

# Women and Informal Activities in Transitional Countries and Serbia: Old and New Views\*

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**ABSTRACT** – *In this paper, the author analyzes the growth of the informal economy in countries in transition with a focus on Serbia. The author concludes that the existence of the informal economy can no longer be considered as a temporary phenomenon. It has proven to be a major source of employment and income generation for the poor, and thus understanding the informal sector provides valuable tools in the fight against poverty. At the same time, women in the informal sector face significant obstacles: low pay; lack of access to such resources as capital, education, and training; and exclusion from the policy-making process. Because that, the author also considers the battle against discrimination in relation to women workers. The final section of this paper presents author's approach to SME development policy and integration of Serbia into European Union (EU). She concludes that Serbia will try to be integrated into EU and the global economy as soon as possible, because it is the best solution for the country to decrease the gap with developed countries.*

**KEY WORDS:** *women entrepreneurship, countries in transition, informal economy, gender, discrimination, development, integration, European Union, Serbia*

## Introduction

Transitional countries have experienced some of the world's most dramatic societal changes within a short time and mushrooming of informal activities has been a key element in these shifts. The transition progress converged with globalisation and aspiration for EU integration in the late 1990s and due to the emergence of abundant cheap labour and deregulation of labour markets, the region became a target for production relocation, out-sourcing and sub-contracting for Western European markets. Transition period through which economies of many countries go, greatly reflected on the loss of job safety, which was considered as the greatest achievement of socialist and non-market economies. Namely, market movements on the labor market during nineties, influenced many people to lose their jobs not only as technological surplus, but also above all as economical surplus. At the same time, the job opportunities decreased, which was primarily reflected on women's work force. The average size of the hidden economy in the 1990s in transition countries was more than twofold than that of the developed market economies. This difference persisted and even increased in the 2000s. Women exploit this situation by creating self-employment as private tutors, translators and assistants to foreign companies (Musiolek 2002).

## Definition of informal sector and informal workers

The growth of women's share of the labour force, and particularly of mothers' labor force participation, has fundamentally changed the way families function, the relationship of families to the workplace and to schools, and women's economic opportunities. In a period of just 50 years, the rate at

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which women enter the labour market increased. Women have made significant changes in their economic roles.

Men and women entrepreneurs are found in two distinct sectors:

- the formal or traditional mainstream sector,
- the informal or marginalized sector.

An informal sector that operates outside the formal sector is very active in transitional economies. Namely, high rate of unemployment, low wages and non-payment of salaries have led to the rapid growth of informal employment. Examples of informal work in Eastern Europe are multiple job holding that combines employment in the remaining public sector (e.g. teachers and doctors), with other activities because of low purchasing power. The informal economy consists of a range of informal enterprises and informal jobs. Jobs in the informal sector are at first sight, invisible, like hotel jobs, restaurant jobs, jobs in major cities' streets (fruit and vegetables salesmen and saleswomen, refreshing drinks salespersons, etc.). According to the definition of informal sector, given by the International Conference of Labour Statisticians (ICLS), "*informal sector of economy consists of unregistered companies which, apart from business owners, continually employ other people (often family members without salary) who work without contract and without right to social and retirement protection.*" In other words, informal sector is a sector of economy in which companies operate past existing regulations and in which there are no legally and economically protected employees. The 'informal' or 'shadow' economy has included an extremely wide spectrum of activities.

Even though these jobs are beyond the reach of law, still those shouldn't be associated with criminal activities. Informal workers are waged workers who work without contract or social security coverage. Actually, in economic crisis, informal economy has become market wide open for personal work and providing services.

According to scientist Charles Handy, an informal economy may appear in different forms, such as:

- Black economy** – *illegal market of small businesses and people who find jobs for themselves (illegal economy)*
- Brown economy** – *personal services and home jobs are at the edge of formal economy*
- Gray economy** – *which is completely legal, but doesn't take into account work at home and volunteer work in which every one is engaged in certain sense.*

Here we can distinguish three basic types of jobs:

- Jobs that are paid and include full-time employees, but which are not registered
- Marginal jobs which include so called pocket money, which may be, but usually isn't registered
- Jobs which include all activities performed freely in gray economy.

Characteristically for the most of the transitional countries is the increase of the black economy, especially in developing and countries in transitions. However, in terms of black economy and its increase, one should make clear distinctions between providing unregistered personal services and activities related to criminal.

## **The measurements of informal economic activities in transition countries**

The measurements of informal economic activities in transition countries have been undertaken since the late 1980s. The estimation has been performed separately for time points in two periods: the first include 1990/00 and 1994/95 and the second all other time points from 1999/2000 to 2004/05. The only difference was in the measurement of the causal variable: the state regulation. The unweighted average size of the informal economy in 23 transition countries in 1990/91 was 31,5 %, and rise to 34,6% of official GDP in 1994/95. Then the average size of the informal economy in 25 transition countries is further rising: to 38,1% in 1999/00, to 39,1% in 2001/02 and to 39,5% in 2003/04. In 2004/05 the average size of hidden economy has decreased to 38,8% of official GDP. The fastest growth of the hidden economy in transition countries was in the 1990s (measured in percentage points

annually). These figures point out that informal economy growth was fast at the beginning of transition process and then this growth was reduced in the later stage of the transition process. Women remain the main source of underestimation of the informal sector contribution for at least three reasons, namely:

They are engaged in those informal activities which are the most difficult to capture and measure, such as, home-based work or outwork.

