 40.6 percent). In Figure 3.4b, the sectors are also sorted by changes in experiences with voluntary bribery (from the

highest decrease to the highest increase).

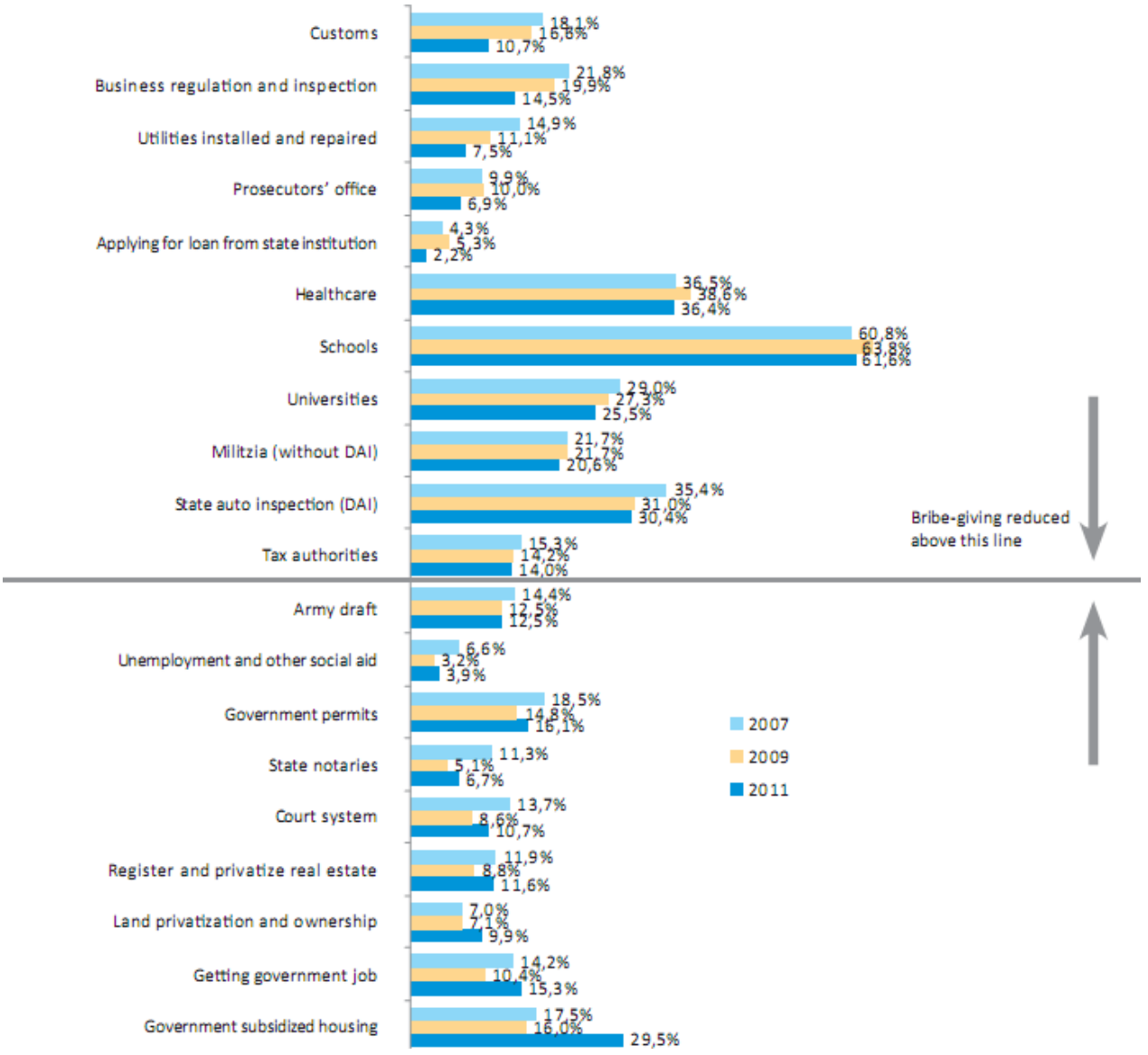

Figure 3.4b Bribes given voluntary, percent of respondents who had contacted respective state institutions (European Research Association in cooperation with Kyiv International Institute of Sociology (2011)

In general, voluntary bribe-giving happens some three times less often than incidences of extortion. According to Figures 3.5a and 3.5b below, that illustrate voluntary and extorted bribes by region for the ears 2007-2011, the extortion in Mykolayiv region is some four times higher than voluntary bribes giving.

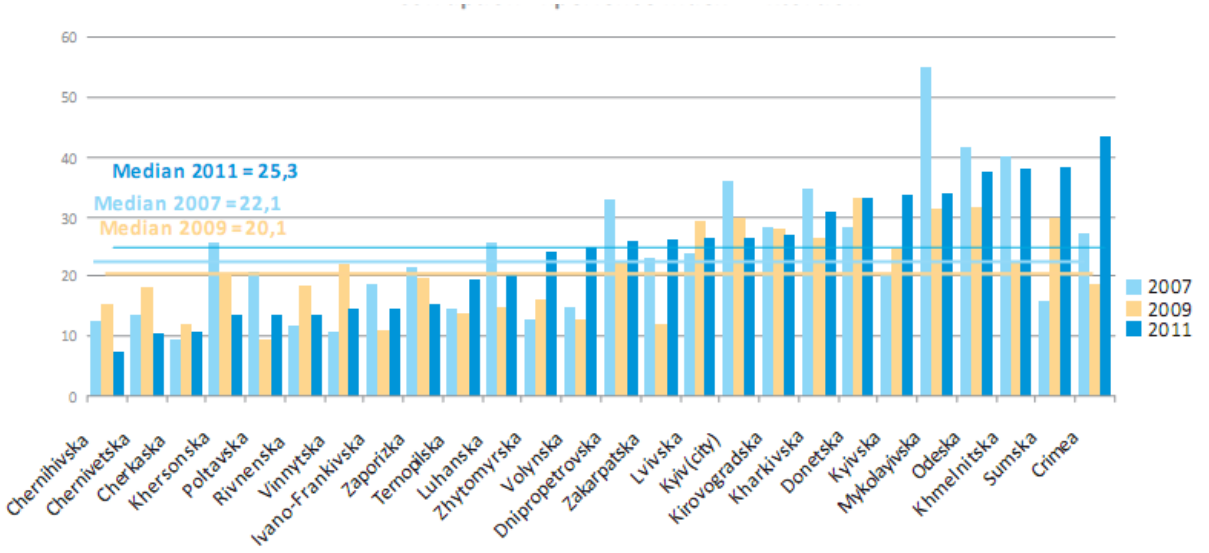

Figure 3.5a. Corruption Experience Index – Extortion, by region (European Research Association in cooperation with Kyiv International Institute of Sociology, 2011)

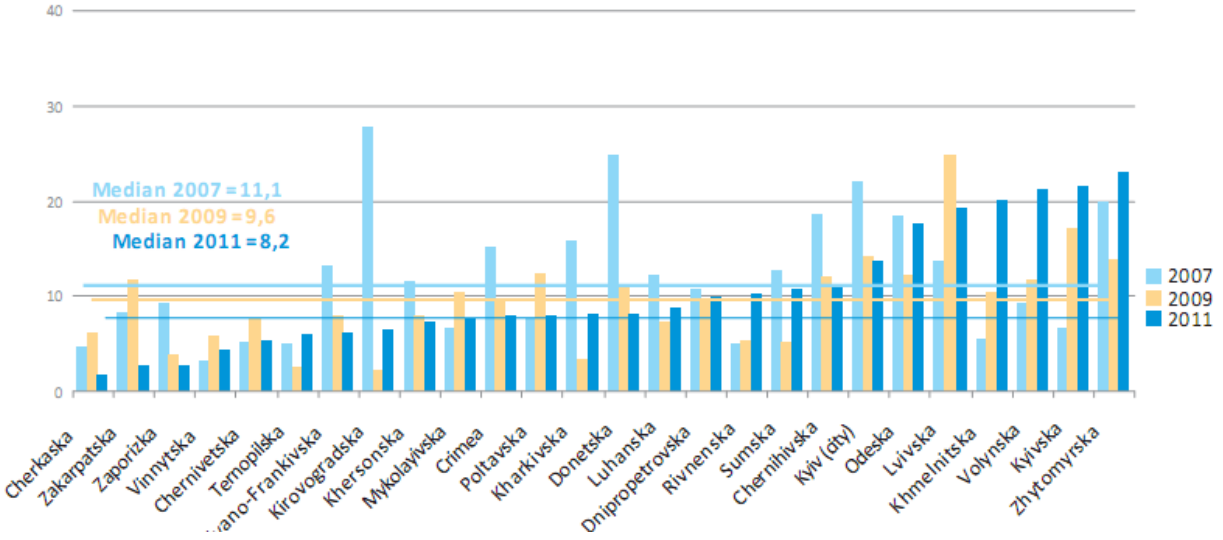

Figure 3.5b. Corruption Experience Index – Voluntary Bribes, by region (European Research Association in cooperation with Kyiv International Institute of Sociology, 2011)

Notably, the European Research Association and Kyiv International Institute of Sociology (2011) developed the Index of Use of Personal Connections, Nepotism and Favouritism when dealing with state officials. In their report, the use of personal

connections is considered 'as a 'soft' form of corruption, which is akin to *blat*. Figures 3.6a and 3.6b below show its breakdown by sector and region for the years 2009 and 2011. It is important to note that according to the survey, voluntary bribes are often supplemented by the use of personal connections. According to the Research Association and Kyiv International Institute of Sociology (2011: 31):

> 'The findings of 2009 and surveys in 2011 indicate that this type of corrupt behaviour occurs less frequently than extortion, however more often than offering bribes. In other words, prior to offering a bribe, citizens try to first find a useful connection in the necessary sphere*'.*

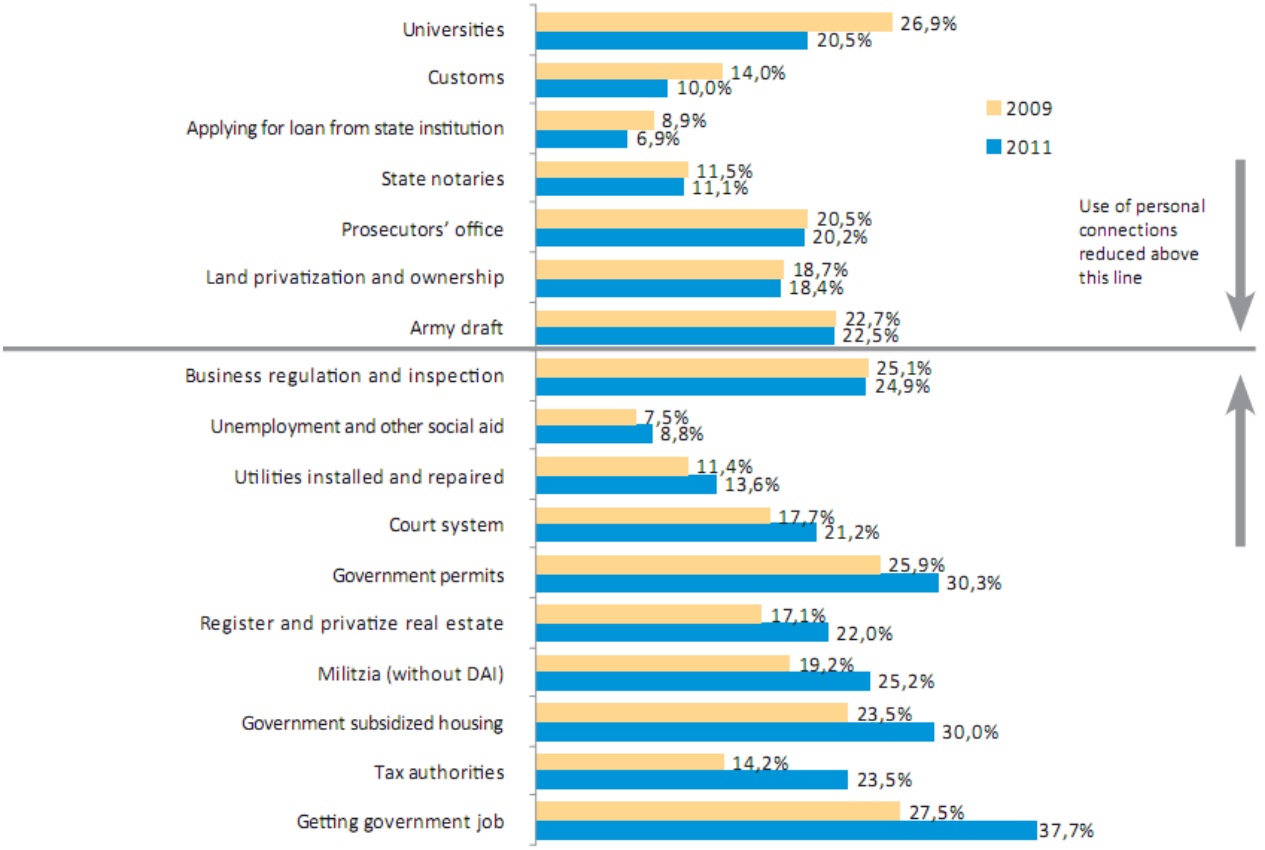

Figure 3.6a. Corruption Experience Index – Use of Personal Connection, by sector (European Research Association in cooperation with Kyiv International Institute of Sociology, 2011)

Figure 3.6a shows the percentage of participants who answered affirmatively to the question 'Have you or members of your family or a state official ever used personal connection, nepotism or favouritism to obtain services?'. Since the year 2009, the prevalence of use of personal connections did not change significantly: the overall share of those who use connections was 21.8 percent in 2009 and 22.9 percent in 2011. The only sector where the decrease is statistically significant (6.6 percent) is higher education. The European Research Association and Kyiv International Institute of Sociology (2011) argue that this can be partially explained by the introduction of the External Independent Testing system. Previously, the entrance examinations were conducted by the Universities and lecturers were assessing the students. Now the students are admitted based on the results of independent testing.

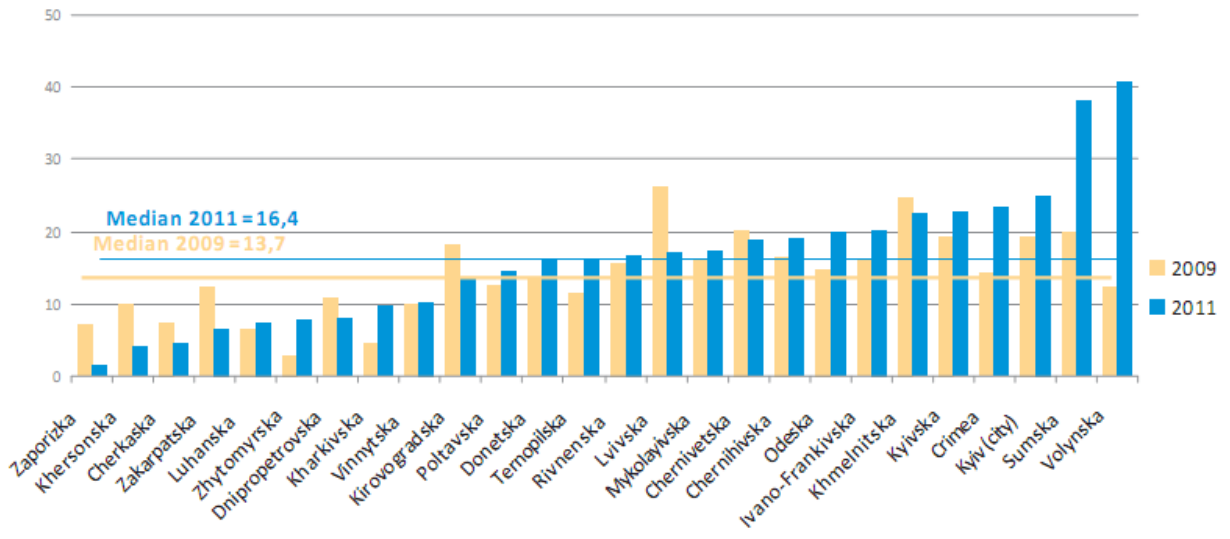

Figure 3.6b. Corruption Experience Index – Use of Personal Connection, by region (European Research Association in cooperation with Kyiv International Institute of Sociology, 2011)

As can be seen from Figure 3.6b above, in 2009 Mykolayiv region had one of the highest indexes of Use of Personal Connection, which decreased significantly in 2011 and settled on the average Ukrainian level.

The survey found that more than 90 percent of participants evaluated corruption as an extremely significant problem for the country. At the same time, only 41 percent do not justify corruption as a way to resolve important matters, while 42 percent believe that corruption can be sometimes justified if it is necessary to resolve a problem and 6 percent consider that giving bribes can always be justified.

Finally, and to support the finding of Research Association and Kyiv International Institute of Sociology (2011), the recent survey examining the issue of corruption in Ukraine (Gorshenin Institute, 2011) revealed, unsurprisingly, high levels of corruption perception by people from all regions of Ukraine. Some 56.3 percent of participants consider corruption very common in Ukraine, 30.7 percent consider it common, 7.4 percent not very common, 1.9 percent not common and 3.7 percent did not answer. To the question 'Did you, your relatives or acquaintances have to give money or gifts to people whose decisions determined whether your problems would be solved?' 68.5 percent gave affirmative answer, 19.1 percent replied 'no' and 12.4 percent did not answer. Furthermore, 72.1 percent of participants do not believe that the new anti-corruption law will be able to combat corruption in Ukraine. The most frequently cited reasons for this were 'Ukrainian laws are violated' (53.5 percent), 'Officials will not follow the law' (32.5 percent) and 'Having one law only is insufficient' (25.8 percent).

To sum up, corruption is widespread in all public institutions and regions of Ukraine. During the last five years there were no significant positive changes in respect to this problem and according to public opinion, new anti-corruption laws will not help to tackle corruption. Moreover, the level of toleration of corrupt practices by the public is very high – almost half of the population believe that corruption can be sometimes justified for resolving important matters.

Above, the methodological issues of studying the informal economy in

Mykolayiv have been reviewed. This included the review of the methods previously used to research the subject, justification of the method chosen for this thesis and a description of the fieldwork location. Based on the methodology chosen in Chapter 3, Chapter 4 focuses on the analysis of data collected as a result of the survey and discussion of the findings.

4. FINDINGS AND ANALYSIS: INFORMAL WORK

This chapter is divided into two main sections: first, the role of informal work in the economy of households with regard to different sectors and, second, the role of informal work in the completion of everyday domestic services in particular. Both sections include descriptive statistics, empirical analysis and evaluation of the theories of the informal economy against the findings.

It is important to notice at the outset, that whenever percentage numbers are considered, they do not represent economic values of the activities but only give insight about the relative frequencies of events or activities (counts).

4.1. A critical evaluation of the validity of the contrasting theoretical perspectives towards the informal economy

In this section, the findings of the survey regarding the participation of the households in the informal work in different sectors of the economy will be reported. The data will be quantitatively and qualitatively analysed to evaluate critically the validity of the four perspectives when explaining informal work in Mykolayiv.

4.1.1. Residue theory

To evaluate the viability of the residue theory with regard to Mykolayiv, the extent of the informal economy in this locality will be measured. Out of 200 survey participants, 22 (11 percent) do not work at all. They are either retired, or students, or housewives, or unemployed. 98 (49 percent) are fully formal workers, 14 (7 percent) are fully informal and 66 (33 percent) are partially informal (work both formally and informally). Although the percentage of the informal work is rather significant, residue theory cannot be refuted right away. This is because there are still 82 percent of respondents that participate in the formal economy (49 percent fully formal and 33 percent partially informal). Therefore further analysis is needed, which will be based on the answers of

178 employed participants.

Although only 14 out of 178 participants (7.9 percent) reported informality of their main activity (Figure 4.1), 80 out of 178 (44.9 percent) are somehow involved in informal work: whether it is their main, or side activity (2nd). It should be mentioned, that some participants were employed at three jobs simultaneously, however, their number is insignificant (7 people). Therefore such tertiary activities are not included into the analysis.

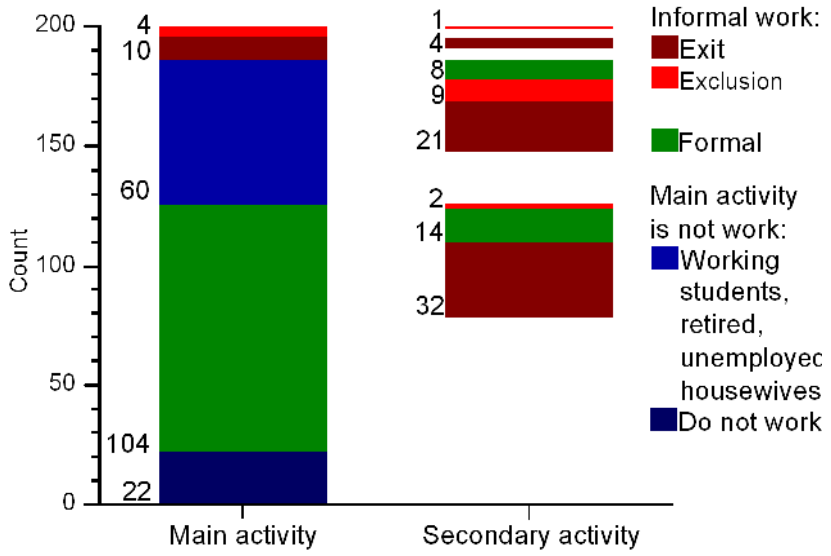

Figure 4.1. Employment status of the participants: primary and secondary activities

The data above can be supported with the answers to the direct question about primary and secondary sources of household's income: 11 percent of participants named their cash-in-hand job as a first important source of income in their family and 30.5 percent - as the second most important, totalling 41.5 percent of households (Appendix B, Table 1). This corresponds with 44.9 percent of those participating in informality, mentioned in the previous paragraph. At the same time consumption by households is largely informal as well. In particular, out of all paid domestic and personal services consumed by households only 14 percent is attributed to the formal work and 86 percent - to the

informal economy.

Based on the survey results, the residue theory could be refuted in terms of its applicability to Mykolayiv. The economy in this city is not formalised and, moreover, informality is rife in Ukraine and there is no evidence of its disappearing. The informal economy here therefore cannot be a ‘residue’. However, there are a few limitations of this argument.

Even if the percentage of informality is very high, can this be a residue of even higher informality earlier? To answer this question, an easy example of informal hairdressing services in the past and at present can be considered. The services sector, and namely hairdressing services, was underdeveloped in Ukraine in Soviet times due to the state system and in 1990s due to the lack of demand from the deprived population. Although there is no data on the informal work in this sphere 10 or 20 years ago, today the survey showed that 69 percent of hairdressing services were performed informally. During the last two decades, the personal services sector has developed greatly in Ukraine. That is, the amount of services consumed countrywide has increased significantly while population has only decreased in the meanwhile.

Even if the increase in absolute numbers is observed, there actually may be a decrease in the percentage of informal activities. There is no evidence as to what was the extent of informality in Ukraine, but one can think of huge numbers given the fact that in early 1990s almost all factories and plants (apart from metallurgy, telecoms and state administrations) were closed and many reopened after years of stoppage eventually as new businesses. Formality is driven through the development of new businesses. Thus, the current 40 percent level of informality may be far below what it was earlier. There was very rapid and dramatic change in the country’s economic environment comparing to ‘western world’, where transition to capitalistic society was much longer as people do not change their habits so quickly, so there is a chance that on this time scale a residue theory might be considered as valid in Ukraine.

Continuing this argument, one can think of, for instance, medical services: although almost all doctors in Ukraine are officially employed, they all can take cash

informally for a consultation in public hospitals. It is a generally accepted and well-known practice in public hospitals where medical treatment is officially (only) free. The survey showed that more than a half of medical services are rewarded with cash or a gift (this will be discussed in detail in the next section). Those in private hospitals, where the service is paid to a cashier, usually do not receive this unofficial money. More private hospitals have been opening during 2000s, attracting more doctors and patients from the public sector. This allows one to concede that although income of doctors in public hospitals is partially informal, informality in this sector is in decline due to the development of private medical practices and hospitals. However, there is no evidence that no informal payments are made there.

Growing and selling vegetables and fruit in urban markets by the rural population fits well in 'residual theory' as this activity is traditional and methods are outdated. However, the rural population is not covered by this survey.

To conclude, as there is no data available about the informality situation before the turn of the millennium, there is not enough evidence (arguments supported by facts) to reject the residue theory. However, the basic fact that the informal economy is not some minor practice but a core part of everyday coping tactics does suggest that the informal economy is more than some mere residue in this city. Although it is not known whether it is growing, staying the same or declining, the informal economy is not some backwater or marginal activity existing in a few minor enclaves of the economy of this city. It is part of the mainstream economy.

4.1.2. By-product theory

To test the by-product theory with regard to the Mykolayiv population surveyed, the following questions should be answered:

Who are those people involved in the informal economy? Are they deprived households striving to get-by and performing multiple jobs as a survival

strategy?

Firstly, lower-income households are more likely to depend on cash-in-hand work. There is significant association of the income level and the households' sources of income (Chi-square=47.197, $p<0.01$). Table 4.1 below reveals that, for 90 percent of the highest income households a regular job is the most important source of income, and only for 4 percent cash-in-hand earnings are the most important. For the lowest income household's earnings from regular job are still more important than cash-in-hand earning: 12 percent rated cash in hand earnings as most important for the standard of living of their family and 42 percent – earnings from regular job. However, these data should be treated with caution as for some participants 'regular job' does not necessarily means formal job. There is also the issue that many formal employees in Ukraine receive from their formal employer not only a regular declared wage but also an undeclared additional 'envelope wage' (Williams, 2007). Table 4.2 shows that cash-in-hand earnings and earnings from regular job, as the second most important type of activity generating households' income, do not significantly differ for different income-level households. Therefore it would be erroneous to assert that by-product theory is applicable to the whole Ukrainian population. The characteristics of separate groups of informal workers that do confirm this theory will be given further attention in this section.

Table 4.1. The most important activities for the standard of living of the household by households' income

		Which activity is the most important for the standard of living of you and your family?					
		Our own self-provisioning	What we get as favours/ the help from friends and relatives	Cash-in-hand earnings	Earnings from regular job	Pension/ unemployment benefits	Total
Total monthly income (hryvnias)	<2000	2%	4%	12%	42%	40%	100%
	2000-3000	6%	0%	23%	57%	13%	100%
	3000-5000	2%	2%	6%	83%	8%	100%
	>5000	2%	2%	4%	90%	2%	100%

Table 4.2. The second most important activities for the standard of living of the household by households' income

		Which activity is the most important for the standard of living of you and your family?					
		Our own self-provisioning	What we get as favours/ the help from friends and relatives	Cash-in-hand earnings	Earnings from regular job	Pension/ unemployment benefits	Total
Total monthly income (hryvnias)	<2000	11%	37%	33%	4%	9%	7%
	2000-3000	19%	23%	37%	7%	9%	5%
	3000-5000	10%	25%	31%	8%	19%	6%
	>5000	0%	2%	35%	5%	23%	35%

The above statement that informality is more characteristic for lower income populations could be supported by Table 4.3 below. It demonstrates that participants in higher household income groups are less involved in informal activities. For example,

only 26.1 percent of households' members with income more than 5000 hryvnias regularly work informally while 61.5 percent of workers from the least well-off households are informal. There is significant association of income and participation in the informal activities (Chi-square=17.923, $p<0.01$). This suggests that informality percentage could depend on the income level. Results of regressing informality percentage on the income level show that informality level falls 13.5 percent per income group. The coefficient is highly significant ($p<0.01$).

Table 4.3. Participation in the informal economy, by the level of income groups

		Total monthly income (hryvnias)			
		<2000	**2000-3000**	**3000-5000**	**>5000**
Does the respondent participate in the informal work?	**Yes**	62%	61%	34%	26%
	No	39%	39%	66%	74%
Total		100%	100%	100%	100%

Participants who informally perform everyday domestic services for others are also concentrated in the lower income groups (Table 4.4).

Table 4.4. Participation in the informal house and personal services, by the level of income groups

INCOME GROUP	UCE	IW	FORMAL	TOTAL
<2000	87%	13%	0%	100%
2000-3000	86%	14%	0%	100%
3000-5000	98%	1%	1%	100%
>5000	96%	4%	0%	100%

Is participation in the informal economy a result of exit or exclusion?

To identify whether the respondents have participated in informal work as a result of exit from formal economy (voluntary) or as a result of exclusion (involuntary), they were asked an open-ended question: 'Why do you register/not register your activity?' The answers given to the question are multifarious; however the rationales for not registering the activity might be clustered based on their answers into following groups:

(a) the employer does not want to register me ('it is unprofitable for the employer')
(b) I do not want to register ('the taxes will not be used according to the intended purpose', 'taxes are too high and it is unprofitable to pay them', 'it is impossible to get registered and then run official business without a bribe')
(c) there is no need to register ('the activity is occasional', 'income from this activity is insignificant')

Rationale (a) is indicative of exclusion of the respondent from the official economy and rationales (b) and (c) give the evidence of exiting the formal domain by the respondent. For example, a salesperson, a 46-55 years old woman, answered the question about the reasons for not registering her activity as follows:

> '…This was unprofitable for my employer [to pay full wage officially]. At that time I could not find any other job and had to agree with his terms'.

This answer relates to the rationale (a) as this was the employer's preference not to register the participant and she had no other way out but to be employed unofficially. Therefore, this answer fits the 'exclusion' category accordingly.

A worker in the services sector, a woman aged 26-35 years old, responded:

> 'My unofficial activity does not bring significant income and this is not our main source of income. Being registered is unprofitable for me as the taxes are too high for the amount of money I get for this job…'

Obviously in this case, the participant exits the formal economy out of choice fitting into the group (b) rationale and, accordingly, 'exit' category.

A student aged 16-25 years old, said:

> 'I am not officially registered because I work occasionally, on some weekends and holidays, so there is no sense in getting registered'.

Here the participant does not see any need for becoming formal ((c) rationale) and fits into 'exit' category as well.

Some 64 out of 80 participants (80 percent) involved in informal activity voluntary 'exit' the formal economy and only 16 (20 percent) participate in the informal work as a result of exclusion. For some people whose employment status ('main activity') is 'retired', 'student', 'housewife' and 'officially unemployed' informal employment is considered as a second job. Therefore these cases are included in the general analysis of the reasons (exit or exclusion) of informality.

Who are those excluded from formal economy?

In order to answer this question significances of association of the reason for being informal (exit or exclusion) and a) gender, b) income and c) employment status has been measured below.

a) Table 4.5 below answers the question, whether participation in informal work is the result of exit or exclusion and for which gender which domain is more characteristic. Chi-square test shows that there is no association of the cause of informality and gender (Chi-square=0.67, $p>0.05$). Moreover, men and women participate in exit or exclusion in very similar proportions: informal work of 85.2 percent of men and 77.4 percent of women is a result of 'exit' whereas 22.6 percent of men and

14.8 percent of women are excluded from declared work.

Table 4.5. Exit or exclusion from formal economy by gender

		Respondent's gender		Total
		Male	Female	
If the respondent performs his /her main activity informally, is it exit or exclusion?	Exit	85%	77%	80%
	Exclusion	15%	23%	20%
Total		100%	100%	100%

b) Income and the reason of informality (whether it is an exit or exclusion) also are not significantly associated (Chi-square=4.275, p>0.05). However, one may expect a more complex nonlinear relationship, but existing data is only sufficient to conclude about the mean values (Table 4.6).

Table 4.6. Exit or exclusion from formal economy, by household income group

		Total monthly income (hryvnias)			
		<2000	2000-3000	3000-5000	>5000
Does the respondent participate in the informal work?	Yes	67%	86%	81%	92%
	No	33%	14%	19%	8%
Total		100%	100%	100%	100%

c) Exiting or being excluded from formal economy and informal employment status (unregistered self-employed or unregistered salaried worker) are significantly associated (Chi-square=14.077, p<0.01). Nobody out of 38 informal self-employed is willing to get registered, although they all can do that. All the 38 self-employed participants do not register because of the following most common reasons: 'the activity is occasional', 'income from this activity is insignificant', 'the taxes will not be used according to the intended purpose', 'taxes are too high and it is unprofitable to pay them', 'it is impossible to get registered and then run official business without a

bribe' (Table 4.7).

Table 4.7. Exit or exclusion from formal economy, by the type of employment

		Is the informality participant self-employed or salaried		Total
		Self-employed	Salaried	
If the respondent performs his /her main activity informally, is it exit or exclusion?	Exit	100%	62%	80%
	Exclusion	0%	38%	20%
Total		100%	100%	100%

Some 16 out of 42 waged employees (38.1 percent) are excluded from the formal economy. These 16 employees excluded from formal economy are represented by retired, students, unemployed and those who involve in formal main activity but have an informal side activity. Informal employees excluded from formal economy are those who have to earn their living because their pension/scholarship/salary from the main job is not enough to get-by. They cannot be registered mainly because their employers (small firms) avoid contributing to social security funds at the earliest opportunity in order to reduce costs. Obviously students, retired and unemployed are those social groups who have no other choice but agree with their employer. As a retired man stated:

> 'I and my wife used to work at the plant during the Soviet times. Now the plant is dead. And the pension is scanty and even not enough to pay for utilities. We tried to obtain subsidies, but were refused because of extra living space. But we have been living in our flat all our life and do not want to move to a smaller one. Therefore we try to get informal job from private entrepreneurs – selling water and ice-cream in summer'.

Other participant, a retired woman that works as a cleaner in the state institution,

asserted:

> ‘I work officially there. My salary is 700 hryvnias. Friends helped me to make some money on the side in the shop. The owner of the shop does not want to register me officially because it is unprofitable for him: he pays me 400 hryvnias while monthly contributions to the pension fund only would be 269 hryvnias’.

An unemployed man aged 46-55 year old, who gets by due to casual informal earnings, said:

> ‘I worked in the plant for a long time. After the bankruptcy of the plant all my connections are lost. Now I have to get by somehow, working at different temporary jobs, because after 50 years of age and without connections nobody wants to employ you full-time and formally’.

An unemployed woman aged 46-55 years old reported a similar problem:

> ‘Nobody in our family works officially. My sons cannot find permanent job after they finished technical school. And it is very difficult to find permanent job for women after 40 and men after 50 years’.

To conclude on the above, the by-product theory of the informal economy in Mykolayiv is more prominent amongst low-paid salaried workers, whose employers seek to decrease costs (probably, also trying to survive) by not registering some of their employees and saving on contributions to social security funds. These employees would rather be registered officially, but have no other way out than to agree with employers’ terms. The theory does not apply to self-employed and waged-employed voluntary exiting formal economy. These types of workers rather conform to the alternative theory of the informal work, which is discussed further.

4.1.3. Alternative theory

The theory of the informal economy as an alternative to the formal economy discusses mainly opportunity-driven informal self-employment. However, there are cases when salaried employees choose informality even when they have an opportunity to be registered employed. Nevertheless, in order to determine whether these unregistered workers exiting the formal economy fit the alternative theory, deeper analysis should be done.

Figure 4.1 above shows that one participant may have several informal activities. Specifically, the participants that are voluntary informal in their main job, exit informality in their other jobs as well. In this research it will be counted as one case of 'exit', not two. Similarly, those who are excluded from formal economy in their main job are excluded in their other jobs too, thus it will also be counted as one case each time.

According to the survey, 38 of 64 (59.4 percent) voluntary unregistered workers are salaried workers and 26 (40.6 percent) self employed. As seen from Figure 4.2 below, 9 waged-employed (14.0 percent) and 24 self-employed (37.5 percent) have a main official job, while informal employment (either waged or self-employment) is their side-activity. At the same time, 10 out of 64 (15.6 percent) voluntary unregistered participants are fully informal, out of which 5 workers are informal waged employees and 5 - informal self-employed. The rest 21 participants (32.8 percent) are students, retired, unemployed and housewives that receive additional income from the informal side job. Obviously the motives of each group of the informal workers listed above could be different, hence these groups should be analysed separately.

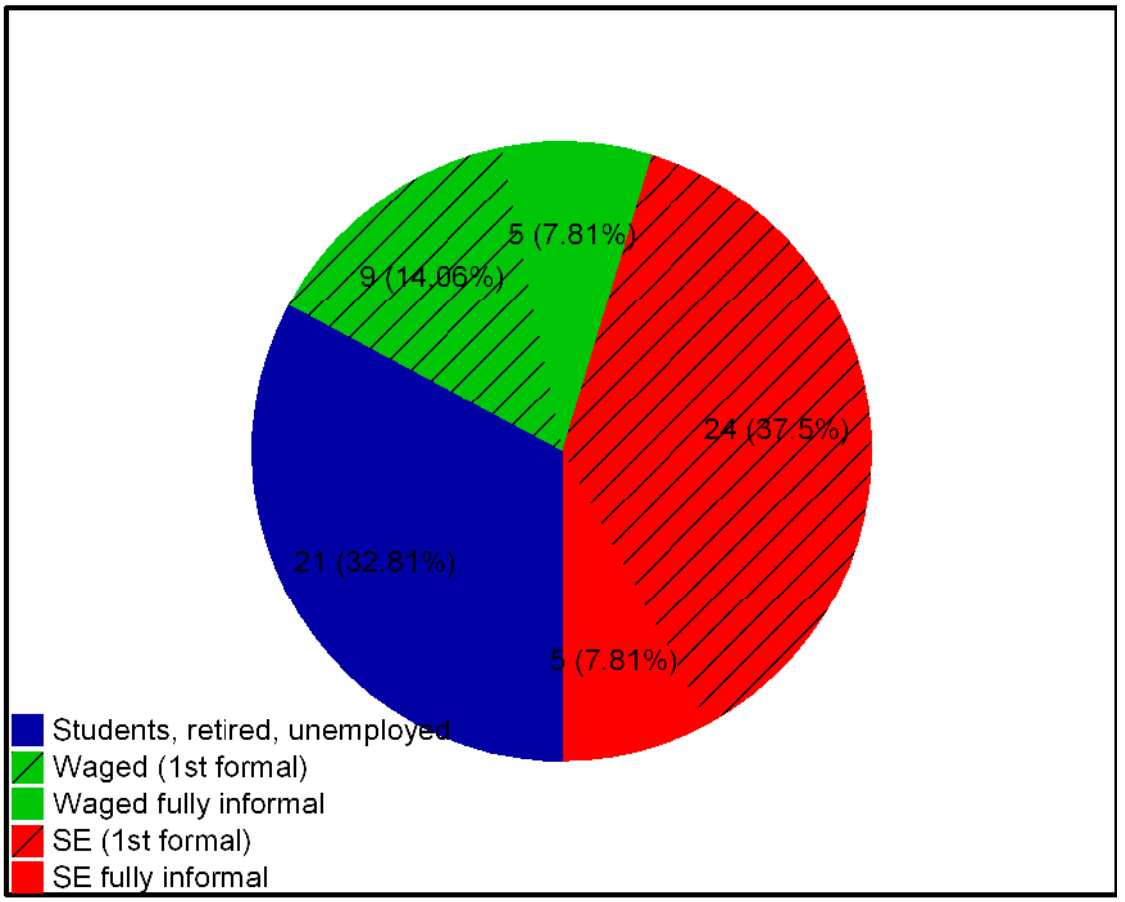

Figure 4.2. Structure of the voluntary informal workers

Fully informal self-employed

In spite of the common view that the informal self-employed who exit formal economy are the main representatives of the alternative theory, the survey revealed that these informal self-employed are only partially informal. Most of them work officially as well as engage in informal self-employment. In contrast, the totally informal self-employed have no official second job. Such self-employed are opportunity driven - they perform activities that do not require definite working premises and public advertising and therefore cannot be detected by tax authorities. Moreover, participants of this type show distrust of the government and state social benefits system and see no point in paying taxes. They are afraid of the time-, money- and effort-demanding registration procedures and subsequent communication with local authorities (fire safety officers, police, tax inspection, sanitary centre) including paying bribes and establishing connections with ‘useful people’. As a young woman employed in the services sector

stated:

> ‘I do not officially register my activity because my future pension depends little on it, I do not see any benefits, any use for me in being registered. The taxes people pay go to the pockets of the government. I cannot see anything is done [by the government] for improving our welfare’

Another participant, a builder aged 36-45 years old, explained:

> ‘…I wanted to register a firm, but was not sure whether I will cope with all these bureaucratic procedures as I have neither useful connections, nor money to pay bribes...’

A woman, an entrepreneur, reported a similar problem:

> ‘I could be registered, but my business is not in a plain view and it is difficult to detect. Even though there is still a risk of being disclosed, it would be cheaper to pay only for cover-up than to give bribes to tax inspection, fire safety inspectors, sanitation centre – they all want to squeeze money from you’.

Indeed, except for poor pavements, roads, motorways and public transport, the catastrophic condition of some state schools and hospitals, low salaries of state funded employees that are evident to people, the mass media poorly promote anything good done for Ukraine by the government for taxpayers money, instead eagerly bringing to light the luxurious belongings of the officials. This shakes people’s faith and negatively influences tax morality.

Informal self-employed, officially registered at their main job

This group of partially informal self-employed can both enjoy the benefits of being

formally registered and receiving undeclared income. The advantage of being formally registered is, firstly, social security: record of service, pension fund contributions, paid sick leave, regulated employee-employer relations. Although the social security system is known to be weak and ineffective, it still works and some people still tend to rely on it. Secondly, formal registration provides an opportunity to officially prove the amount of income when needed: to take a loan or apply for visa. Informal income from self-employment allows cutting costs through avoiding taxes. Besides, such activities usually do not require public advertisement or fixed office and therefore the risk of detection is insignificant. There are activities that are never being registered by anyone. These are mostly personal services such as hairdressing, tailoring, manicure, giving injections. While these activities are performed at client's or supplier's home, informal tutoring can be done even in the teachers' working places: schools and universities; this is a common and conventional practice. Interestingly, in most of the cases the informal income from self-employment is reported to be too small and occasional/periodical to be registered. For example, a sales manager aged 26-35 years old explained:

> 'I am registered officially in the firm as I need to care about pension, social security, record of service. My self-employment is not registered as the volumes of this activity are very small – there is no sense in registering it'

Similarly, a private entrepreneur aged 36-45 years old reported:

> 'I registered my private enterprise. I also have secondary activity, but the orders are periodical. This is why I do not register it'

Another participant, driver aged 26-35 years old replied:

> 'I don't register as my work is generally seasonal: I have a lorry and in summer

and spring I privately transport grains and vegetables for different clients'

A hairdresser, aged 46-55 years old, which works officially in the salon and moonlights unofficially, said:

'I work officially in the hairdressing salon. Out of work I often render mobile services at my clients' homes unofficially. I do not have to share my income with the salon – this is more profitable for me and for the client as I charge a lower price than if they would do the same in the salon… I even do not think about the risk of being detected – I work with my old clients and their friends. Besides, all mobile hairdressers are unregistered'

Could then this type of unregistered self-employed be attributed to the alternative theory? On the one hand, the answer is 'yes', as this is opportunity driven self-employment. On the other hand, the answer is 'no', as formal and informal economies are not separate in these cases – the same person is involved both in formal and informal activities, moreover the same activity can be performed by the same person both formally and informally in different times of the day. Can these activities therefore support some other theory? The view of this type of the informal economy as a complement to the formal economy will also be wrong as the above mentioned activities are exclusively profit-motivated though performed to acquaintances. Some 19 out of 24 (79 percent) unregistered self-employed officially registered at their main job rated the income from their second job as very important or quite important for the budget of their family.

Waged-employees officially registered at their main job

Officially employed at their main working place employees can make money 'on the side' unofficially. Similarly to the previous group, their main reasons for not registering are unwillingness to pay taxes in order to maximise profit, insignificant amount of

revenues and/or occasional orders and low risk of being detected. As well as the above discussed unregistered self-employed they are socially secure (as far as it can be possible in Ukraine) and see no sense in registering their secondary activity. Their informal employment is voluntary and opportunity-driven and, as well as the above category of partially informal self-employed, could be referred to alternative theory, but for the formal and the informal that are intertwined. Thus, IT specialist aged 26-35 years old noted:

> 'I am registered at my first job because I want to extend a record of service and be eligible for pension. I do not want to register my side activity as the taxes are too high. I would have to pay 600 hryvnias monthly when my income is 3000-4000 hryvnias'

A doctor aged 26-35 years old reported the similar reasons of being informal at her second job*:*

> 'My first job is in the state hospital, everybody is officially registered there. As for my secondary activity – it is preferable for me not to be registered as I do not have to pay taxes. My second employer is absolutely happy with this – he employs three people, but pays taxes only for one'.

Both partially informal self-employed and partially informal salaried employees are registered officially in their primary workplace and contribute to the social security funds expecting to obtain pension and other social security benefits in the future. However, they are not interested in registering their secondary activity and paying more contributions as this will not positively influence the amount of their expected pension.

Fully informal waged workers

Surprisingly, exiting the formal economy is characteristic not only for opportunity-driven

entrepreneurs, but for waged employees as well. Similarly to the unregistered self-employed, among their motives are the tax burden and distrust of the government and pension system. Therefore, this group of informal workers could support the alternative theory. For instance, a sales manager aged 16-25 year old stated:

> 'There is no sense in official registration – I do not want to pay tax as I do not expect to receive a decent pension. Besides, I do not want officials to buy those posh cars for my money'

A beauty salon employee aged 36-45 years old, although being aware of the benefits of being formal, does not want to register:

> 'I work informally even though it creates some difficulties: you cannot have a sick leave and take a loan from bank. I cannot afford myself formal registration. It is unprofitable – the taxes are too high'.

Certainly, an opportunity to have paid sick leave and to take a loan from bank ensuing from formal salary is the incentive for being declared. However, stemming from the survey, it is overweighed by the tax burden and was mentioned only by few participants.

Students, retired, unemployed (both waged and self-employed)

Students and retired are those social groups that have least motives to be registered officially. Taking into consideration sizes of pensions in Ukraine, a side job is very important for decent standard of living for the retired, no matter whether it is official or unofficial, self- or waged-employment. Students are usually supported by their parents and often have part-time job, to earn some extra-cash or to support their families. The motives of these two social groups are alike and have much in common with the groups of unregistered workers discussed above. These are endeavours to avoid

taxes, and are characterised by small volumes and/or periodicity and/or non-regularity of such activities, and a low risk of being detected. As a retired man aged 46-55 years old responded:

> 'I am a beekeeper. Trade with honey brings me a considerable income. I mostly sell the honey wholesale and have no necessity to trade in the market in a full view of tax inspection'

A retired teacher, that still sometimes privately teaches students, asserted:

> 'My income from tutoring is insignificant besides it is not common to register tutoring or baby-sitting. Tax inspection does not control these types of services at all'

To conclude, both self-employed and waged workers can fit the theory of the informal economy as an alternative to the formal economy. They work informally out of choice and some of them are driven by the opportunities from their formal employment. However, to the 'pure' representatives of this theory only completely informal participants can be related, whose informal job is their main job. In this case formal and informal economies are not intertwined, that conforms to the alternative theory. Those who are formal at their primary job may not perfectly fit in this theory. Firstly, with their formal registration they concur with the state and its regulations. Secondly, their second employment, even though being a result of exit, might appear to be the survival strategy, which suits better a by-product theory.

Alternative theory of the informal economy does not conform to informal workers who are excluded from the formal economy and have no other way out but to work informally in order to get by. However, not all informal workers that voluntarily exit formal economy could be the representatives of the alternative theory. Those, who voluntary exit formal economy, socially rather than financially motivated (if any), should

be considered under the prism of complementary theory.

4.1.4. Complementary theory

The view of the informal economy as a complement to formal economy describes how those who benefit most from the formal economy also benefit from the informal economy. It also shows how the formal and informal economies therefore rise and fall in tandem, rather than in counter-cyclical ways. This theory can be represented by the paid work done only for/by relatives, friends and neighbours which is not solely profit motivated. On the demand side, people can employ their less well-off relatives in order to help them out. From the supply side, the workers provide paid services for their friends that otherwise will not be able to get the task completed. For example, one of the respondents, a retired woman, let a room to her nephew (a newcomer to the city) for a small fee. As can be seen from the participant's response cited below, money is not important to her. She just wants to help her close people, for whom paying rent at a market price would be unaffordable. This will also be a contribution to the development of their good relations:

> 'My cousins' granddaughter entered the university here and they asked me to rent a room for her. I live alone in a two-room flat, therefore I could let her in without any money. I do not feel myself comfortable taking money from close people, they always help me without any money…Finally we decided that she will pay just a nominal charge, 300 hryvnias a month'.

However, this is not common in Ukraine, to pay money to close people when they help with domestic tasks. If the task is one-off and performed for the closest relatives – elderly parents or children living separately – it will not be paid at all, neither in the monetary form, nor as a reciprocal favour (especially if such help is not profit

motivated). If the favour was done for less close people – friends and distant relatives – the gift can be given in a ‘chysto simvolicheski’ way, which means the gift is small (often a box of sweets or alike – a tradition left from the Soviet era) and it represents just a nominal recompense for the service. This includes another term ‘vystavliatys’ that means to treat the friend who helped with some alcohol and drink it together. Indeed, services performed for friends and acquaintances are usually rewarded by reciprocal favours rather than the money and gifts. The evidence of this can be found in the next Section 4.2 which discusses informal work done to complete domestic tasks.

Everyday domestic tasks are often performed by/for friends, relatives and neighbours. Such work is more likely to be socially, rather than financially motivated, which is one of the main indicators of the validity of complementary theory. In order to evaluate complementary theory, the research should be focused exactly on the work done by close people. Therefore conclusions on the applicability of complementary theory will be done in the next section.

4.2. The role of informal work in the provision of everyday domestic services.

Unlike in the previous section, the focus is not the informal work in all economic spheres, but specifically on the informal domestic services. In this section, the ways of coping with everyday tasks are analysed. In particular, the extent and nature of informal work and the motives of suppliers and consumers are examined. These findings will allow more rigorous quantitative analysis and specific conclusions on the validity of complementary theory.

On the basis of the data about who performed the task and how the service was rewarded, the work done may be divided into four categories: formal employment (sector 1 in Total Social Organisation of Labour (TSOL), described in Section 2.5), self-provisioning (sector 8), unpaid community exchange (sector 7), paid community exchange (sector 3) and informal work (sector 2). Other types of work, as defined in TSOL, were not found as a result of the survey. If the task was officially paid it belongs

to the formal employment category, no matter who performed this task. If the task was performed by household members for themselves and/or other members of the household and was unpaid, it is labelled as self-provisioning. When the task was unpaid and done by relatives, friends, neighbours, acquaintances it is treated as unpaid community exchange. Meanwhile, informal work includes any work rewarded unofficially in cash or with a gift. It should be stressed that paid community exchange (paid work performed by relatives, friends or neighbours) belongs to the informal work category.

Firstly, the work practices used by households to source 27 everyday domestic services the last time that the task was undertaken will be examined, including the role of informal work in getting these tasks completed. Secondly, the extent to which households supply informal work to others will be determined and motives of such households will be analysed. Thirdly, the theory of the informal economy, that can best describe informal work done to complete everyday domestic tasks by households, will be identified.

4.2.1. Consumption of domestic services

Table 2 in Appendix B contains a breakdown of services received by households and the nature of work that was used to supply these services: self-provisioning (SP), unpaid community exchange (UCE), informal work (IW), formal work (FORMAL). This breakdown depicts numbers of activities performed with great emphasis on possible informal activities. These numbers, however, do not represent economic value created by the activities.

According to Table 2, self-provisioning is the most widely used household strategy for completing work: 55 percent of all activities were performed by the household members themselves. Such self-provisioning is inherent in routine domestic tasks, such as cleaning (95 percent) and cooking (94 percent).

Informal work was used for 32 percent of all activities the last time that it was

conducted. It is mostly used for all repair work requiring skills, such as plumbing (55 percent) and tiling (65 percent); personal service activities, for example, hairdressing (69 percent) and tutoring (89 percent); and repair of goods, for instance, clothes making/repair/fit (62 percent) and shoes repair (86 percent). However, the results should be treated with caution when they refer to the services that may not originate in households but from organised enterprises in which the formality/informality of the work may not be known to customers. For instance, shoes repair or car repair often require organised effort with moderate start-up capital to be established and successfully run, even if this business is formally registered its cashflows may be hidden from tax authorities. According to Ukrainian legislation, private entrepreneurs (who the above mentioned businesses might be registered as) can pay a single tax each month independently of their income (if their annual revenue is less than 500 000 hryvnias and they employ less than 10 people including themselves) and are not obliged to use tills to issue receipts for the customer, but must record the costs and revenues. The customers do not know whether the supplier recorded the transaction or not and often do not ask for a formal receipt and rely on supplier's reputation.

The most common reasons for using the supplier were his/her good reputation or recommendation and/or low price. The majority of the participants do not care whether the supplier is officially registered unless the service is expensive and requires qualification, and then official documents are needed for guarantee purposes, for example, for window installation. The indifference of consumers in relation to formality of the supplier indicates that informal work is not regarded as disreputable and dishonest activity. For example, when asked about how he wanted the task to be done if he had a choice, an entrepreneur answered:

> 'I do not know how I want the tasks to be done. It makes no difference for me. The most important is to find a good quality for a reasonable price. And this is the most difficult today'.

Some eight percent of all cases involved unpaid community exchange (UCE). The biggest part of reported unpaid community exchange accounts for computer repairs, performed in 15 out of 60 households (27 percent), and manicure, in 28 out of 115 households (24 percent). Paid community exchange is not characteristic to the locality. As a rule, close relatives and friends are not paid for their one-off help. They may be rewarded either with a nominal gift (though in this case the work is considered as paid) or just by saying 'thank you' but the most common reason is 'we always help each other' i.e. the favours are done quid pro quo. An exception here are those who do some work for their relatives or friends on a regular basis, for instance full-time or part-time baby-sitting, housework, sewing, refurbishment or construction. Indeed, though some part of informal work was performed by close people for cash or a gift, it constitutes merely 18 percent from the total services received from close people. In this case the main reasons for choosing the supplier were quality, reliability and/or low price. Thus, paid community exchange often implies economic reasons. For instance, a woman engaged in entrepreneurship commented:

> 'I am very busy lately at my work and cannot manage with all the domestic chores. Therefore my sister comes to my house several times a week to help me out. I would never let anyone I am not confident in into my house. She does everything about the house in a way I used to, as we were brought up together. I am not sure other people are as tidy as she or can cook according to our family traditions. Besides, she is in straitened circumstances and this is good money for her'.

Although the main reasons for employing a sister here are still the quality and security of her services, redistribution motives were mentioned also in the citation above. This confirms the validity of the complementary theory of the informal economy when talking about paid work performed by close people. Another participant pays her sister for the regular services too, because this activity is her sister's both main regular job and self-

employment as a secondary activity. The main motive of the consumer in this case is to save money:

> ‘My sister is a manicure master. She works in salon and some clients come to her home. Earlier I visited one salon regularly and the master there was very good. But prices are growing in that place and now I have to go to my sister’s home to make manicure. It is not as good as in my old salon but much cheaper’.

Only 5 percent of 2,684 domestic services activities were performed formally; though it should be stressed again, numbers are not representative of the values created and frequency of completion of tasks. Even the work that requires special skills and guaranteed quality, such as windows/doors installation, heaters/boilers installation, car repair, is mostly performed informally. For instance, in 54 of 95 households (57 percent) windows/doors installations were performed by informal workers, in 21 (22 percent) - by formally employed firms, in 16 (17 percent) - by household members themselves and in 4 (4 percent) - by means of unpaid community exchange. Car repairs and furniture making/repair gained the highest percentage of ‘formality’ – 33 percent and 28 percent respectively.

In order to obtain more detailed understanding of the housework done for and by the households, it is useful to analyse the breakdown of services by the household income groups (Table 4.8 below). The groups of the work forms are again divided into self provisioning, when the work is done by the household members; community exchange, when the work is done by relatives, friends and neighbours outside the household; informal work, when the favour is paid informally; and formal work, when the work is done formally by registered enterprise or self-employed. Each group is divided into sub-group, for example, unpaid community exchange is divided into services done for a reciprocal favour (‘Unpaid community exchange for a reciprocal favour’) or without any compensation (‘Unpaid community exchange for nothing’). It should be noted that in the case of ‘informal work by relatives and friends paid in-kind’,

the boundaries between unpaid community exchange and informal work is blurred, as the worker is rewarded but the transaction is not monetised. In order to determine the relationship between income and participation in different forms of work a Spearman's Rank Order correlation was run. One-way ANOVA was used to find whether the difference between groups is statistically significant.

Table 4.8 provides several interesting findings. Firstly, when coping with everyday tasks higher income households are more inclined to rely on informal work or formal work and less disposed towards self-provisioning and unpaid community exchange than lower income households.

Table 4.8. How did the households get the work completed? By income groups.

The work form	Total monthly income (hryvnias)			
	<2000	**2000-3000**	**3000-4000**	**>5000**
Self-provisioning by male household member	11.3%	6.0%	13.0%	10.7%
Self-provisioning by female household member	46.8%	30.4%	24.3%	23.7%
Self-provisioning by both household members	7.4%	20.1%	15.5%	13.7%
Total self-provisioning	**65.5%**	**56.4%**	**52.7%**	**48.2%**
Unpaid community exchange for a reciprocal favour	3.4%	7.1%	2.0%	2.5%
Unpaid community exchange for nothing	4.4%	6.3%	3.6%	2.6%
Total unpaid community exchange	**7.8%**	**13.4%**	**5.6%**	**5.1%**
Informal work by self-employed	18.0%	20.5%	26.7%	26.3%
Informal work by businesses	4.2%	6.5%	7.9%	9.4%
Informal work by relatives and friends	0.7%	0.6%	0.8%	2.1%
Informal work by relatives and friends for a gift	0.2%	0.4%	1.1%	0.1%
Total informal work	**23.0%**	**27.9%**	**36.4%**	**38.0%**
Formal work	**3.6%**	**2.2%**	**5.2%**	**8.7%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

For example, the highest income group uses paid labour in almost a half of cases (38 percent informally and 8.7 percent formally), while the lowest income group pays for the services only in a quarter of cases (23 percent informally and 3.6 percent formally).

However, as determined by one-way ANOVA, the difference in consumption levels between income groups is statistically significant only in the case of informal work and formal work consumption ($F=14.189$, $p<0.01$ and $F=9.157$, $p<0.01$ respectively). The frequency of self-provisioning and unpaid community exchange does not significantly differ between income groups ($F= 1.979$, $p>0.05$ for self-provisioning and $F=2.567$, $p> 0.05$ for unpaid community exchange). Secondly, in all income groups the majority of the services received in the form of informal work are mostly performed by the self-employed, and only from 0.2 to 2.1 percent of all cases are performed by close people. This means that independent of income, people in Mykolayiv are not used to pay their close people for getting things done. Therefore, redistributive motives of informal activities mentioned in the literature review are of little applicability to Mykolayiv population (at least when speaking about domestic tasks). To address this issue in more detail, the breakdown of the community exchange (when the services are received from relatives and friends) is provided in Table 4.9.

Table 4.9. What part of all tasks was performed in the form of community exchange? By income groups.

The work form	**Total monthly income (hryvnias)**			
	<2000	**2000-3000**	**3000-4000**	**>5000**
Total community exchange (in % from total services received)	8.7%	14.3%	7.5%	7.3%
Monetized community exchange (in % from total community exchange)	10.4%	6.5%	25.0%	30.6%
Monetized community exchange (in % from total number of services)	0.9%	0.9%	1.9%	2.2%

Table 4.9 reveals that in contrast to the 2005-2006 survey findings (Williams and Round, 2008) discussed in the literature review, the exchange of favours with relatives and friends in Ukraine is more characteristic to the lower income groups. Out of all services received 8.7 and 14.3 percent were done by close people in the lower income groups and 7.5 and 7.3 percent – in higher income groups. However there is no statistically significant association between income group and participation in

community exchange. More impressive difference can be found in the second row of Table 4.9 that shows which percentage of total community exchange is monetized. The households with income higher than 3000 hryvnias pay their close people in more than a half of the cases, while households with monthly income from 2000 to 3000 hryvnias and less than 2000 hryvnias pay rarely for the services (6.5 and 10.4 percent respectively) preferring to reward their relatives and friends with reciprocal favours or 'just thank you'. There is statistically significant positive correlation between income and frequency of monetised community exchange (r_s= 0.14, p<0.05). However, there is no statistically significant difference between groups as determined by one-way ANOVA (F = 1.931, p>0.05). The last row of the table shows that monetized community exchange constitutes a very small part of all services received by the household not exceeding 2.2 percent even in the highest income households. Therefore, the redistributive reasons mentioned in the qualitative discussion earlier in this section are not only secondary as compared to financial motives but are also of insignificant prevalence in the locality researched. Thus, the complementary theory that views informal work as more socially rather than financially motivated can be supported only by a few cases.

4.2.2. Supply of domestic services

Table 3 in Appendix B represents the breakdown of tasks performed by households for others by the type of work that was used. As well as in Table 2, self-provisioning, informal work, unpaid community exchange and formal work are distinguished and no monetary value of work is considered. Two significant findings can be discussed here.

Firstly, in contrast to the outcomes on service consumption, the responses on services supplied in general indicate the prevalence of unpaid community exchange which made up 85 percent of all work done. Informal work and formal work accounted for merely 13 and 1 percent respectively. Only clothes making/repair/fit, household textile making/repair, furniture making/repair and tutoring involved considerable part of

informal work – 45, 50, 50 and 65 percent respectively. Such discrepancy of supply and consumption sides referring to participation in informal work may be explained with the following:

1) More or less qualified informal work, like painting, is expected to have different consumption and supply figures. A few qualified painters may supply all neighbourhood with painting services;
2) People are more likely to report consumption of informal work than to report being informal workers;
3) Some people can feel uncomfortable about performing second-rate activities for others especially if they used to more prestigious jobs and, hence, they may not wish to report them as well.

Secondly, considering unpaid community exchange particularly, supply and demand side scores differ dramatically. For example, wallpapering was done for friends/relatives/neighbours for a favour or 'just thank you' by 37 participants (or their household's members) whereas this task was carried out by others only in 20 households. This may be justified by the following.

1) Reciprocal exchange does not imply exchange with identical services. Painting may be repaid, for instance, with professional advice, valuable information, *blat* or any other favour not included in the survey.
2) Although *blat* relations with their reciprocity still occur in the locality observed (as found by survey), the cases of one-sided help have been reported. Ukrainians have a propensity to receiving more than giving (or freeload) without taking care of their belonging to the community. This contrasts with the view that people participate in community exchanges in order to feel themselves a 'valuable member of their community' (Smith, 2009).
3) People easily forget about favours done for them but keep better in mind what they did for others.

However, the share of paid work performed for close people is similar to the one

consumed: 14 percent of such work is monetised.

In the overwhelming majority of cases the reason for doing informal work was to earn money. This relates to the work done for both unknown and close people. As well as consumers, those who engage in informal work for close people had solely profit motives. As a self-employed woman, who works informally, stated:

> 'I mostly work informally. My main business is sewing. I have a lot of clients - my friends, relatives and friends of friends. I sew for money as I raise my daughter alone and have an elderly mother – I need money to feed my family. I also sometimes do gardening, cleaning and cooking for the aunt of my best friend'.

The participant clearly states that she needs money being the only bread-winner in the family and performs the services mostly for people she knows. Therefore she cannot afford herself to work for free which corresponds with the by-product theory. Such regular work can be contrasted to one-off services such as help with wall-papering, taking children from kindergarten, household appliances repair. As a retried woman aged 66-75 years old asserted:

> 'Our relatives asked me recently to pick their son from the kindergarten and watch him for several hours. When I brought him back home, my niece tried to give me 20 hryvnias as a gratuity. I strongly refused as their family often help us with refurbishment, dacha and share fresh meet or dairy products with us when they get it from their relatives in the countryside. We always try to help them in different matters as well. For example, my son employed their son when he needed work experience while at the university'

The narrative cited above is the most typical for the locality: relatives and friends are in constant exchange of favours. This means such relationships exclude economic motives, but rather are based on unpaid reciprocity and willingness to cement social

bonds.

In order to obtain better understanding of the nature of domestic services supplied, the forms of work here will be analysed by breaking them down by household's income (see Table 4.10). It should be noted at the outset, that according to one-way ANOVA, there is no statistical difference between income groups.

Table 4.10. How did the households provide the services? By income groups.

The form of services supply	Total monthly income (hryvnias)			
	<2000	2000-3000	3000-5000	>5000
Unpaid community exchange for a reciprocal favour	28%	24%	34%	13%
Unpaid community exchange 'for nothing'	41%	62%	57%	81%
Total unpaid community exchange	**68%**	**86%**	**91%**	**94%**
Informal work as self-employed	11%	12%	1%	3%
Informal work for relatives and friends	3%	2%	1%	1%
Informal work for relatives and friends for a gift	18%	0%	7%	2%
Total informal work	**32%**	**14%**	**8%**	**6%**
Formal work	**0%**	**0%**	**1%**	**0%**
Total	**100%**	**100%**	**100%**	**100%**

This displays that the biggest portion of the informal paid work belongs to the lowest income households. The households with an income of less than 2000 hryvnias performed informal paid work in 32 percent of all tasks done by them, the households with the income from 2000 to 3000 hryvnias in 14 percent of cases and the households with the income from 3000 to 5000 hryvnias and higher than 5000 hryvnias only in 8 and 6 percent of cases respectfully. However, statistical test shows that income and participation in informal work are not significantly associated (r_s=-0.138, p>0.05).

The biggest number of tasks is done for close social relations by households with income less than 2000 hryvnias and is rewarded with a gift ('informal work for relatives and friends for a gift'). The next most popular type of informal work supplier is the own-account worker ('informal work as self-employed') from the household with less than 2000 hryvnias and from 2000 to 3000 hryvnias monthly income (11 and 12 percent respectively). Consistently, moreover, the lower income households are the

main suppliers of paid services for close people ('informal work for relatives and friends'). While the latter type of informal work is not a characteristic of the locality examined as its average portion in the total amount of cases is only 2 percent, the formal work is almost non-existent and constitutes on average 0.2 percent.

The most prevalent way of completing domestic tasks for others is unpaid work without any reward (unpaid community exchange 'for nothing'). Indeed, the higher income households reported more participation in unpaid work without any reward (57 – 81 percent) than the lower income households (41 – 62 percent). There is a significant correlation between income and provision of unpaid work without any reward (r_s=0.982, $p<0.01$), but the difference between groups is not statistically significant ($F=0.686$, $p>0.05$). The reciprocal exchange with favours constitutes on average 25 percent of total cases and the percentages for each income group do not vary significantly. There is a statistically significant correlation between income and participation in the unpaid community exchange (r_s=0.184, $p<0.05$), however no significant difference between groups was found as a result of one-way ANOVA ($F=2.226$, $p>0.05$). It should be kept in mind that there is a probability of results distortion: the participants might not remember that the reciprocal favour has been done or are not sure/do not expect that they receive it later.

The more detailed analysis of community exchange is illustrated by Table 4.11. Interestingly, almost all domestic tasks performed by the households for others are done for relatives, friends and neighbours. For the higher income households it reaches 99 percent of all cases. At the same time this community exchange is mostly non-monetised. The exception here is the lowest income households that in 24 percent of cases perform domestic tasks for their kin and friends for money. This supply side results are in striking discrepancy with the consumption side results. The possible reasons for such a significant difference are discussed earlier in this section.

Table 4.11. What part of all tasks was performed in the form of community exchange?

The form of services supply	Total monthly income (hryvnias)			
	<2000	2000-3000	3000-4000	>5000
Total community exchange (in % from total services received)	89.5%	87.9%	98.7%	97.1%
Monetized community exchange (in % from total community exchange)	23.5%	2.5%	7.4%	3.0%
Monetized community exchange (in % from total number of services)	21.1%	2.2%	7.3%	2.9%

The above shows that the complementary theory of the paid informal work is of little applicability here. Firstly, this is because most of the paid informal work for close people is performed by the lowest-income households for monetary rather than sociality reasons. Secondly, and more importantly, socially motivated informal work is usually unpaid in the area examined and therefore is not the subject of the thesis. However, if considering unpaid informal work, it obviously can strongly support complementary theory.

To conclude on both supply and consumption, similarly to all other economic areas, informal work occurs when coping with simple everyday tasks. However while informal work prevailed from the consumption side, unpaid community exchange was the most common way of domestic services supply. Only a small part of informal work was performed by/for close people and is mostly profit motivated. This should not be viewed as all-absorbing market relations that penetrate all aspects of social life (though this partially occurs in today society and is discussed in the next section *blat*). Firstly, this is because the majority of day-to-day services performed by relatives and friends are unpaid. Households participate in close social relationships, which imply regularly recurring reciprocal help. Moreover the closest relatives - parents and children - living in different households not just help each other for free, but such help is usually taken in stride: none of the participants mentioned monetary rewards or reciprocal favours in such cases. Secondly, even if the community exchange is paid, this is mostly due to nature of the work: it is regular and important source of income of the supplier. Thus paid community exchange should be viewed as ordinary informal work and treated on

the basis of the motives of having informal income, as discussed in the previous section. Therefore, when talking about everyday domestic tasks, paid informal work represents mostly a by-product or alternative theory of the informal economy. Complementary theory is mostly applicable for unpaid informal work (which is not the focus of this chapter) and residue theory can be completely refuted.

This section focused on the supply and consumption of everyday domestic tasks. Next section will provide the summary of the findings regarding the informal work in general and domestic services in particular.

4.3. Informal work: summary of the findings

To sum up, the informal economy in Ukraine is diverse by nature and so are the motives for participation in it. Each of the four theories can be applied to the Ukrainian society, although they are not equally prevalent. This means, the fifth, post-structuralist theory which acknowledges the diversity of informal activities, is applicable to Ukraine. The survey showed that the alternative theory can explain the largest part of the informal economy in Ukraine, because informal workers here are mostly individuals who voluntary exit formal economy in order to avoid participation in unfair tax system and ineffective social security system.

The next largest part of informal work can be viewed as a by-product of the formal economy. The survey participants who fit this theory are waged workers excluded from the formal economy by their employers seeking to reduce payroll costs.

As for the residue theory, no evidence has been found in the research area to support it. However, at the same time, there is not enough evidence from previous research to prove long-term growth of the informal economy and thus, completely reject this theory.

Complementary theory in Ukraine is best supported with paid and unpaid favours done for/by relatives and friends for closer social connections. Both previous sections on the informal work in general and domestic work in particular showed that

very little paid informal work is socially motivated. Unpaid favours, rather than socially motivated paid work, are more characteristic to the Ukrainian society. Some of such favours may be regarded as *blat*. Conclusions on contemporary *blat* are drawn in the next chapter.

5. THE ROLE OF BLAT

In the previous chapter the four theories were tested against the survey results regarding informal work in Mykolayiv. This chapter attempts to look at *blat* from the same viewpoint as informal work: each of the four theories will be evaluated towards the survey findings regarding *blat* relations. As a result, an alternative approach to understanding of *blat* will be suggested in Section 5.2.4.

5.1. Descriptive statistics

This chapter seeks to explore the extent to which favours are done and received through *blat*, the spheres where *blat* is most widely used, how *blat* is rewarded in contemporary Ukraine and who are the recipients and providers of *blat* in different spheres. This will provide the background for theorisation of *blat* in the next section.

5.1.1. The prevalence of *blat*

Blat (using informal connections for the personal benefit) is still quite widespread in this urban area of Ukraine. Some 168 out of 200 respondents (84 percent) reported the participation in at least one sphere of using personal connections. This might indicate that the informal networks cannot be a residue of the Soviet system. However, only 54 respondents (27 percent) take part in *blat* relations in four or more spheres.

Table 5.1. Participation of respondents in *blat* relations by the number of spheres involved

Number of spheres	Favours received		Favours done	
	Count of responses	%	Count of responses	%
0*	32	16%	86	43%
1	38	19%	43	22%
2	45	23%	31	16%
3	31	16%	21	11%
4	23	12%	7	4%
5	14	7%	6	3%
6	2	1%	1	1%
7	3	2%	0	0%
8	2	1%	2	1%
9	3	2%	2	1%
10	4	2%	0	0%
11	1	1%	0	0%
12	0	0%	0	0%
13	2	1%	1	1%
Total	200	100%	200	100%

* the favours were not received / done

5.1.2. The spheres where *blat* is most widely used

The total number of spheres, in which suppliers report providing favours, is almost twice as small as the spheres people report that they receive favours across. Taking into consideration multiple answers, favours received were mentioned 536 times and favours done 283 times. This can be explained by the fact that the average participant can provide the favours in the limited amount of areas (mostly, the areas he/she works in), and consume favours in almost all spheres depending on width of his/her connections. For example, a professor in the university will do favours only in the sphere of education and employment; however he/she obviously can obtain *blat* in various spheres in return.

As Table 5.2 shows, favours are most commonly received in the spheres of medical services (21 percent of all answers), finding a job (13 percent), traffic police matters (11 percent), education and local authorities' matters (8 percent both). In regard of the favours done for others, getting a job was the most popular answer (17 percent of all answers), medical services (15 percent), education (11 percent), everyday services (9 percent) and traffic police and local authorities matters (8 percent both). Supply and consumption side answers agree with each other, showing approximately the same rank order in terms of participation rates.

Table 5.2. Spheres of using *blat*: supply and demand sides.

Spheres	**Favours received**		**Favours done**	
Medical services: local surgery, hospital or bed and operation	112	21%	42	15%
Solving problems with the traffic police, registration of a vehicle	59	11%	22	8%
Finding a job	67	13%	47	17%
Education: Places in primary-secondary and higher education	43	8%	31	11%
Legal services and courts	34	6%	15	5%
Army conscription	9	2%	1	0%
Everyday services at better quality or better price	31	6%	25	9%
Repairs of housing, garages, dachas	32	6%	17	6%
Tickets for events, theatre, concerts	23	4%	9	3%
Hobbies and entertainment, resorts, travelling tickets	38	7%	12	4%
Consumer goods	23	4%	20	7%
Foodstuffs	20	4%	15	5%
Communicating with local authorities	45	8%	24	8%
TOTAL	536	100%	283	100%

These data show that while in some spheres *blat* is still widespread, in other spheres it really can be viewed as a residue, for example in obtaining consumer goods, tickets for

events and travel tickets. This corresponds with the findings of the literature review (Arnstberg and Boren, 2003; Ledeneva, 2006), that in the Soviet times, *blat* was used to get the goods in short supply which is not the case today. Thus, *blat* in this traditional meaning is a residue today and the new forms of *blat* are, in contrast, rather widespread and require a different theoretical approach. Further sections explore these new forms of *blat.*

5.1.3. How are favours rewarded today? (Is *blat* really monetised?)

The questions 'How do you reward your connections?' and 'What do you usually receive as a reward?' were aimed at finding out whether *blat* relations are still a reciprocal exchange with favours or whether *blat* has become monetised nowadays. The participants were suggested five answer options: 'cash', 'gift', 'quid pro quo', 'just 'thank you'' and 'other'. 'Other' included versatile rewards such as 'a plate of soup' and 'drinking beer together'. If the help was rewarded with cash or a gift, it is treated as paid. Paying back with the service (quid pro quo) indicated a *blat* relationship in its traditional meaning of 'reciprocal exchange of favours'.

In the majority of cases, the *blat* was paid either with cash (25 percent) or with a gift (13 percent), together summing up to 39 percent out of total for the consumption side (Table 5.3a). This supports the finding that monetized *blat* is not a residue. However, the results for the supply side differ significantly: paid *blat* sums up to only 16 percent out of total (Table 5.3b). This inconsistency in answers prejudices the truthfulness of answers regarding the reward given for favours done.

It may be concluded that *blat* became partially monetised today assuming sometimes a shape of corruption. If the reward is paid with cash or a gift in such situations as solving problems with the traffic police, local authorities, courts, army conscription it may be considered a bribe. However, this depends on the motives of giving such rewards, which will be discussed further in this section.

Table 5.3a. Spheres of consuming favours by the type of reward

Spheres	Reward given for favours received					
	Cash	**Gift**	**Quid pro quo**	**Just 'thank you'**	**Other**	**Total**
Medical services	40	31	33	25	7	136
	29%	23%	24%	18%	5%	100%
Solving problems with the traffic police	26	5	12	11	7	61
	43%	8%	20%	18%	11%	100%
Finding a job	3	11	13	34	6	67
	4%	16%	19%	51%	9%	100%
Education: Places in primary-secondary and higher education	12	13	13	13	1	52
	23%	25%	25%	25%	2%	100%
Legal services and courts	12	3	8	12	2	37
	32%	8%	22%	32%	5%	100%
Army conscription	7	0	1	0	0	8
	88%	0%	13%	0%	0%	100%
Everyday services at better quality or better price	3	0	9	19	0	31
	10%	0%	29%	61%	0%	100%
Repairs of housing, garages, dachas	9	0	11	12	2	34
	26%	0%	32%	35%	6%	100%
Tickets for events, theatre, concerts	4	2	7	11	1	25
	16%	8%	28%	44%	4%	100%
Hobbies and entertainment, resorts, travelling tickets	7	7	11	18	0	43
	16%	16%	26%	42%	0%	100%
Consumer goods	3	0	6	15	0	24
	13%	0%	25%	63%	0%	100%
Foodstuffs	2	0	5	14	0	21
	10%	0%	24%	67%	0%	100%
Communicating with local authorities	21	8	14	7	1	51
	41%	16%	27%	14%	2%	100%
TOTAL	152	81	146	196	27	602
	25%	13%	24%	32%	5%	100%

Table 5.3b Spheres of providing favours by the type of reward

Spheres	Reward obtained for favours done					
	Cash	Gift	Quid pro quo	Just 'thank you'	Other	Total
Medical services	6	7	20	25	1	59
	10%	12%	34%	42%	2%	100%
Solving problems with the traffic police	5	4	12	11	0	32
	16%	13%	38%	34%	0%	100%
Finding a job	1	2	12	40	1	56
	2%	4%	21%	71%	2%	100%
Education	1	8	11	17	1	38
	3%	21%	29%	45%	3%	100%
Legal services and courts	3	3	6	7	1	20
	15%	15%	30%	35%	5%	100%
Army conscription	0	0	0	1	0	1
	0%	0%	0%	100%	0%	100%
Everyday services at better quality or better price	1	3	9	19	0	32
	3%	9%	28%	59%	0%	100%
Repairs of housing, garages, dachas	4	1	7	10	0	22
	18%	5%	32%	45%	0%	100%
Tickets for events, theatre, concerts	0	2	5	7	0	14
	0%	14%	36%	50%	0%	100%
Hobbies and entertainment, resorts, travelling tickets	0	2	6	9	1	18
	0%	11%	33%	50%	6%	100%
Consumer goods	0	2	6	18	0	26
	0%	8%	23%	69%	0%	100%
Foodstuffs	0	2	6	14	0	22
	0%	9%	27%	64%	0%	100%
Communicating with local authorities	1	1	14	10	1	27
	4%	4%	52%	37%	4%	100%
TOTAL	22	37	114	188	6	367
	6%	10%	31%	51%	2%	100%

5.1.4. The relationship between people exchanging favours

The types of relationship suggested by the questionnaire for the question about the relationship between the participant and *blat* providers/consumers were the following: relative, friend, neighbour, colleague, other. The participants typically specified the

‘other’ as friends of friends or acquaintances. Multiple answers, for instance, ‘friends and acquaintances’ were often given.

According to Table 5.4a below, the participants most commonly obtain favours from their friends and acquaintances/friends of friends (‘other’) (28 and 33 percent respectively out of all responses). Serious official matters such as solving problems with the traffic police, legal services and courts, communicating with local authorities are usually settled with the help of acquaintances (‘other’). Favours in the spheres of employment, tickets for events, the theatre, concerts and everyday services are most commonly provided by friends. Domestic matters of repairs of housing, garages, dachas, getting foodstuffs and consumer goods are more likely to be arranged with the assistance of relatives. The favours of neighbours and colleagues are the least popular among the population: 8 and 12 percent respectively out of total number of responses. Although it is often argued that nowadays *blat* relations are more profit than socially motivated (Arnstberg and Boren, 2003; Ledeneva, 1998; Ledeneva, 2008; Mikhailova and Worm, 2003; Smith and Stenning, 2006), the essence of the exchange of favours with kin, friends and friends of friends is development of the social ties. Social motives are embedded in *blat* relations and this suggests the viability of the complementary theory. Further evidence can be found in the next section on the motives for *blat* participation.

Table 5.4a Spheres of using *blat* by the participants' relationship

Spheres	Providers of favours				
	Relative	**Friend**	**Neighbour**	**Colleague**	**Other**
Medical services: local surgery, hospital or bed and operation	30	38	9	18	52
	20%	26%	6%	12%	35%
Solving problems with the traffic police, registration of a vehicle	6	21	4	8	29
	9%	31%	6%	12%	43%
Finding a job	21	31	5	10	17
	25%	37%	6%	12%	20%
Education: Places in primary-secondary and higher education	10	13	7	3	17
	20%	26%	14%	6%	34%
Legal services and courts	4	9	1	4	21
	10%	23%	3%	10%	54%
Army conscription	1	1	0	0	6
	13%	13%	0%	0%	75%
Everyday services at better quality or better price	11	17	5	6	11
	22%	34%	10%	12%	22%
Repairs of housing, garages, dachas	12	9	4	4	10
	31%	23%	10%	10%	26%
Tickets for events, theatre, concerts	3	13	3	3	4
	12%	50%	12%	12%	15%
Hobbies and entertainment, resorts, travelling tickets	7	9	3	10	18
	15%	19%	6%	21%	38%
Consumer goods	13	9	3	3	5
	39%	27%	9%	9%	15%
Foodstuffs	10	9	3	3	4
	34%	31%	10%	10%	14%
Communicating with local authorities	7	8	4	9	31
	12%	14%	7%	15%	53%
TOTAL	135	187	51	81	225
	20%	28%	8%	12%	33%

The responses to the questions on the supply side slightly differ from those on the consumption side. The most commonly cited recipients of favours were relatives (22 percent) and friends (29 percent). Only in the sphere of legal services did this differ where the major recipients were acquaintances ('other') (33 percent). The participants do favours for their neighbours and colleagues less frequently. These groups of favour recipients are mostly helped in the sphere of medical services and employment

matters.

Table 5.4b. Spheres of supply of *blat* by the participants' relationship

Spheres	Recipients of favours				
	Relative	**Friend**	**Neighbour**	**Colleague**	**Other**
Medical services: local surgery, hospital or bed and operation	31	30	14	15	16
	29%	28%	13%	14%	15%
Solving problems with the traffic police, registration of a vehicle and	10	16	4	8	7
	22%	36%	9%	18%	16%
Finding a job	23	38	15	18	14
	21%	35%	14%	17%	13%
Education: Places in primary-secondary and higher education	12	21	8	7	10
	21%	36%	14%	12%	17%
Legal services and courts	6	5	2	3	8
	25%	21%	8%	13%	33%
Army conscription	1	1	0	1	0
	33%	33%	0%	33%	0%
Everyday services at better quality or better price	13	18	9	8	7
	24%	33%	16%	15%	13%
Repairs of housing, garages, dachas	9	10	4	3	5
	29%	32%	13%	10%	16%
Tickets for events, theatre, concerts	5	9	3	4	1
	23%	41%	14%	18%	5%
Hobbies and entertainment, resorts, travelling tickets	7	9	4	4	4
	25%	32%	14%	14%	14%
Consumer goods	12	15	6	8	5
	26%	33%	13%	17%	11%
Foodstuffs	10	10	7	7	4
	26%	26%	18%	18%	11%
Communicating with local authorities	9	12	6	11	11
	18%	24%	12%	22%	22%
TOTAL	148	194	82	97	92
	22%	29%	12%	14%	14%

The descriptive statistics revealed the extent to which *blat* is prevalent in Mykolayiv, the services and institution where it is most widely used as well as the types of *blat* rewards and the relationship between the participants. Following this, in the next section, an analysis of this empirical will be undertaken to evaluate critically the validity

of the four theoretical perspectives when applied to the use of *blat.*

5.2. Theorising the role of *blat*

The aim of this section is to evaluate the prevalence and motives of using informal connections for personal benefit, the opinions and attitudes towards such networking, and to test the existing theories of the informal economy against the findings. This aim could be reached by answering the questions below and thereby testing each theory. However, at the outset, it should be noted that in this survey, when participants were asked about what *blat* services they have provided they could have given answers about two major cases. First is the case of two parties: participant provided services under *blat* arrangement directly to their 'customers' (those who asked). Second is the case of three or more parties: participant 'redirected' their 'customers' to their own connections, the last wouldn't normally accept 'customers' when contacted directly. It is very important to understand that both cases are undistinguishable in the survey.

5.2.1. Is *blat* a residue of the pre-capitalist society?

In order to determine whether the residue theory is applicable to modern *blat* relations, it would be useful to look at how prevalent such informal relations are today and how its nature and prevalence change with time.

The previous section revealed that *blat* is widespread in contemporary Ukrainian society. The share of participants who use *blat* in at least one sphere of their everyday life is 84 percent. This shows that *blat* is by no means a residue of a pre-capitalist society. However, as was discussed in previous sections, using connections and namely *blat* in its traditional meaning has changed as a result of society transformation from socialist to post-socialist. Therefore, it would be useful to explore the directions of *blat* transformation and to evaluate whether the Soviet-style *blat* still exists in Ukraine.

Although there is no prevalent opinion on the primary importance of money or connections resulting from the survey, the results provide strong evidence of *blat* monetization. Firstly, quantitative analysis reveals that favours done by acquaintances are paid with cash or a gift in 38 percent of cases. This confirms that while during the Soviet period *blat* relations meant mutual exchange of solely favours, money is involved in just over one-third of such relations nowadays. Secondly, these quantitative results are supported and explained by the interviewees' narratives. As a man, working as a doctor, aged 56 – 65 years old asserted:

> 'In the Soviet times it was enough to call the acquaintance (mainly state officials) and the problem was solved without money. Such acquaintances were called 'pozvonochnye' [directly translated as 'vertebrates' but comes from the word 'zvonok' which means 'a call']. There are no more 'pozvonochnye' today. Everything is done for money'.

As an unemployed woman commented, one does not need to have connections, when the favour can be paid:

> 'Today money is more important than connections. In any institution there are people that are ready to carry out any your request for money. You do not need to have connections in hospitals to obtain a health certificate from medical board. It is enough to speak to district nurse and for 100 hryvnias get any certificate the next day'.

A 46-55 years old man, an entrepreneur, similarly explained:

> 'We tried to prepare the documents needed for the construction of a house and were confronted with great difficulties when getting tens of approvals from firemen, sanitation center, technical inventory bureau etc. Without gaining access

> to necessary people through our acquaintances and giving the officials presents and money nothing would be possible…In order to give a bribe you need to find people who can recommend you to the official - an intermediary. Otherwise it is sometimes dangerous to offer cash to unknown people – you do not know how much to give and whether the person will take it at all'.

According to a woman, who is employed as a medical worker, *blat* is an easy and quick way of arranging matters:

> 'One can solve all problems without connections and rewarding them but it will take too much time. I am very busy and cannot ask for permission to leave during the working day (when all these state offices work). In order to obtain a child benefit I had to pay my colleague. She arranged everything quickly through the people she knew'.

And finally, a young man working as IT specialist argued, that money is more important today than being well-connected:

> 'I think that the importance of money grew dramatically in comparison to connections. While in the Soviet times it was difficult without connections, today if you have money you just need to find a person to give them to…I had to register my vehicle in the traffic police office. You need to stand in a long queue, several long queues and complete a lot of procedures. This will take all the day (or two). If you prepare for it beforehand (find a right person through someone you know and pay money, usually 50-100 dollars) everything will be done for you in an hour or two'.

In the majority of cases, the participants needed to involve both connections and money in settlement of their matters. Offering cash-in-hand without an intermediary

might be risky (as already explained). Therefore, being well-connected is still very important in modern Ukrainian society. However, 'favours' that were done *quid pro quo* in the Soviet times without money involvement are now financially rewarded. Nevertheless, instances of using connections without a reward are still reported. For example, a woman, who works as a notary officer, stated:

> 'Due to my profession I communicate a lot with people of various occupations. This gives me an opportunity to use this connections *quid pro quo* when visiting a doctor or doing official examination of my vehicle in the traffic police'.

Similarly, a woman aged 26 – 35 years old, who works as a doctor, said:

> 'Money is important today but connections are still in use. I lived in Kyiv and came back to my native city especially to give birth because my parents are doctors and have big connections here. In spite of a small official payment of 200 hryvnias to the hospital cash office and 20 hryvnias cash-in-hand to the nurse I obtained very good treatment. And these people are not our close friends, just colleagues'.

A retired woman working as a secretary of a school fund recounted:

> 'My position gives me a very good circle of connections among pupils' parents. Moreover, I have been a school director for 15 years. That is why I can ask for help the pupils' parents (quality medical service, household appliances repair, residence permit) and naturally will help them in solving problems with the school administration and teachers (placing children to the best teachers, improvement of knowledge quality and marks). My grandson graduated from the Academy of Law but nobody wanted to employ him because of no work experience. With the help of one of the parents I managed to find a job for him'.

Based on an assumption that Soviet *blat* was mostly non-monetised as found by a number of authors, these informal relations are in decline today and therefore may be viewed as a residue. Moreover, the survey shows that *blat* in its old meaning has already disappeared from the lives of some people being substituted by the new, monetized *blat*. However, the traditional non-monetised *blat* still persists with two-thirds of *blat* being non-monetised. It is the case, therefore, that there is a transformation taking place with traditional-style *blat* in decline but it has not totally disappeared.

5.2.2. Is *blat* a by-product of the formal economy?

To answer this question, it is necessary at least to determine what social groups are involved in the informal networking and whether it is a result of exit or exclusion. This will show whether informal networking is used by marginalised population out of necessity or, on the contrary, the prerogative of well-connected affluent populations.

Characteristics of the population involved in blat relations

In order to determine the characteristics of population which uses *blat* more widely, statistical analysis of variance comparing participation in *blat* across income groups, age, gender and involvement into the informal activities was undertaken. As mentioned above, there are 13 proposed spheres of *blat*. For each participant the number of spheres he/she uses *blat* in has been calculated. So that those who take part in *blat* relations in only one sphere are the least active *blat* participants and those who use *blat* in 13 spheres are the most active. However, the number of people that use *blat* in six and more spheres is insignificant. Therefore, they were brought together in one single group for the purposes of statistical analysis.

Table 5.5a displays that the use of *blat* increases with income level. There is significant association between income and the rate of *blat* participation (for *blat*

consumption side - Kendall's tau = 0.217, p<0.01, for supply side - Kendall's tau = 0.216, p<0.01). Furthermore, regressing the rate of participation in *blat* on income reveals that the average number of spheres where *blat* is used increases by 0.44 (0.11) per income group. A t-test allows us to accept this coefficient at a 1 percent level of significance.

Similar dependence can be seen in Table 5.5b which shows the cross tabulation between income and the number of spheres where *blat* is provided. The average number of spheres where favours are done increases by 0.3 (0.1) per income group. Here, a t-test also allows us to accept this coefficient at 1 percent level of significance.

Table 5.5a. The rate of participation in *blat* relations by income group (consumption)

			Number of spheres where *blat* is used by the participants							
			0	**1**	**2**	**3**	**4**	**5**	**6-13**	**Total**
Total monthly income, hryvnias	**<2000**	Count	11	14	13	7	1	0	4	50
		%	22%	28%	26%	14%	2%	0%	8%	100%
	2000-3000	Count	8	4	18	7	7	2	1	47
		%	17%	9%	38%	15%	15%	4%	2%	100%
	3000-4000	Count	7	14	6	10	6	7	3	53
		%	13%	26%	11%	19%	11%	13%	6%	100%
	>5000	Count	6	6	8	7	9	5	9	50
		%	12%	12%	16%	14%	18%	10%	18%	100%
	Weighted average	Count	32	38	45	31	23	14	17	200
		%	16%	19%	23%	16%	12%	7%	9%	100%

Table 5.5b. The rate of participation in *blat* relations by income group (supply)

			Number of spheres where *blat* is provided by the participants							
			0	**1**	**2**	**3**	**4**	**5**	**6-13**	**Total**
Total monthly income, hryvnias	**<2000**	Count	30	10	2	5	0	1	2	50
		%	60%	20%	4%	10%	0%	2%	4%	100%
	2000-3000	Count	23	10	8	4	0	1	1	47
		%	49%	21%	17%	9%	0%	2%	2%	100%
	3000-4000	Count	18	15	8	6	3	2	1	53
		%	34%	28%	15%	11%	6%	4%	2%	100%
	>5000	Count	15	8	13	6	4	2	2	50
		%	30%	16%	26%	12%	8%	4%	4%	100%
	Weighted average	Count	86	43	31	21	7	6	6	200
		%	43%	22%	16%	11%	4%	3%	3%	100%

There is also a significant association between respondents' age and the rate of *blat* participation (for *blat* consumption side Kendall's tau = - 0.121, $p<0.05$, for supply side Kendall's tau = - 0.170, $p<0.05$). Regressing the rate of participation in *blat* on age displays that the average number of spheres where *blat* is used decreases by 0.223 (0.085) per age group and the average number of spheres where *blat* is provided decreases by 0.248 (0.73) per age group. T-tests allow an acceptance of this coefficient at a 1 percent level of significance. This means that younger people use *blat* more widely than older ones.

The participants' gender is not significantly associated with the rate of *blat* usage both on the consumption (Chi-square = 4.449, $p>0.05$) and supply (Chi-square = 1.244, $p>0.05$) sides.

A chi-square test reveals that there is no significant association between informal job participation and *blat* participation both from the consumption (Chi-square=2, $p>0.05$) and supply (Chi-square=0.006, $p>0.05$) sides. Both formal and informal workers participate in *blat* in almost equal proportions (Tables 5.6a and 5.6b).

Table 5.6a. Participation in *blat* by the participation in the informal work (consumption side)

		Does the respondent use *blat*?	
		No	**Yes**
Does the respondent participate in the informal work?	**Yes**	19%	81%
	No	11%	89%
Total		15%	85%

Table 5.6b. Participation in *blat* by the participation in the informal work (supply side)

		Does the respondent provide *blat*?	
		No	**Yes**
Does the respondent participate in the informal work?	**Yes**	41%	59%
	No	42%	58%
Total		42%	58%

There is similarly no significant association between breadth of *blat* participation (measured in the number of spheres the respondent provide or use *blat* in) and participation in the informal work: Chi-square = 10.246, p>0.05 for the demand side and Chi-square = 7.726, p>0.05 for the supply side.

One should take into consideration, that out 80 participants somehow or other involved in the informal economy, only 14 (17.5 percent) are fully informal. Other 66 (83 percent) have both formal and informal earnings. Therefore it would be useful to examine, whether informal work or unemployment are associated with the use of *blat*. Table 5.7a shows that the percentage of *blat* suppliers is slightly higher among those, who are formally registered at least at one working place, than among those, who do not have any formal job. However, the difference is not statistically significant (Chi-Square = 2.863, p>0.05). Table 5.7b reveals even smaller proportion of *blat*

participants among partially and fully formal workers, than among fully informal workers (86 vs 79 percent respectively). The results, however, are not statistically significant as well (Chi square = 1.557, p>0.05). This supports the finding above, that informal work is not associated with participation in *blat.*

Table 5.7a. Participation in *blat* by the type of employment (consumption side)

		Does the respondent participate in *blat*?	
		Not in *blat*	**In *blat***
Is the respondent fully informal	Partially informal or fully formal	14%	86%
	Fully informal	21%	79%
	Does not work	27%	73%
Total		16%	84%

Table 5.7b. Participation in *blat* by the type of employment (supply side)

		Does the respondent participate in *blat*?	
		Not in *blat*	**In *blat***
Is the respondent fully informal	Partially informal or fully formal	42%	58%
	Fully informal	36%	64%
	Does not work	55%	45%
Total		16%	84%

To sum up, out of the four factors analysed above the influence of only two factors – income and age – can be statistically proved. In addition to that one-way analysis of variance showed that income factor has more impact than age on the participation in *blat*. In more detail, income F-ratio is 3.576, p<0.01 for the consumption side, and F=3.497, p<0.01 for the supply side. Similarly, for age factor F=2.462 p=0.026 for

consumption side and F=1.309 p=0.255 for supply side. This evidence let us to refute a by-product theory: *blat* users and suppliers are definitely not a necessity-driven marginalised population. These are rather opportunity driven prosperous households that have *blat* and can afford to use it which contradict the by-product approach.

The perceptions of getting things done by pulling strings

The next step in testing the by-product theory is the evaluation of perceptions of getting things done by pulling strings. This will show whether the participants use *blat* out of choice, or whether they are compelled to employ *blat* in spite of their negative attitude towards it.

Out of 200 participants, 95 (47.5 percent) expressed very positive or positive attitude towards *blat*, 90 (40 percent) were neutral ('depends on situation') and only 25 (12.5 percent) view *blat* negatively or extremely negatively.

Cross-tabulation of the frequency of *blat* participation (both from the supply and demand side) and attitude towards *blat* shows that respondents with a negative or a very negative attitude towards *pulling strings* do not participate in *blat* at all (64 and 80 percent from demand and supply side respectively) or take part in only one to two spheres (36 and 20 percent from demand and supply side respectively). This indicates that the majority of people voluntarily participate in *blat* and those who view *blat* negatively are able to minimize their participation. This fact also leads one to discard the by-product theory.

Similar to the findings regarding the frequency of *blat* participation, the 'attitude to *blat*' variable can be cross-tabulated with the age, gender and income variables. In contrast to *blat* participation frequency, attitude to *blat* is not significantly associated with the income of participant (Chi-Square = 11.568, p>0.05). By analogy to the *blat* participation, attitude to *blat* is not significantly associated with the age or gender of the participants.

The necessity of blat in various aspects of everyday life

To find out, how indispensable for the wellbeing of Mykolayiv population *blat* is, the participants were asked whether it is possible to solve the problems they mentioned without *blat*. The most common answer to this question was: 'It is possible, but will take too much time and effort'. Using connections at the first opportunity became a habit and tradition, especially when it refers to the influencing of state officials. People get used to settling matters with local authorities by drawing in connections and cash-in-hand payments to state officials and intermediaries. Such an arrangement of matters seems more efficient to them even when it is practically possible to obtain all necessary documents without bribes and *blat*. Thus, a woman, aged 46-55 years old, who works as an accountant, replied:

> 'Once I had to gather 14 signatures in the *gorispolkom* [city executive committee]. The lawyer I knew took 400 dollars to help me in this matter as it seemed to take a long time, effort and looked unrealistic. Later, one friend of mine needed to take the same 14 signatures and did it in an hour without any unofficial payments'.

Other participant, an entrepreneur, also reported an optionality and even undesirability of using connections:

> 'Of course, it is possible to arrange matters without any connections. Why do people use connections? From force of habit and because it gives you the feeling of confidence. But in 70 percent of cases involving acquaintances makes the things worse'.

In addition, even though plenty of participants reported that without *blat* or bribes it is impossible to find a job, to enter a university or a good school, to obtain a driving licence, quality medical service and necessary documents from officials, there are still a number of cases when the affairs were settled according to common official rules. As

a 56-65 year old man in a top management position stated:

> 'I do not use *blat…* My son entered the university (state funded place) himself, without any help due to his knowledge, gold medal [graduated school with honours] and prizes from subject contests. Afterwards he easily found a job as he obtained a red diploma [graduated a university with honours]. I never had any problems with education and job as well…'

Similarly, a woman aged 36-45 years old, who works as a manager, told about her experience:

> 'We have an opportunity to receive orthodontic services for free for our kids. Both my girls wear braces that were put in for free in our clinics. We are very happy with the quality. And I am surprised as I usually pay the doctors to ensure proper quality of treatment'.

To sum up, *blat* implies voluntary participation. *Blat* relations are not a necessity or a survival strategy for either consumers or suppliers. This is rather the method to cope with the inefficiencies of the system and defects of legislation and taxation. Therefore, *blat* can be viewed positively even though it increases social inequalities. Thus, there is no evidence to support a by-product theory of *blat* in particular or the informal economy more widely.

5.2.3. Is *blat* a complement or an alternative of the formal economy?

In the two sections above, the residue and by-product theories were refuted by the survey outcomes. Though some leftovers of the economy of shortages that fit a residue theory were found (traditional *blat*), the largest part of the informal networking (monetised *blat*) is rather widespread in the modern Ukrainian society. In order to

define which theory is most appropriate, namely the complementary or alternative perspective, various instances of *blat* usage including the motives, spheres and relationships of participants need to be analysed.

Social relationship between people is the source of *blat. Blat* is a form of such relationship. Thus, *blat* motives can be described purely by the complementary theory to the formal economy. However, it is less straightforward when analysing applications of *blat.* The participants were given nine different possible options (multiple answers were possible) to answer the question about the reasons for doing and receiving favours. Options chosen were selected to reflect most common reasons of using *blat*. Each option represents participant's attitude towards *blat* as a complement or alternative or both, alternative and complement, of the formal economy. However, some of the options do not have direct explanations within these theories. Table 5.8 draws a correspondence between answer options and applicable theories. Further, the most popular motives of using *blat* in each sphere are explored.

Table 5.8. Correspondence between answer options and applicable theories

Answer option	Corresponding theory
to circumvent the rules / laws / bureaucracy	Alternative. A result of avoiding ineffective state system of rules and regulations. In many cases, however, this is a crime which can be classified as authority abuse or as corruption, if it is monetised.
to make rules / laws work	Alternative. Countermeasure to authority abuse by officials.
to reduce final price	Complementary. This is mostly a pleasant bonus to the regular earnings. It is not the by-product theory, since usually it is not a survival strategy.
to improve quality	
to get information	Complementary.
to be introduced to useful people	Complementary.
to receive service without a queue	Alternative. Similar to 'circumventing rules / laws / bureaucracy'.
to maintain connections	Complementary theory. This is the source of *blat.*
other	n/a

It should be noted at the outset, that the majority of favours done by officials for money refer to corruption. Corruption is not included in the subjects of this research and, therefore, will not be theorised.

In general, the most common reason for asking for a favour was 'to improve quality' and 'to get information': 24 and 23 percent respectively (Appendix C, Table 1). The major reasons why participants' were asked about a favour were 'to get information' and 'to be introduced to useful people': 32 and 20 percent respectively.

According to Table 1 in Appendix C, in the sphere of medical services *blat* is used to improve the quality of provision in the majority of cases (53 percent). As discussed in the previous section on informal income, medical services are sometimes unofficially paid, although officially free in state hospitals. According to a widespread belief, it is impossible to receive a proper quality medical help in a state hospital without an informal payment. However, informal relations with doctors are still important and significantly influence treatment of a patient. This confirms the complementary theory as money often is not as important as a willingness to help someone from your network. One of the participants, a manager of a firm, stated:

> 'If you personally know the chief physician you will get absolutely different treatment. I always go to the doctors pulling strings. Once I recommended a good doctor to my sister. She visited this doctor without being patronized and did not receive proper quality and care from him as I did. Besides, there is a standard tariff you pay unofficially for doctor's consultation: 50 hryvnias. This gives you some confidence of being treated properly, with due carefulness'.

However, medical workers interviewed deny the existence of the fixed tariff paid in 'free' state hospitals. A young woman, working as a doctor, explained:

> 'Sometimes thankful patients bring me flowers or sweets; sometimes they tuck money into my pocket after the appointment…The doctors do not have any tariffs

for their consultation. Even though patients sometimes give me money, the amounts vary'.

The answers cited above suggest that people from different social circles have different ideas on attending a hospital and rewarding the doctors. For a number of participants, it is a rule to go to a doctor only through their personal connections (69.5 percent of interviewees reported the use of connections when receiving medical help) and pay cash-in-hand for a consultation (35.5 percent of participants said that they reward a doctor unofficially with cash or a gift). For the rest of respondents, it is either still not obvious that there are informal 'tariffs' for the doctors' consultations, or they just have no connections to use, when attending a hospital.

Interestingly, in 8 percent of cases, *blat* was used in the sphere of medical services with the purpose of circumventing the rules. This obviously may include issuing of sham health certificates, medical reports and prescriptions. Talking about importance of money nowadays, an unemployed female mentioned that one can obtain a health certificate from the medical board for 100 hryvnias. Such abuse of authority by health care workers is illegal.

When arranging matters with the traffic police, the main motive is to circumvent the rules or laws. In addition, in half of all cases (51 percent) the favours are paid either in cash or with a gift. These results confirm that *blat* is monetised in this sphere and could be related to corruption. It is important to note that people may be both reluctant and happy to speak about unlawful (although widely accepted) practices. A woman employed in the services sector felt rather uncomfortable to talk about informal arrangements at the traffic police:

'No, we settled all our problems with traffic police according to the law… [in a lower voice] Everyone after all knows how it is done here'.

In contrast, some participants openly report illegal actions of the officials, who take

bribes. Moreover, consciously or not, they disclose their own participation in these illegal arrangements. For example, a woman, who works as a clerk in a firm, easily related:

> ‘It is well known that traffic police and firemen are the most corrupt. I regularly have to give them bribes: when they stop us on the road for some violation, when we need to register the vehicle, when they inspect the premises of my husband’s firm’.

The participant here openly reports that she gives bribes, which is illegal. Similarly, other participant, an entrepreneur, reported:

> ‘When firemen find the violation of the fire safety rules you must either improve the imperfection or pay bribe (which is often cheaper). After you paid the bribe firemen even do not check the fire security of premises. They try their best only to find violations and rip you off. Traffic police works in the same manner: their aim is not to prevent an accident, but to make a record and rib off’.

These answers confirm the idea that traffic police and fire safety organs are unofficially paid in order to circumvent the law which is indicative of corruption in these spheres.

When getting a job, informal connections are used for getting information (44 percent) and being introduced to useful people (28 percent). It is often reported that without connections it is very difficult to find a job. The participants, who claimed this, are mostly either former technical school graduates without work experience, or workers older than 40-50 years old. For example, an unemployed man, aged 46-55 years old, stated:

> ‘I worked in the plant for a long time. After the bankruptcy of the plant all my connections are lost. Now I have to get by somehow on different temporary jobs

because after the age of 50 years and without connections nobody wants to employ you full-time and formally'.

An officially unemployed woman, aged 46-55 years old, who works informally, came across a similar problem:

'Nobody in our family works officially. My sons cannot find a permanent job after they finished technical school. And it is very difficult to find a permanent job for women after 40 and men after 50 years without any connections'.

The answers above have already been cited to explain the reasons for not being officially registered. Here, it should be emphasized that it is the absence of connections that makes official employment difficult. This means that less well-off households cannot use *blat* due to the absence of useful connections or an inability to afford it. This supports the assumption in the previous section that by-product theory is not applicable here. Complementary theory can better explain the use of connections for getting a job. This is because the help with finding a job is rather socially, than profit motivated and more obtainable for well-off, well-connected households.

Places in primary schools and universities may be obtained by circumventing the rules or laws. In some 17 percent of all cases of using *blat* to get a place at school or university, the main motive was to circumvent the rules (might be referred to corruption). However, connections were mostly used in the sphere of education to improve quality (34 percent). For instance, a woman, who works in the services sector, commented:

'I asked for the help of a woman I knew when placing my son to another, better school. My neighbour (a former teacher) advised that there is a very good school with a competent director, good teaching staff and everything is neat and tidy. They say it is not easy to be accepted there. That is why I asked her to

recommend me to a director of this school'.

Thus, the best way to explain the use of *blat* when getting a place at school or university is to view it as a complement to formal economy. Indeed, social relations play a very important role here. However if these relations are monetised and favours done are purely financially motivated, complementary *blat* turns into corruption.

In the legal (including justice) sphere, *blat* is used to get information (40 percent), to be introduced to useful people (19 percent) and to make rules / laws work (19 percent). The last issue needs special attention.

It is a common practice in Ukraine that laws are not obeyed by officials. Furthermore, there are special *blat* relations among state officials of different branches of power, for example, violations by the police (Militsiya) may be covered by prosecution officers (Prokuratura), which in turn may be backed by decisions of courts of justice. Thus, everyone breaches the law in favour of others in power, and there is no possibility for an 'ordinary' person, without *blat*, to defend his/her rights, should he/she require protection or face an unlawful action from other parties (officers in power or businesses) with well-established *blat*. For example, tax officers deliberately levy fines based on non-existing violations of tax code by entrepreneurs. When the entrepreneur files a claim to court of justice he/she is most likely to lose it unless he/she has some connections with judges.

When trying to avoid obligatory service in the army *blat* is used to circumvent rules and laws (67 percent). Interestingly *blat* in this sphere is rewarded by cash in 88 percent of cases. This indicates that, as well as in the case with traffic police, here *blat* is monetised and can be referred to corruption.

In everyday services and repairs of housing, connections are used to improve quality and reduce the price in the majority of cases. Admittedly, this means that participants get recommendations and discounts for such services, which is a widespread practice and characteristic not solely in Ukraine. As shown in Table 5.8, this corresponds with the complementary theory of the informal economy.

Hobbies, entertainment, resorts/holidays, travelling tickets (in 27 percent of cases), tickets for events, theatre, concerts (48 percent) and consumer goods (48 percent) can be acquired at a lower price if this is done through an acquaintance. For example, a young woman, who works as a doctor, recounted:

> 'According to the law, I have the right to obtain a sanatorium voucher for 20 percent of its price every five years because of my health condition. My colleague is responsible for the distribution of these vouchers. Last time I brought her a souvenir from the sanatorium and now I hope to obtain discounted voucher next year as well. It is easier 'to make friends' with the authorised person for 100 hryvnias than to pay 3000 hryvnias full price'.

Other participant, a young man, a musician, who has irregular informal income and often relies on his friends in artistic community, asserted:

> 'I have a lot of friends in the artistic circle. They always help me to get a free ticket for a concert when they have an opportunity'.

Although both cases involve the use of connections with the aim of saving some money, social ties play the most important role. This is a complement to the formal activities, an opportunity, rather than a necessity for *blat* users and for *blat* providers. It is a friendly help, not a source of income. Therefore, the most suitable theory to describe *blat* usage, when purchasing sanatorium vouchers, tickets for events, theatre, concerts and day-to-day goods, is complementary theory.

It is worth mentioning that the sphere of resort travel (including sanatorium vouchers) and travel tickets requires circumventing rules or making rules work, 10 and 6 percent respectfully of *blat* usage cases in this sphere. There may still exist a deficit in services supply for example train tickets in the Crimea direction during summer holidays period, or train and bus tickets to Kyiv when the autumn term starts at the

universities. Such a deficit creates a room for the abuse of position for people responsible for ticket and voucher distribution as in the foregoing case on discounted sanatorium vouchers and the following case of a man, who works as a maritime pilot:

> ‘Our neighbour’s sister works in the railway ticket office. In the peak season there is often no tickets for the right date and the right train. In this case we call our neighbour and she settles the problem. We usually bring her a box of chocolates for the favour she does and she is happy to help us again next time’.

This example confirms that there still exists a residue of old-fashioned Soviet *blat* that is used for personal consumption in conditions of shortages. However another *‘blatless’* but informal way of solving such a problem was reported by one of the participants:

> ‘I study in Kyiv and usually go home to Mykolayiv for holidays. I never buy tickets beforehand and it often happens that tickets are sold out for the necessary date. In this case I just come to the station before the departure and speak to the conductors. They are usually happy to shelter me in their own compartment for 150 hryvnias. The bargain is often made at the price of a second-class ticket’.

Obviously, in this case no connections are used. This confirms the possibility of solving public transport problems through circumventing the rules through cash-in-hand payment to the unknown conductor. In this situation, *blat* is substituted with an informal cash-in-hand transaction.

Although foodstuffs are largely available in the Ukrainian market today, people still use connections to obtain goods of higher quality, since quality food (e.g. organic) is now in a short supply or unaffordable for the majority of the population. Indeed, the motive of quality improvement was cited in 42 percent of cases. As a woman working as a manager asserted:

> ‘I buy meat in the market as the choice is better there than in the shop. However I always try to buy it from the farmer I know. She will advise the better slice and I can even order the fresh poultry beforehand. When you buy in the shop or from the unknown supplier you never can be sure of the quality or freshness’.

However, the participant considers that such use of connections for the personal benefit cannot be called *blat*. Positively, the practice of buying from the person you know is not solely a characteristic of post-Soviet countries.

Communicating with local authorities using personal connections arise from the need of getting information (25 percent), making the rules/laws work (25 percent) and to circumvent the rules/laws (16 percent). If linked with the information from Table 5.3a above, on the types of reward given for favours received, it reveals the corrupt nature of local authorities. The favours in this sphere were paid with cash in 41 percent of cases, and a gift was given in 16 percent of cases. Only 27 percent of favours were done *quid pro quo* and can be regarded as non-monetised *blat*. Such unpaid favours could be viewed as an alternative or a complement to formal settling of the matters. Alternative, because the reasons for using informal connections are complex bureaucratic procedures and overregulation of the economy. Complementary, as sociality motives are brought into play.

In solving more serious questions with local authorities it is not that easy to pay for ‘a good turn’. Informal payment for getting things done (circumventing rules or making the rules work) is obviously a bribe and theoretically is prosecuted. Therefore, state officials may not wish to take the money from the unknown person. For this reason money should often be complemented by connections. The bribe maker should be recommended by someone reliable otherwise there is a risk of being exposed. As a woman-entrepreneur stated:

> ‘It is impossible to run a small business today. Everyone wants to rip you off. Tax inspection has a plan from above to gather a certain amount of tax and penalties

from taxpayers. They have to ascribe inexistent violations to you. I won several trials against them but they are just growing angry. I am afraid one day they are going to ruin my business... I wish there were at least equal conditions for all businesses. Some are but some are not pressurised by the tax inspection. This makes competition unfair'.

In this case, money is extorted from the entrepreneur by local tax officials. The way out of this situation is either to admit violation and pay a fine, or to give bribe to the official to settle the matter, or take the matter to the court. Though the latter is the most legitimate, it does not guarantee positive outcomes and sometimes expose the business to a greater danger.

To summarise, the findings indicate that neither complimentary nor alternative theory is capable of explaining *blat* usage, although complimentary theory gives a reasonable insight into the roots of *blat*.

5.2.4. The big picture of *blat*

In Chapter 4 it was attempted to approach and understand *blat* in relation to the formal economy from the same viewpoint as the informal economy, i.e. evaluating existing theories of the informal economy against the survey results. However, none proved to give satisfactory explanations to the complex phenomenology of *blat*.

A better key to understanding *blat* was already mentioned in the analysis in Section 5.2.2. It showed that there is no statistically significant association between participation in the informal economy and *blat*. Moreover, both formal and informal workers participate in *blat* relations in almost equal proportions. From a statistical point of view, this means that *blat* and the informal economy are neither complements, nor substitutes. If they were complements, there would be positive correlation between participation in *blat* and in the informal economy, and if substitutes, a negative correlation.

Blat and the informal economy are in essence different types of phenomena, even separate and discrete from each other. *Blat* is the method of getting things done within either formal or the informal economy. Money is a method of exchanging value between parties in an economic transaction, and *blat* plays the same role – it mediates transactions. *Blat*, as a method, is not exclusively a characteristic of either the formal or informal economy – it can be used for arranging matters both in the formal and informal economies. Furthermore, *blat* and money can be used together to complete a transaction. Possible ways to get things done with *blat* and/or money in the formal and informal economies are given below in Table 5.9.

Table 5.9. The relationship between money, *blat* and the informal economy.

<table>
<tr><th></th><th>MONEY
(including in-kind transfer)</th><th>BLAT</th></tr>
<tr><td rowspan="2">FORMAL</td><td>Proper ‘white’ market. All transactions are recorded and provided to authorities. Customers and sellers do not favour each other.

Example:
- buying a car officially from an official dealership.</td><td>Use of blat in formal enterprises. No money is involved in transactions.

Examples:
- getting a job offer through blat relations with executive in the formal enterprise or institution;
- getting a better service (without queue and proper attention) in the hospital through blat relations with the doctor.</td></tr>
<tr><td colspan="2">Use of blat in formal enterprises. All cash flows are recorded and provided to authorities. Blat relations result in exclusive possibilities or unfair competition.

Examples:
- getting an upgrade car equipment for the same money, as a present, due to blat with sales representative in official dealership;
- asking a friend who works in Apple store to sell you the new iPhone without a queue.</td></tr>
<tr><td rowspan="2">INFORMAL</td><td>Informal economy. Cash flows are hidden from authorities. Customers and sellers do not favour each other.

Examples:
- buying a car (or tomatoes) in the ‘black’ market;
- unofficial payment to a conductor on a sleeping carriage on a train to let you travel in her/his compartment overnight.</td><td>Use of blat in informal enterprises. No money is involved in transactions.

Examples:
- getting an informal job through blat;
- your uncle fixes your (recently bought on ‘black’ market) car for free in his unregistered garage; common practice.</td></tr>
<tr><td colspan="2">Use of blat and money in informal enterprises. All cash flows are hidden from authorities. Blat relations result in exclusive possibilities or unfair competition.

Examples:
- being recommended to a tax inspector in order to be able to give him money for leaving the business alone (bribery, is a crime);
- acting through a person you know or through the reference from this person decreases the risk of purchasing a stolen or defective car in the ‘black’ market;
- buying fresher tomatoes due to blat relations with a seller on a ‘black’ market.
- when placing a child in a good school with limited places, one must be recommended to a school director. Later, depending on a situation, a gift or cash should be given to a director or an intermediate.</td></tr>
</table>

5.3. Blat: summary of the findings

Arranging matters through the use of personal connections (*blat*) is rather widespread today and has not lost its importance since the Soviet times. However, while *blat* relations meant an exchange of favours and did not normally include money, today such favours often are financially rewarded. Moreover, when such paid favours involve an abuse of authority, it can be classified as corruption. Similar to the Soviet times, the majority of people do not actively participate in *blat* relations as they simply do not have 'useful connections'. The survey showed that only a quarter of the participants are actively involved in *blat* relations (i.e., benefited from *blat* in more than four spheres), whereas the majority perceive *blat* positively or neutrally: only 12.5 percent of the participants view *blat* negatively or very negatively. Interestingly, it is possible to cope with many tasks without the use of *blat*. The main reasons people still pull strings are to save time and to feel confidence that the aim will be achieved.

The term *blat* is becoming more outdated today. The participants did not include this term in their answers. Instead, the broader term 'through connections' was used. This expression would better describe the way of how things are done in Ukraine today. However, in some cases when people say that 'connections' are involved (mostly when buying and selling goods and services), they describe their loyalty to seller and his/her goodwill and reputation. This, probably, cannot be treated as *blat*.

Connections are the most widely used in the spheres of medical services, finding a job, local authorities, traffic police matters and education. Moreover, in these spheres, 'favours' are commonly paid according to the quantitative and qualitative data analysis. Statistical analysis revealed that participants from the higher income groups and lower age groups use *blat* more widely. In contrast, the usage of *blat* is not connected with the participants' gender and participation in the informal economy.

The purposes of using *blat* in various spheres are different. While in the sphere of medical services and education the main aim of *blat* is the improvement of services quality, in the realms of local authorities and traffic police the main purpose of involving acquaintances is to bypass the rules and laws or vice versa – to make them work.

Therefore different theories could be used to explain different instances of *blat*. Non-monetized exchange of favours in the conditions of shortages still exists nowadays and is a residue of the Soviet society. However the vast majority of modern *blat* relations are based on motives other than obtaining goods in short supply and a residue theory is inapplicable here. The by-product theory is also invalid for modern *blat* relations as this is unaffordable for the marginalized population. The better financial and social position of the household is, the more opportunities for pulling strings exist. The alternative theory cannot perfectly explain *blat* phenomenon as well. This theory does not imply social motives that are the basis for *blat* relations. Moreover, formal economy and informal *blat* relationships are intertwined, which also contradicts with the alternative theory. The complementary theory is more suitable to explain *blat*. Indeed, favours are often exchanged with friends, relatives and acquaintances or 'friends of friends' (referred as 'other' in questionnaire), are usually not paid (similarly to day-to-day services discussed in the previous section) and the main motive of such relations is to build closer social network of mutual support. However, even complementary theory fails to explain instances, when *blat* is used to circumvent the rules / laws / bureaucracy, to make rules / laws work, to receive service without a queue. In these cases *blat* is increasingly monetised and social motives are often secondary in such *blat* relations. However, paid favours to officials (which are the main instances of monetized *blat*) often signify pure corruption and are a subject of separate research and theorisation.

To sum up, some instances of *blat* cannot accurately fit any of the four theories of the informal economy. In addition, quantitative analysis revealed that *blat* and the informal work are neither substitutes, nor complements. Therefore, an alternative approach to *blat* theorisation is suggested in Section 5.2.4. Firstly, it views *blat* and the informal work as two separate phenomena. Secondly, *blat*, as well as money, is argued to mediate transactions within either formal or the informal economy. This framework is the major theoretical contribution of the thesis: it shows the interconnection of *blat* and the informal/formal economies and explains the role of *blat* within both. In previous

studies this had not been done so far.

6. OVERALL CONCLUSIONS

6.1. Summary of key findings

6.1.1. Definition of the informal economy and *blat*

There is no uniform way to define informal work. In this thesis, the approach used by the OECD to define informal work is adopted. According to this activity-based definition, informal work is 'any paid activities that are lawful as regards their nature but not declared to the public authorities'. Self-provisioning and illegal activity are not considered in the thesis, as self-provisioning is unpaid and illegal activity is not lawful. The second focus of the research, namely *blat,* is defined as the use of personal networks for obtaining goods and services in a beneficial way and for circumventing formal procedures.

6.1.2. Literature review

Four theoretical approaches exist that consider informal economy as a residue of pre-capitalism, a by-product of the formal economy, a complement to the formal economy and an alternative to the formal economy. The diverse nature of informal economic activities may be explored by the instrumentality of these four theories. While in developed countries, the complementary theory of the informal economy is mostly applicable, the informal economy in less developed countries better fits the alternative and by-product theories.

It is shown in the literature review that the validity of the contrasting theorisations of the informal economy in Ukraine was evaluated only by few commentators and the issue of *blat* in Ukraine was not considered at all. This doctoral research project is aimed at filling this gap in the knowledge. It examines informal work more directly and in detail and also *blat* and therefore provides clearer and deeper understanding of informal work in an urban area of Ukraine.

6.1.3. Methodology

In spite of epistemological contradictions, the mixed methods approach employed for this doctoral research was beneficial for several reasons. Firstly, it gave an opportunity to address different research questions: the extent and nature of the informal economy and motives of and attitudes towards informal work and *blat*. For the former, the quantitative method was mainly used and for the latter, mainly qualitative. Secondly, qualitative data analysis helped to explain the results of the survey and provided an in-depth understanding of the research question.

6.1.4. A critical evaluation of theories of the informal economy

It was found that informal work in Ukraine's economy is quite significant: nearly 45 percent of the participants are fully or partially involved in informal activities. It should be born in mind that the figure does not include 'envelope wages' (some part of salary that is paid unofficially together with official one) to registered workers. However, 'envelope wages' must be included when measuring the informal economy and it was found that nearly 30 percent of employees in Ukraine receive these partially informal wages (Williams and Round, 2008). Therefore, supposedly, the percentage of informality in Ukrainian economy should be much higher than the estimated 45 percent since many jobs that superficially appear to be formal jobs possess an informal component.

Informal work in Ukraine is diverse by nature and the motives of being informal vary accordingly. Thus, there exists no single theory that explains the informal economy in Ukraine. In order to find which theories are applicable to Ukrainian reality, the survey results were evaluated against existing theories of the informal economy. The analysis of the data revealed that the most prominent type of informal worker is the one engaged in several activities, one of which is officially registered. This can be either a self-employed or waged worker; 33 out of 80 participants (41 percent) can be put into this category. They exit the formal economy in order to avoid 'extra' tax and

therefore conform to the alternative theory of the informal economy.

The second most popular type of informal worker constitutes 21 out of 80 participants (26 percent). It includes students / unemployed / retired who are, as well as the first group, informal out of choice and related to the alternative theory. Although not supposed to work, they work informally with the motives of profit maximisation.

The next largest category is waged employees that would choose to work formally, but cannot find a formal job. They constitute 16 out of 80 participants that work informally (20 percent). These people have to work informally because their employers do not want to register them in order not to pay taxes from their salary. Thus, such workers should be considered from the structuralist point of view (by-product theory). However, it needs to be stressed, that these are employers, who create such informal workplaces and their aim is to reduce costs through the tax evasion, which relates them to the alternative theory.

The last group are fully informal waged workers and self-employed. This is the smallest group of informal workers; only 9 out of 80 participants (11 percent) do not have any registered activity. They voluntarily exit the formal economy because of their distrust of the government and low tax morality. These workers choose informality as an alternative to formal work. As a result, the largest part of the informal work in Ukraine relates to the alternative theory. This should be taken into consideration when developing policies to combat informal work.

6.1.5. The role of informal work in the provision of everyday domestic services.

Everyday domestic activities were explored separately in detail. The most important objective here was to evaluate what suppliers and consumers are motivated by when participating in paid community exchange in this sphere. Are they solely profit motivated or have other than economical reasons, such as redistribution or developing social networks?

The survey showed that the majority of housework performed by kin, friends

and neighbours are unpaid and represent reciprocal exchange of favours between households. When friends and relatives are paid for their work, this is usually their regular job and a very important source of income. In the majority of cases, the motives of doing this work are connected with earning a leaving or just gaining an additional income, which otherwise could not be obtained. Thus, paid informal work here represents mostly a by-product or alternative theory of the informal economy. There is not enough evidence to support complementary theory, as social and redistributive motives are quite uncommon for paid work for/by close people. This theory is mostly applicable for unpaid informal work. And finally, residue theory can be completely refuted.

6.1.6. Theorising the contemporary role of *blat*

Although the term *blat* is becoming more outdated today, personal connections in Ukraine are still rather important for arranging matters in a beneficial way. However, unlike in the Soviet times when *blat* relations meant an exchange of favours and did not normally include money, today such favours are often financially rewarded. This means *blat* is monetised today and even takes the shape of corruption in some cases. It was found that coping with many tasks without the use of *blat* is possible. However people still try to involve connections in order to make themselves safer when arranging matters in an alternative beneficial way. The spheres where connections are most widely used today are medical services, finding a job, local authorities, traffic police matters and education. Quantitative analysis showed that participants from the higher income groups and lower age groups use connections more widely.

The purposes of using *blat* in various spheres are different. While in the sphere of medical services and education, the main aim of *blat* is the improvement of quality of the services, for the matters of local authorities and traffic police the main purpose of involving acquaintances is to bypass the rules and laws or vice versa to make them work.

Therefore, different theories should be used to explain different instances of the use of *blat*. A residue theory might be applied to the non-monetized exchange of favours in the conditions of shortages. This theory is of little relevance to contemporary *blat* in Ukraine. The by-product theory is also irrelevant to modern *blat* relations as no instances of using *blat* as a survival strategy has been found. In addition, *blat* by no means is associated with the marginal population excluded from formal economy.

The analysis showed that none of the theories was capable of thoroughly explaining the phenomena of *blat.* Furthermore, no relationship between participation in *blat* and the informal economy was found as a result of statistical testing. Therefore an alternative theorisation of *blat* as a method of settling matters was suggested (Section 5.2.4). It explains possible ways to get things done with *blat* and/or money in the formal and informal economies. Indeed, *blat* could be viewed as an alternative or a complement to formal settling of the matters. Alternative theory is applicable when *blat* is used to cope with complex bureaucratic procedures and overregulation of the economy. Complimentary theory is viable when sociality motives come into play and thus, gives a reasonable insight into the roots of *blat*.

6.2. Theoretical conclusions and policy implications

This section will firstly provide a brief review of existing policy approaches to tackle the informal economy and afterwards specific policy measures with regard to the survey findings and theoretical conclusions will be discussed.

6.2.1. Approaches to tackling the informal economy

Williams and Renooy (2009) provide the summary of existing policies to tackle informal work (Table 6.1). They divide these approaches into two large groups: deterrence and enabling compliance.

Table 6.1. Policy approaches used for combating informal work (Williams and Renooy, 2009: Table 8)

Approach	Method	Measures
Deterrence	Improve detection	• Data matching and sharing • Joining-up strategy • Joining-up operations
	Penalties	• Increasing penalties for evasion
Enabling compliance	Preventative	• Simplifying compliance • Direct and indirect tax incentives • Smooth transition into self-employment • Introducing new categories of work • Micro-enterprise development
	Curative	Purchaser incentives: • service vouchers • targeted direct taxes • targeted indirect taxes Supplier incentives: • society-wide amnesties • voluntary disclosure • business advisory and support services
	Fostering commitment	• Promoting benefits of declared work • Education • Peer-to-peer surveillance • Tax fairness • Procedural justice • Redistributive justice

The deterrence approach is aimed at changing the behaviour of informal worker through detection and punishment. This is the most traditional approach which is based on the assumption that person will evade the tax unless the benefit from tax evasion is lower than the expected cost of being detected. In microeconomics the situation of tax evasion can be viewed from the point of consumer choice under uncertainty theory (Katz and Rosen, 2005). It suggests that for a given probability of being detected, when tax increases, penalties should be increased as well to discourage evasion. Since the higher the tax rate, the greater is expected benefit from hiding each unit of income. If

the ‘reward’ of cheating grows, so must the fine to discourage it. Thus, one of the benefits of reducing tax rates can be reduction in tax evasion.

Let f be the value of penalty for tax evasion, p – the probability of being detected and t – the tax rate.

Then, by the given level of risk aversion, the expected loss of being detected must equal the expected gain of not being caught:

$$p \times f = (1-p) \times t$$

or

$$f = (1-p) \times t / p$$

The equation shows that the penalty rate should be at least equal to the odds of not being detected times tax rate to eliminate tax evasion. Therefore, if the tax evasion is high, this indicates that the risk of being detected and severity of punishment are not tangible enough or smaller than the benefits obtained from being informal.

On the one hand, punishments and control can be strengthened, for example, envelope wages might be tackled organizing labour inspections on the enterprises questioning all the workers whether their rights are respected and particularly how they receive their salaries. Although the employees could be inclined to lie to the inspectors, there can still be a probability of detecting unlawful employers actions due to the straightforwardness or fear of the employees, or their willingness to cross the ’hateful bourgeois’ up.

On the other hand, individuals’ risk aversion can be effectively changed (that is decreasing economic gain from avoiding paying taxes) through policy modification. Policy modification has an advantage over the increased control. There is a risk that stricter control will open new opportunities for the corrupt inspectors. While the pressure on small and medium businesses is already very high, enhanced control can eradicate entrepreneurship.

The enabling approach seeks to change the behaviour of informal workers that are viewed as inclined to comply with the law. The role of the tax authorities here is to encourage and secure compliance and not to enforce or punish. Williams and Renooy

(2009) determine three different forms of positive reinforcement approach. First, preventative measures are aimed at creating conditions to enable people to work formally at the outset, for example, simplifying regulations and provide business support and advice. Second, curative measures are incentives that encourage informal workers to come out of the shadow, for example amnesties for those who transfer from informal to formal realm. Third, commitment measures are based on improving tax morality. For instance, raising awareness about the benefits of declared work and the pursuit of perceived tax fairness and redistributive justice.

The enabling and deterring measures may be used in tandem or separately depending on the nature of the informal economy that prevails in the area. In the next sections the main problems that prevent employees and employers from declaring their income will be outlined. Basing on this, possible policy measures to tackle informal work will be proposed.

6.2.2. Evaluating policy approaches

The findings discussed in the previous sections provide a more nuanced understanding of informal work in Ukraine rather than a conventional view of the informal economy as a purely negative phenomenon and a subject for deterrence and eradication. Without such a more nuanced understanding, the government could continue implementing severe deterrence practices (admittedly, together with an enabling compliance approach) which eradicate entrepreneurship and the leftovers of tax morale of Ukrainians.

The survey findings and the previous evaluations of policy measures adopted in other countries provide valuable guidance for developing policy solutions tailored to each type of the informal work in Ukraine. These types can be divided into two main groups: the informal work that is an alternative to, and that is a by-product of, the formal economy. The most prominent types of tax evaders that choose informality as an alternative are:

i. Waged employed and self-employed officially registered at their main job and receiving unofficial income from their side activity. The main reason for being informal here is inappropriate regulation by the state, namely high taxes, bureaucracy and corruption of local authorities

ii. Students, retired and unemployed who work informally in order to receive additional income. Even though such informal work often represents a survival strategy of subsistence households, informality is an exit and therefore is still in line with the alternative theory.

iii. Fully informal waged workers and self-employed with the aim to increase net income by means of tax evasion and/or to avoid extortion of local officials.

iv. The last but not least (if not the most important) are the workers that receive 'envelope wages' (found to be the most prominent type of informal employee by Williams and Round (2008), although not covered by the survey).

Altogether they constitute some 80 percent of all informal workers and only 15.6 percent of these voluntary informal workers are fully informal. The main reason for the existence of such a large group of informal workers who voluntarily exit the formal economy is low tax morality. It was found that improvement in tax morale can reduce predicted tax evasion (Andreoni *et al.*, 1998; Wenzel, 2002; Torgler, 2004). Tax morale, in turn, 'depends on how satisfied taxpayers are with their national officers and the political system' (Torgler, 2004: 20). When coping with the informal work caused by low tax morale, an enabling approach is more preferable than a deterrence approach. This is because a deterrence approach with its strict enforcement measures is likely to further increase existing widespread tax evasion (Borck, 2004) and deter the entrepreneurial endeavour (Williams, 2010a). Therefore, an enabling approach towards compliance should be adopted with respect to informal workers (both self-employed and waged-employed) that voluntary exit formal economy. This approach may include tailored advertising campaigns, providing information and promoting compliance; tax

compliance appeals in the form of notification letters; tax knowledge improvement, and changing the attitudes of tax offices (Williams and Renooy, 2009). The most important though could be the changes in the perceived fairness and justice of the tax system (Kinsey and Gramsick, 1993; Hartner *et al.*, 2008). Indeed, the survey revealed that the main reasons for being informal are the ineffective social security system and damaged image of the government. Therefore, in Ukrainian reality, the measures listed might be ineffective without changes in taxation and social security systems and, more importantly, the image of the government.

The first main issue with regard to the fairness of tax system is the fact that the amount of personal contributions to social funds is poorly connected with the amount of expected pension. The pension system is evidently weak and ineffective. Improvements in this system could enhance income declaration. However, the amendments to the system will be ineffective without changing peoples' perception of the state and government. The second issue is the distrust of the government and low tax morality in Ukraine (Williams, 2009; Bunescu and Comaniciu, 2011; Gorshenin Institute, 2007), which is confirmed by this research as well. The negative image was built by some state officials themselves passing pro-large businesses laws, not hiding extravagant purchases, and the mass media actively bringing this home to the masses.

To cope with the first problem, Ukraine needs a transition from a joint pension system to an accumulative one. An accumulative pension system may be a good incentive to contribute more to the social funds. If the amount of the expected pension strongly depends on the amount of personal contributions, taxpayers will be willing to pay the required sum of money. The most challenging task here is to guarantee pension benefits in the future. Once defrauded, people prefer saving money 'under the pillow' for future rather than trust it to the state.

The second problem connected with the low tax morale of Ukrainians, is the popular belief that the money paid by ordinary people to the budget is continuously being stolen by state officials, although taxes and social funds contributions are supposed to be used for the welfare of state. Such public opinion is not surprising as

mass media poorly cover the news about improvements funded from the budget undertaken in Ukraine. Instead, discussions of state officials' luxurious belongings and property are rather prevalent and common. This all contributes to an extremely poor image of the government. For example, it was broadly reported on the internet that the new property of the President is the same area as Hyde Park – 140 hectares. Naturally, it is perceived as a budget robbery. If people see that the money they pay to the budget is used properly (hospitals are renovated, roads are laid, science is given grants, pension benefits are increased etc.) and officials look modest, tax morale will be improved. However this can only be achieved through the elite understanding that such change will benefit the country and themselves.

Beyond fostering commitment measures, prevention and curative measures (Williams and Renooy, 2009) could also be effective for tackling informal work. The example of such measures might be the decrease in employer's social fund contributions. Comparing employer pension fund contributions in different post-socialist countries, Ukraine obviously has the highest pension fund contribution employers pay for their employees, and one of the smallest pension contributions deducted from employees salaries. In 2011, the amount paid to pension funds by employers had even increased and constituted 36.76 – 49.7 percent of employees' gross salary. If this rate is really tangibly reduced, for example halved, it will be more realistic for the employer to pay it and show the full salary amount. The problem with this approach is that such a significant decrease in tax will influence the budget revenues negatively and the state may run into a heavy deficit in pension benefit payments, which could only be offset by an increase in the number of registered jobs. The latter, however, has uncertain prospect without a more complex approach to reforming the existing system. Besides, Williams and Renooy (2009) argue that a reduction of overall tax rates may not be effective for tackling informal work. They mention two reasons for this. Firstly, there is no evidence that reducing tax rates will reduce the informal economy. On the contrary, the informal economy is more prevalent in the poorer countries where the tax rates are lower and in affluent countries the situation is the opposite. Secondly, general tax

reforms have very broad influence on the whole economy. Therefore the authors suggest more targeted measures to eradicate informal work.

The by-product theory of the informal economy covers a large group of informal workers in Ukraine. These are low-paid salaried workers that would prefer to work officially, but were refused to by their employer. They constitute 38 percent of all informal salaried workers or 20 percent of all informal workers. Although in relation to this type of informal worker, the deterrence approach is often suggested, it is necessary to look at the reasons for this informal work more carefully. An alternative rather than by-product approach should be used when considering the workers that are excluded from the formal economy. This choice is justified by the fact that decisions of employers seeking to reduce payroll costs are definitive for waged workers in both exit and exclusion cases. Employers mostly decide, whether an employee should be formal, informal or partially informal (receive 'envelope' wages). An employee often has no other choice, but to accept the terms of employer, otherwise he/she risks remaining unemployed. Taking into consideration high social security contribution charges that employers pay for each worker, they choose not to register workers officially or minimise workers' reported salary paying 'envelope' wages. Here, therefore, the policy measures should be mainly targeted at the employers. As in the case with informal workers exiting formal economy, the approach may include preventative and curative measures, for example, the reduction of employers' contributions to the social security funds.

As for the rest of the informal activities, they correspond to the residue and complementary theories of the informal economy. The domestic services survey revealed that socially-motivated favours done for relatives and friends are not paid in the majority of cases and therefore cannot be considered as informal work (as there is nothing to declare). Domestic services done by participants for close people were paid (supply side) only in 11 percent of cases. Participants paid their close people for the work done (consumption side) in only 4 percent of cases. This displays that money or

in-kind payments to relatives and friends are not common in the area surveyed. Furthermore, this rare monetised domestic work for/by relatives and friends is often profit motivated, rather than socially motivated. Therefore, the complementary theory could be confirmed the best by the unpaid community exchange and informal networking (*blat*).

The examination of informal networks in Ukraine showed that traditional Soviet-type *blat* is almost inexistent here as in the Soviet times *blat* networks were based on the conditions of shortages of consumer goods. Today, the main issue is to find money rather than a commodity. Therefore, *blat* in its traditional meaning became a residue of a previous social system, whereas modern *blat* can be divided into two categories. First is monetised *blat*, which often can be considered as corruption and is illegal. Second is informal networking in the form of reciprocal favours. The former is not a subject of the discussion and needs to be researched and theorised separately. The latter, depending on sphere of usage (see Table 5.8, Section 5.2.3), may be explained using complementary or alternative theories.

In sum, there is no evidence yet what policy/set of policies is more effective and applicable to each particular type of informal work in any country. However, the importance of an enabling approach (often in combination with deterrence) is advocated by a growing number of authors (Williams and Renooy, 2009; European Parliament, 2008; Mateman and Renooy, 2001; Ahmed and Braithwaite, 2005). The compliance approach is based on the assumption that there exists an intrinsic motivation to pay taxes, tax morale. This means, in contrast to deterrence theory, that people pay taxes due to the belief that this is the right thing to do (Ahmed and Braithwaite, 2005). This is explained by the fact that the deterrence approach might negatively influence the tax morale of citizens, especially those who are normally inclined to comply. Therefore, taking into consideration extremely low tax morale in Ukraine, an enabling approach should be used along with the deterrence approach. If designed carefully, these policies will allow both to improve the tax morale of the workers that are inclined to comply (provided that tax system is fair) and to cope with

the irresponsible non-payers of taxes. Moreover, this will allow tailoring the combinations of measures to each type of the informal work by its nature, actors and their motives.

6.3. Limitations of the thesis

The limitations of this research concern the scope of research, the design of the questionnaire and issues arising during the fieldwork.

6.3.1. Limitations of the scope of research

There are two issues referring to the limitations in relation to the scope of the research. The first is that the survey did not address the issue of 'envelope wages' found in other studies and claimed to be the most prominent type of informal income (Williams and Round, 2008). Officially registered workers that receive an official salary at formal enterprises may also receive a 'black' salary not declared for tax purposes. Therefore, the number of people participating in informal activities could be potentially higher than 80 out of 178 or 45 percent.

The second limitation regarding the scope of research relates to how the informal economy is measured. To answer the question about the extent of informal work, the percentage of fully informal and totally informal workers was found. However, the monetary value of this informal work cannot be calculated. Although at least in one section (Domestic services) the participants were asked about the amounts they paid or received for the services, the question implied monetary value of the last transaction. Some services are performed on a regular basis and therefore the values are not representative of how much money was received during a certain period. However, the amount of hidden income and other quantitative indicators might better be measured using the indirect methods of research discussed in the Methodology section.

6.3.2. Limitation of the questionnaire design

Although a pilot survey was carried out and corresponding amendments were made, there are still a number of limitations found during the analysis of data.

The fourth question of the questionnaire on the total monthly income provides five possible answer options. They are the ranges of income in Ukrainian hryvnias: 'less than 1,000', '1,000-2,000', '2,000-3,000', '3,000-5,000' and more than 5,000. The last range 'more than 5,000' is too loose and could be possibly divided into '5,000-7,000', '7,000-10,000' and 'more than 10,000'. However, the members of higher income households tend not to disclose their actual income therefore 'more than 5,000' is much more acceptable and maybe even viable than more exact answer options.

Questions 7d and 8d that ask about the method of payment for domestic services and aimed at identifying informal income might not be representative. The suggested answers are 'fully through a bank/till/ etc. or cash with receipt', 'partly cash partly through a bank/till/ etc.' and 'cash, no receipt'. The problem is that according to Ukrainian legislation some private entrepreneurs are not obliged to carry out the sales through a till and to issue a receipt (i.e., a receipt only needs to be issued if the customer requests it). Therefore, their customers cannot know whether the supplier declares his/her income and the answers 'Cash, no receipt' does not necessarily indicate unofficial transaction.

Questions 12 and 16 in the 'Using Connections' section of the questionnaire asks about the way of rewarding the favours received and done for others. One of the answer options is 'with a gift'. Here, clarification is needed as it was found that 'the gift' is a loose concept. For instance, gifts can vary from a chocolate bar or a can of beer to an expensive cognac or a computer. A really insignificant gift should not be referred to as payment. Therefore, favours done for such gifts cannot be taken as evidence of *blat* monetisation.

Tables 6 and 7 list the spheres of using *blat* and include 'communicating with local authorities in business matters'. The list should also include 'communicating with local authorities in personal matters'. These could be for instance the issue of a

passport, completing the formalities for registration and even receiving a marriage certificate. Due to this limitation, both personal and business matters were recorded into one sphere. Obviously, it would be valuable to know which bodies are more corrupt.

The last but not least shortcoming of the questionnaire is the lack of consideration given to students, the retired and unemployed when talking about their secondary employment. Question 21 provides a table where possible extra-work places are listed. This is not clear for the retired whether their workplace is the 'unofficial work in your regular workplace' or 'unofficial work outside your regular workplace' as their main 'workplace' is being on a pension. In order to avoid ambiguity, being on pension is treated as their 'regular work place' (as well as study for the students and unemployment for unemployed) and any work outside this 'regular work place' is treated as work outside regular work place. It is suggested for further research to clarify this point in the questionnaire.

6.3.3. Fieldwork limitations

This limitation refers to the survey carried out. I came across frequent refusal to participate in the survey in general ('no time', 'not interested', 'I do not know you') or to answer this particular questionnaire as it contains sensitive questions about income, second job and not declaring economic activities. The latter are obviously frightening and some people think that the interviewer is an agent of the tax inspection office masked as a researcher from the University of Sheffield. Furthermore, answers of some interviewees have been flagrantly deceitful. For example, a person from a business-class house can answer with the ironical smile that the household income is 1000 hryvnias or a frightened person responds: 'We do everything according to the rules…Everybody knows how it is done…' Such obviously deceitful interviews were excluded from the survey.

6.4. Future research

Although quite detailed analysis of the extent and nature of informal work was done in this thesis, there is still much room for further research. Some of the gaps in the knowledge that need to be covered are the following.

This thesis explores only one urban area and in only one region of Ukraine – Mykolayiv – out of the 24 regions of Ukraine. It is important to study also rural areas as well as other regions of Ukraine. Afterwards, the results of different regions and urban and rural areas can be compared. Indeed, previous surveys show the different character of informal work depending on the level of affluence and across urban and rural areas (Williams, 2010a). Therefore a large scale survey of different regions of Ukraine, stratified by the level of affluence and status, would be the most representative in terms of identifying the extent and character of the informal economy in Ukraine as a whole. The results of a country-wide survey would be crucial for the careful development of policy addressing the informal economy.

At the moment, the government is implementing numerous reforms that significantly impact on the informal economy. The changes are in progress at the time of writing. A new tax code came into effect this year and numerous decrees and directives are still emerging, a new pension system is being widely discussed and will be approved in the near future. After all the changes that are going on right now, the comparative study needs to be done to see how these reforms influence the extent and nature of the informal work and the attitudes of people towards informal work and the reforms themselves.

Only the present state of affairs is studied here. Although, this research is attempting to look at the possible origins, it has limited outreach. Considered theories describe the informal economy in society given a set of established rules and laws, but none is addressing the roots of this. It is impossible to design successful measures to tackle informal work without understanding whether the informal economy is a result of unthoughtfully designed policies; or informal economic relations, corruption and *blat* are intrinsic in the Ukrainian mentality; or it is a problem of a kleptocratic political-business

'elite'.

6.5. Overall conclusion

The objective of the thesis was to discover the extent and nature of the informal economy in an urban area of Ukraine and as such to cover the existing gaps in the knowledge. To fulfil this, the survey consisting of 200 semi-structured interviews was conducted and existing theories of the informal economy were evaluated against the survey findings. Thus, new evidence was gathered on the informal economy in Ukraine, in-depth qualitative research was carried out and a more nuanced understanding of the nature and causes of the informal economy emerged. This allowed theoretical conclusions about the informal economy in Ukraine.

An insight was provided into modern *blat* relations, and how they compare with the Soviet era *blat*. It showed that *blat* is not simply a part of the informal economy but a separate phenomenon, which is nevertheless highly intertwined with the informal economy. It is a striking manifestation of the nation's culture.

The major contribution of the research to the existing body of knowledge is a new approach to *blat* theorisation. This thesis suggests viewing *blat* as a mediator of transactions both within formal and informal economy, rather than a phenomenon parallel to the informal economy. To better explain the role of *blat*, a structured table depicting possible transactions (in the formal and informal economy using *blat* or money or both) is provided.

The thesis affirms that informal activities are varied and are driven by a variety of motives. As such, policy responses need to be tailored in order to effectively deal with the challenges faced by the different types of informal activity. Such a response is more likely to result in the formalisation of such activities by removing the barriers to formalisation and nurturing fledgling business activities rather than simply trying to eradicate them.

However, even carefully designed policies will not be effective unless better

transparency in governance is reached. Pension reform cannot be implemented without guaranteeing the safety of pension savings contributed by people. The image of the government cannot be improved just by rendering only ‘right’ information through the mass media – the behaviour of the officials should be changed. And finally, a decrease in tax cannot bring any positive results unless corruption pressuring entrepreneurs is eradicated.

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APPENDIX A

QUESTIONNAIRE

Location	
Date	

1) GENERAL INFORMATION

1. How many years have you lived in this city? _____
2. How many years have you lived in this house? _____
3. Who else lives in this house/ flat?

Table 1.General information about family members that live with the respondent

Family members	Code	(a) Gender (M/F)	(b) Age	(c) Employment	(d)Employment history
1. Respondent	A				
2.	B				
3.	C				
4.	D				
5.	E				

Codes for the Table 1:

(a) Gender	(b) Age	(c) Employment	(d) Employment history
1. Male	1. 0 - 16	1. Full-time employment	1. Never in formal employment
2. Female	2. 16 - 25	2. Part-time employment	2. Mostly not in formal employment
	3. 26 - 35	3. Self-employment	3. Mostly in formal employment
	4. 36 - 45	4. Unemployed (< year)	4. Always in formal employment
	5. 46 - 55	5. Unemployed (> year)	
	6. 56 - 65	6. Registered unemployed but working informally	
	7. > 65	7. Full-time housework	
		8. Retired	
		9. Student	
		10. Registered disabled, incapacity benefit etc	
		11. Other	

4. Total Monthly income of the family, in Ukrainian Hryvnias

1. < 1000	2. 1000-2000	3. 2000-3000	4. 3000-5000	5. > 5000

5. Which activity from the Table 2 is the most important for the standard of living of you and your family?_____
6. Which activity from the Table 2 is the second most important for the standard of living of you and your family?'_____

Table2. Sources of income (Codes for questions #5 u 6)

1	Our own self-provisioning (e.g., growing own food, doing own home maintenance & repair)
2	What we get as favours/ the help from friends and relatives
3	Cash-in-hand earnings (e.g., from second job/incidental earnings)
4	Earnings from regular job
5	Pension/unemployment benefits
6	Dividends
7	Don't Know

2) COPING PRACTICES USED BY HOUSEHOLDS

WORK DONE FOR YOU

7. How do you usually get the work done about the house? From the table below, what work have been done in your house / flat in the last 12 months or so? Who carried out this work for you? Please, fill in Table 3 on the page 5 answering the questions (a)-(g)

(a) Have the following jobs been completed for you?

1. YES
2. NO, no opportunity to be done
3. NO, no need to be done

(b) If YES, who completed it last time?

1. Male household member
2. Female household member
3. Male and female household member jointly
4. Relative (but not household member)
5. Friend or neighbour or colleague
6. Firm or business
7. Self-employed individual
8. Other (please describe)_____

(c) Were they paid in some way to do this job?

1. No
2. Yes, quid pro quo
3. Yes, with a gift
4. Yes, with cash
5. Other _____

(d) If cash, how did you pay?

1. Fully though a bank/till/ etc. or cash with receipt
2. Partly cash partly through a bank/till/ etc.
3. Cash, no receipt

(e) How much did you pay last time?

(f) Why did they do it rather than someone else? _____

(g) If you had the choice, how would you have got the task done?

1. Self-provisioning - male
2. Self-provisioning - female
3. Self-provisioning - female and male jointly
4. Non-monetary gift – relative
5. Non-monetary gift – friend
6. Non-monetary gift – Neighbour
7. Paid informal work – neighbour
8. Paid informal work – relative
9. Paid informal work – friend
10. Paid informal work - self-employed individual
11. Paid informal work firm / business
12. Unpaid exchange – neighbour
13. Unpaid exchange – relative
14. Unpaid exchange – friend
15. Unpaid exchange - voluntary group or other
16. Formal employment

Table 3. Types of works done in your household

REPAIRS (last 5 years)	a	b	c	d	e	f	g
1. Painting							
2. Wallpapering							
3. Tiling							
4. Replace a broken window							
5. Maintaining and/or installing domestic electric appliances							
6. Windows / doors installation							
7. Plumbing							
8. Heaters / boilers installation							
9. Electrical mounting							
ROUTINE HOUSEWORK (last month)	a	b	c	d	e	f	g
10. Cleaning							
11. Shopping							
12. Washing / ironing							
13. Cooking							
14. Dish washing							
15. Dacha work							
MAKING AND REPAIRING GOODS (LAST YEAR)	a	b	c	d	e	f	g
16. Clothes making/ repair / fit							
17. Shoes repair							
18. House hold textile making/ repair							
19. Furniture making / repair							
20. Household appliances repair							
21. Car repair							
22. Computer repair							
CARING ACTIVITIES (last 3 months)	a	b	c	d	e	f	g
23. Hairdressing							
24. Manicure							
25. Massage							
26. Baby-sitting							
27. Tutoring							

3) WORK UNDERTAKEN FOR OTHERS

8. Following questions are about the same services, but performed by you or your family members. Answer the questions filling in Table 4 on the page 7.

(a) Has anybody in this household recently done any of the same tasks for anybody else?

1. YES 2. NO (If NO, move to the part “Acquiring of goods”)

(b) If YES, who did you/ they do the work for?

1. Relative
2. Friend
3. Neighbour
4. Colleague
5. Other

(c) Were you/they rewarded somehow?

1. No
2. Yes, with cash
3. Yes, with a gift
4. Yes, quid pro quo (possibly after some time)
5. Yes, other

(d) If cash, how were you/they paid?

1. Fully through a bank/till/ etc. or cash with receipt
2. Partly cash partly through a bank/till/ etc.
3. Cash, no receipt

(e) How much?

(f) Why did you/they perform the job? (Need money / just to help / we always support each other)

Table 4. Types of work undertaken for others by you or your family members

REPAIRS (last 5 years)	a	b	c	d	e	f	g
1. Painting							
2. Wallpapering							
3. Tiling							
4. Replace a broken window							
5. Maintaining / installing dom. electric appliances							
6. Windows / doors installation							
7. Plumbing							
8. Heaters / boilers installation							
9. Electrical mounting							
ROUTINE HOUSEWORK (last month)	a	b	c	d	e	f	g
10. Cleaning							
11. Shopping							
12. Washing / ironing							
13. Cooking							
14. Dish washing							
15. Dacha work							
MAKING AND REPAIRING GOODS (last year)	a	b	c	d	e	f	g
16. Clothes making/ repair / fit							
17. Shoes repair							
18. House hold textile making/ repair							
19. Furniture making / repair							
20. Household appliances repair							
21. Car repair							
22. Computer repair							
CARING ACTIVITIES (last 3 months)	a	b	c	d	e	f	g
23. Hairdressing							
24. Manicure							
25. Massage							
26. Baby-sitting							
27. Tutoring							

4) USING CONNECTIONS
(DOES ANYBODY HELP YOU?)

9. What is your attitude towards having things done by pulling strings/using connections/blat?

1	2	3	4	5
Very positively	Rather positively	Neutrally	Rather negatively	Very negatively

Please, fill in Table 6 answering questions #11 - 13 for each sphere

Table 6. Spheres of using connections

Spheres	11	12	13
Medical services: local surgery, hospital or bed and operation			
Solving problems with the traffic police, registration of a vehicle and MOT			
Finding a job			
Education: Places in primary-secondary and higher education			
Legal services and courts			
Army conscription			
Everyday services at better quality or better price			
Repairs of housing, garages, dachas			
Tickets for events, theatre, concerts			
Hobbies and entertainment, resorts, travelling tickets			
Consumer goods			
Foodstuffs			
Communicating with local authorities in your business matters (e.g. tax inspection)			

10. Did anyone ever help you to achieve a goal / solve a problem / receive extra benefits?
    1. No
    2. Yes, to circumvent the rules / laws / bureaucracy
    3. Yes, to make rules / laws work
    4. Yes, to reduce final price
    5. Yes, to improve quality
    6. Yes, to get information
    7. Yes, to be introduced to useful people
    8. Yes, to receive service without a queue
    9. Yes, to maintain connections
    10. Yes, other _____

11. If yes, did you reward your connections? (several answers are possible)

1	2	3	4	5
With cash	With a gift	Quid pro quo	Just ‘thank you’	Other _____

12. What is your relationship with the people you usually ask for help?

1	2	3	4	5
Relative	Friend	Neighbour	Colleague	Other _____

13. Were you able to achieve this aim without connections? If NO, why?

_____

_____

_____

_____

_____

_____

_____

_____

5) USING CONNECTIONS
(DO YOU HELP ANYBODY?)

Please, fill in Table 7 answering questions #15 – 17 for each sphere

Table 7. Spheres of using connections

Spheres	15	16	17
Medical services: local surgery, hospital or bed and operation			
Solving problems with the traffic police, registration of a vehicle and MOT			
Finding a job			
Education: Places in primary-secondary and higher education			
Legal services and courts			
Army conscription			
Everyday services at better quality or better price			
Repairs of housing, garages, dachas			
Tickets for events, theatre, concerts			
Hobbies and entertainment, resorts, travelling tickets			
Consumer goods			
Foodstuffs			
Communicating with local authorities in your business matters (e.g. tax inspection)			

14. Did you ever help anybody to solve problems in the following spheres?
    1. No
    2. Yes, to circumvent the rules / laws / bureaucracy
    3. Yes, to make rules / laws work
    4. Yes, to reduce final price
    5. Yes, to improve quality
    6. Yes, to get information
    7. Yes, to be introduced to useful people
    8. Yes, to receive service without a queue
    9. Yes, to maintain connections
    10. Yes, other _____

15. If yes, what do you usually receive as a rewards for your services? (several answers are possible)

1	2	3	4	5
With cash	With a gift	Quid pro quo	Just ‘thank you’	Other _____

16. Who are the people you usually do favours to?

1	2	3	4	5
Relative	Friend	Neighbour	Colleague	Other _____

17. What is more important now, in 90's, in Soviet times: connections or money? Why? Please, give examples.

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

6) SECONDARY EMPLOYMENT

18. Alongside your first/main employment do you work for another firm or business?

1	2	3	4
No	Yes	Do not know	Refuse to answer

19. Are you officially registered at your main workplace?

1	2	3	4
No	Yes	Do not know	Refuse to answer

20. Where does your extra work take place?

Possible extra-work places	Numbers of extra-work places				
	I	II	III	IV	V
In your work place during work time (moonlight)	1	1	1	1	1
Official work in your regular work place	2	2	2	2	2
Unofficial work in your regular work place	3	3	3	3	3
Official work outside your regular work place	4	4	4	4	4
Unofficial work outside your regular work place	5	5	5	5	5
Self employment with formal registration	6	6	6	6	6
Self employment without formal registration	7	7	7	7	7

21. How important is informal work to your household budget?

1	2	3	4
Very important	Rather important	Not so important	Does not contribute

22. Have you ever experienced any difficulties from the state over your informal work – such as interference from the tax police? Please, give comprehensive answer.

_____

_____

_____

_____

23. Does anyone in your household receive benefits from the state? If yes were they difficult to obtain? Are they paid regularly? Please, give comprehensive answer.

24. Why do you register / not register your activity? Please, give comprehensive answer

APPENDIX B

Table 1 *The first and the second most important sources of households' income. (in percentages of households)*

		Secondary								
		Self-provisioning	Unpaid community exchange	Cash-in-hand earnings	Earnings from official job	Pension/ benefits/ scholarship	Dividends, rent	Do not know	No 2nd source of income	Total
Primary	Self-provisioning	0.0%	1.0%	1.5%	0.0%	0.0%	0.5%	0.0%	0.0%	3.0%
	Unpaid community exchange	0.0%	0.5%	0.5%	0.5%	0.5%	0.0%	0.0%	0.0%	2.0%
	Cash-in-hand earnings	1.5%	1.5%	0.5%	4.0%	2.0%	0.0%	1.5%	0.0%	11.0%
	Earnings from official job	4.5%	13.5%	22.0%	0.5%	11.0%	9.5%	1.5%	6.0%	68.5%
	Pension/ unemployment benefits	3.0%	3.5%	6.0%	0.5%	0.0%	1.5%	0.5%	0.5%	15.5%
	Total	9.0%	20.0%	30.5%	5.5%	13.5%	11.5%	3.5%	6.5%	100.0%

Table 2. *How do you usually get the work done around the house? Breakdown of tasks by the nature of work*

Types of work / How it was done	Painting	Wallpapering	Tiling	Replace a broken window	Maintaining and/or installing domestic electric appliances	Windows/doors installation	Plumbing	Heaters/boilers installation	Electrical mounting	Cleaning	Shopping	Washing/ironing	Cooking	Dishwashing	Dacha work	Clothes making/repair/fit	Shoes repair	Household textile making/repair	Furniture making/repair	Household appliances repair	Car repair	Computer repair	Hairdressing	Manicure	Massage	Baby-sitting	Tutoring	TOTAL SERVCES RECEIVED:
SP	51	49	23	12	26	16	27	20	33	188	190	188	187	194	95	24	9	15	10	20	11	18	11	26	8	15	1	1467
UCE	24	20	5	3	4	4	14	1	4	5	6	5	9	4	7	5	2	1	1	2	4	11	16	28	7	7	1	200
IW	50	52	54	3	30	54	54	36	37	5	2	3	3	1	1	53	108	14	20	17	18	20	113	59	36	4	25	872
FORMAL	4	3	1	0	6	21	4	9	1	0	0	3	0	0	0	3	7	3	12	14	16	11	23	2	2	0	0	145
TOTAL	129	124	83	18	66	95	99	66	75	198	198	199	199	199	103	85	126	33	43	53	49	60	163	115	53	26	27	2684
SP, %	40	40	28	67	39	17	27	30	44	95	96	94	94	97	92	28	7	45	23	38	22	30	7	23	15	58	4	55
UCE, %	19	16	6	17	6	4	14	2	5	3	3	3	5	2	7	6	2	3	2	4	8	18	10	24	13	27	4	8
IW, %	39	42	65	17	45	57	55	55	49	3	1	2	2	1	1	62	86	42	47	32	37	33	69	51	68	15	93	32
FORMAL, %	3	2	1	0	9	22	4	14	1	0	0	2	0	0	0	4	6	9	28	26	33	18	14	2	4	0	0	5
TOTAL, %	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Excluding SP:																												
UCE, %	31	27	8	50	10	5	19	2	10	50	75	45	75	80	88	8	2	6	3	6	11	26	11	31	16	64	4	16
IW, %	64	69	90	50	75	68	75	78	88	50	25	27	25	20	13	87	92	78	61	52	47	48	74	66	80	36	96	72
FORMAL, %	5	4	2	0	15	27	6	20	2	0	0	27	0	0	0	5	6	17	36	42	42	26	15	2	4	0	0	12
TOTAL, %	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Table 3. *Work undertaken for others. Breakdown of tasks by the nature of work*

Types of work / How it was done	Painting	Wallpapering	Tiling	Replace a broken window	Maintaining and/or installing domestic electric appliances	Windows/doors installation	Plumbing	Heaters/boilers installation	Electrical mounting	Cleaning	Shopping	Washing/ironing	Cooking	Dishwashing	Dacha work	Clothes making/repair/fit	Shoes repair	Household textile making/repair	Furniture making/repair	Household appliances repair	Car repair	Computer repair	Hairdressing	Manicure	Massage	Baby-sitting	Tutoring	TOTAL SERVCES RECEIVED:
UCE	36	37	13	8	15	9	15	10	20	22	29	13	17	15	28	6	0	1	3	7	5	12	12	5	2	17	7	364
IW	6	5	2	0	0	0	2	1	0	3	1	1	1	1	1	7	0	1	3	1	1	1	2	1	0	2	12	55
FORMAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1
TOTAL	42	42	15	8	15	9	17	11	20	25	30	14	18	16	29	13	0	2	6	8	7	13	14	6	2	19	19	420
UCE, %	86	88	87	100	100	100	88	91	100	88	97	93	94	94	97	46	0	50	50	88	71	92	86	83	100	89	37	87
IW, %	14	12	13	0	0	0	12	9	0	12	3	7	6	6	3	54	0	50	50	13	14	8	14	17	0	11	63	13
FORMAL, %	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	14	0	0	0	0	0	0	0
TOTAL, %	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	-	100	100	100	100	100	100	100	100	100	100	100

APPENDIX C

Table 1 *Consumption of favours by the purposes of asking for it*

Spheres	The purpose of using the favours								
	To circumvent the rules / laws	To make rules / laws work	To reduce final price	To improve quality	To get information	To be introduced to useful people	To receive service without a queue	To maintain connections	Other
Medical services: local surgery, hospital or bed and operation	11	0	5	74	26	8	13	2	0
	8%	0%	4%	53%	19%	6%	9%	1%	0%
Solving problems with the traffic police	21	13	4	1	12	7	15	3	0
	28%	17%	5%	1%	16%	9%	20%	4%	0%
Finding a job	7	0	0	2	34	22	2	2	9
	9%	0%	0%	3%	44%	28%	3%	3%	12%
Education: Places in primary-secondary and higher education	9	7	1	18	9	7	1	1	0
	17%	13%	2%	34%	17%	13%	2%	2%	0%
Legal services and courts	2	8	0	3	17	8	2	2	0
	5%	19%	0%	7%	40%	19%	5%	5%	0%
Army conscription	6	0	1	0	0	0	0	2	0
	67%	0%	11%	0%	0%	0%	0%	22%	0%
Everyday services	1	0	10	14	10	2	4	2	1

Spheres	The purpose of using the favours								
	To circumvent the rules / laws	To make rules / laws work	To reduce final price	To improve quality	To get information	To be introduced to useful people	To receive service without a queue	To maintain connections	Other
	2%	0%	23%	32%	23%	5%	9%	5%	2%
Repairs of housing, garages, dachas	0	2	10	15	6	3	0	1	0
	0%	5%	27%	41%	16%	8%	0%	3%	0%
Tickets for events, theatre, concerts	0	0	12	4	5	0	2	1	1
	0%	0%	48%	16%	20%	0%	8%	4%	4%
Hobbies and entertainment, resorts, travelling tickets	5	3	13	9	7	4	4	3	0
	10%	6%	27%	19%	15%	8%	8%	6%	0%
Consumer goods	0	0	15	7	6	1	1	1	0
	0%	0%	48%	23%	19%	3%	3%	3%	0%
Foodstuffs	0	0	6	10	7	0	0	1	0
	0%	0%	25%	42%	29%	0%	0%	4%	0%
Communicating with local authorities in your business matters	11	17	0	2	17	9	6	6	0
	16%	25%	0%	3%	25%	13%	9%	9%	0%
TOTAL	73	50	77	159	156	71	50	27	11
	11%	7%	11%	24%	23%	11%	7%	4%	2%

Table 2 *Provision of favours by the purposes of being asked for it*

Spheres	The purposes of providing favours								
	Yes, to circumvent the rules	Yes, to make rules / laws work	Yes, to reduce final price	Yes, to improve quality	Yes, to get information	Yes, to be introduced to useful people	Yes, to receive service without a queue	Yes, to maintain connections	Yes, other
Medical services: local surgery, hospital or bed and operation	2	0	6	19	12	10	7	2	0
	3%	0%	10%	33%	21%	17%	12%	3%	0%
Solving problems with the traffic police, registration of a vehicle and	5	3	1	1	6	7	4	0	0
	19%	11%	4%	4%	22%	26%	15%	0%	0%
Finding a job	3	3	0	1	25	18	2	0	4
	5%	5%	0%	2%	45%	32%	4%	0%	7%
Education: Places in primary-secondary and higher education	6	3	0	9	15	6	2	2	1
	14%	7%	0%	20%	34%	14%	5%	5%	2%
Legal services and courts	0	1	1	3	8	5	2	0	0
	0%	5%	5%	15%	40%	25%	10%	0%	0%
Army conscription	0	0	0	0	1	0	0	0	0
	0%	0%	0%	0%	100%	0%	0%	0%	0%
Everyday services at better quality or better price	0	0	3	7	12	6	3	0	0
	0%	0%	10%	23%	39%	19%	10%	0%	0%

Spheres	The purposes of providing favours								
	Yes, to circumvent the rules	Yes, to make rules / laws work	Yes, to reduce final price	Yes, to improve quality	Yes, to get information	Yes, to be introduced to useful people	Yes, to receive service without a queue	Yes, to maintain connections	Yes, other
Repairs of housing, garages, dachas	0	0	5	8	3	1	1	2	2
	0%	0%	23%	36%	14%	5%	5%	9%	9%
Tickets for events, theatre, concerts	0	0	1	0	4	1	2	1	0
	0%	0%	11%	0%	44%	11%	22%	11%	0%
Hobbies and entertainment, resorts, travelling tickets	0	0	0	3	5	3	2	1	1
	0%	0%	0%	20%	33%	20%	13%	7%	7%
Consumer goods	0	0	7	5	9	5	2	0	0
	0%	0%	25%	18%	32%	18%	7%	0%	0%
Foodstuffs	0	0	2	3	10	2	0	1	0
	0%	0%	11%	17%	56%	11%	0%	6%	0%
Communicating with local authorities in your business matters	1	5	1	4	8	8	6	3	0
	3%	14%	3%	11%	22%	22%	17%	8%	0%
TOTAL	17	15	27	63	118	72	33	12	8
	5%	4%	7%	17%	32%	20%	9%	3%	2%

Information Sheet

Tackling the Informal Economy in Ukraine

Dear Interviewee,

You are being invited to take part in a research project. Before you decide it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask us if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part. Thank you for reading this.

The survey is carried out by the PhD candidate Olga Onoshchenko at the University of Sheffield Management School within the bounds of her thesis. The expected end of the research is September, 2012.

The aims of the project are:

- to evaluate opinions and attitudes towards participation in undeclared work;
- to evaluate the goods and services purchased on an undeclared basis in the past 12 months;
- to evaluate the prevalence of envelope wages (under-declared formal employment) in Ukraine;
- to evaluate the prevalence and nature of undeclared work in Ukraine;
- to measure the extent of using informal connections in achieving personal goals ('blat').

For the selection of respondents a probability sampling method is used. That is, a number of sampling points will be drawn with probability proportional to population size (for total coverage of the country) and to population density and the distribution of the resident population in terms of metropolitan, urban and rural areas. In each of the selected sampling units, a starting address will be then drawn at random. Further addresses (every nth address) will be subsequently selected by standard "random route" procedures from the initial address. In each household, meanwhile, the respondent will be drawn at random (following the "closest birthday rule"). The projected number of respondents recruited is 200.

It is up to you to decide whether or not to take part. If you do decide to take part you will be given this information sheet to keep (and be asked to sign a consent form) and you can still withdraw at any time without it affecting any benefits that you are entitled to in any way. You do not have to give a reason.

The interview will take you 1-2 hours. You will be asked to respond to the open as well as closed-ended questions listed in the questionnaire. The questionnaire consists of the following sections:

1. **Background**

   It includes short closed-ended questions concerning general information about respondent, e.g. sex, age, work status.

2. **Coping practices used by households**

   You will be shown the list of work types to find out if these jobs have been completed in your own house in the last 12 months or so, and who carried out the work. Then the same will be asked concerning work completed by your household members for others.

3. **Acquiring goods**

   One short closed-ended question about how you got hold of various items for your home**.**

4. **Secondary employment**

   The topic will be discussed more in-depth, using open as well as closed-ended questions to find out the type of secondary work, whether it is done formally or informally, the importance of this job and the problems connected with it.

5. **Blat**

   Both open and closed-ended questions will be asked about using connections for personal benefits. Your personal perception of 'blat' will be discussed in-depth.

If for any reason you have a complaint regarding your participation in the research, you can contact the Supervisor of the project:

Colin C Williams
Professor of Public Policy
School of Management
University of Sheffield
9 Mappin Street
Sheffield S1 4DT
E-mail: C.C.Williams@sheffield.ac.uk

Should you feel your complaint has not been handled to your satisfaction you can contact the University's Registrar and Secretary:

Registrar and Secretary's Office
Firth Court
Western Bank
Sheffield, S10 2TN

All the information that we collect about you during the course of the research will be kept strictly confidential. You will not be able to be identified in any reports or publications.

The results of the research are likely to be published in 2011, you will be able to obtain a copy of publication from Olga Onoshchenko. You can find contact information below.

This project has been ethically approved via Management School ethics review procedure.

Contact for further information:

Olga Onoshchenko
PhD Student
School of Management
University of Sheffield
9 Mappin Street
Sheffield S1 4DT
E-mail: o.onoshchenko@sheffield.ac.uk

Thank you for taking part in the project!

Participant Consent Form

Title of Research Project: *Tackling Undeclared Cashflows in Ukraine*

Name of Researcher: *Olga Onoshchenko*

Participant Identification Number for this project: **Please initial box**

1. I confirm that I have read and understand the information sheet dated 15 October 2012 explaining the above research project and I have had the opportunity to ask questions about the project. ☐
2. I understand that my participation is voluntary and that I am free to withdraw at any time without giving any reason and without there being any negative consequences. In addition, should I not wish to answer any particular question or questions, I am free to decline. ☐
3. I understand that my responses will be kept strictly confidential (only if true). I give permission for members of the research team to have access to my anonymised responses. I understand that my name will not be linked with the research materials, and I will not be identified or identifiable in the report or reports that result from the research. ☐
4. I agree for the data collected from me to be used in future research ☐
5. I agree to take part in the above research project. ☐

_____	_____	_____
Name of Participant (*or legal representative*)	Date	Signature
_____	_____	_____
Name of person taking consent (*if different from lead researcher*) *To be signed and dated in presence of the participant*	Date	Signature
_____	_____	_____
Lead Researcher *To be signed and dated in presence of the participant*	Date	Signature

Copies:

Once this has been signed by all parties the participant should receive a copy of the signed and dated participant consent form, the letter/pre-written script/information sheet and any other written information provided to the participants. A copy of the signed and dated consent form should be placed in the project's main record (e.g. a site file), which must be kept in a secure location.