They are engaged, more than men, in second or multiple jobs, especially in rural areas,

Their production activities are hidden behind the less “valuable” status of family worker in agriculture or the hard-to-capture status of independent road vendor. In these types of work, their contribution to the commercial margin is limited, and their value added in the transformation process is overlooked (Charmes, 1998).

Ibeh also concluded that the informal work is “necessity-driven” in developing and transition economies but “opportunity-driven” in developed economies where there are soft loans and credit facilities for business start-up, but the fact still remains that women in all economies remain somewhat marginalised in their contribution to the informal sector of their country.

### Old and new views of the informal economy

The informal sector is a product of rational behaviour of entrepreneurs that desire to escape state regulations (The World Bank Group 2007). It is growing in developing, transition and developed countries and taking on new forms. (Zoya A. Khotkina, 2005) Informal sector is a huge source of employment for women in transition countries and it is greater source for women than for men. Patterns of informalization differ from country to country. Workplaces in the informal economy have shown a rather pronounced gender segregation – horizontally (various types of work) and vertically (different statuses).

**Table 1. Old and new views of the informal economy**

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 selfemployed 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.

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**Source:** Martha Alter Chen, (2007), "Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment", DESA Working Paper No. 46, page 5.

"Classical" informal work involves cross-border trade, craft workers, food processing, home-workers and home-based workers. In many transition economies, workers in the informal economy, domestic workers and home-workers are outside the scope of protective legislation while other workers are deprived of effective protection because of weak labour laws. This is particularly true for small enterprise workers, which account for >90% of enterprises in many countries, with a high proportion of women workers (ILO 2005).

### Informal economic activity in Serbia

Transitional period in many countries like Serbia is reflected on the loss of business security which is considered as the largest achievement of the socialistic and subsistence economy. Instead, movement and changes at the labour market in the 90s influenced that many employed people have lost their job, not only as technical redundant labour, but as economic redundant labour as well. At the same time, opportunities for new employment decreased and that situation reflected employed women to a great extent. During the 90s, the largest unemployment rate was in South Eastern Europe countries, like Bosnia and Herzegovina and Macedonia (around 40%), Croatia and Yugoslavia (between 22%-26%). From 2000, due to privatisation and entering Serbia and Montenegro in transitional processes, the unemployment rate increased more and more. While in Serbia and Montenegro this rate was 21,6% in 2006 in the countries of the Eurozone, which in 2006 included 12 EU members states, the unemployment rate was 7,5%. Unemployment rate of women in Serbia was significantly larger (22,8%) comparing to man (18,5%) in 2006.

In the structure of unemployed persons, women had also the largest share with 54,03%. In Montenegro, unemployment rate of women according to statistical data in 2006 was 30,1%, and for men was 29,6%. The largest numbers of unemployed people are the ones with finished high school and university. People with this diploma are 61,92% of the total number of unemployed women. Unemployment affects specially women over 50 year of age and it is very difficult and slow for them to find a job. In Montenegro at the end of the October 2006, there were 74.820 unemployed people, from that number 33.582 were women and 41.238 were men. At the end of December 2006, Serbia had 916.257 unemployed persons. 191.864 were older than 50 years of age. Among them more than 83.700 were women where large number of women did not have working experience or did not have at the field in which they are educated.

Unfortunately, modern employers have no interest for them. There are many reasons for this large rate of unemployment. If we take into consideration that women over decades constitute those segments of population which have largest percent among unemployed persons and that they are waiting in average more for a job than men do, and that because of some unwritten rule in crises in economic, social and political situation they are losing their job and source of income. It is easy to find explanations for this extremely hard position of women which especially culminated in the last ten years. Those women who were in the process of work in mentioned aggravation where working in those branches which were less profitable or they were working in grey economy. Low family budget often did not allow them to start their own business with their own financial asset or with their savings that women are using in the large number for starting their own business. Thus, here is not about the jobs that they are doing but is about of the quality of these jobs.

Large number of women that succeeded to start their own business and to be self-employed did not have enough knowledge to run those businesses so the businesses soon failed. Also, they did not have support from the society and they did not have tied credits or loans, which effected on impossibility to realise their entrepreneur's and manager's potentials in practice. Thus, large numbers of women were satisfied with marginalised jobs in non formal economy or working at non managing positions at state or public companies. This could also be explained with horizontal and vertical segregation of women jobs, but also with position of women in these economies where men are dominant.

A high level of informal economic activity is characterised for Serbian economy. Calculations based on LSMS (Living Standards Measurement Survey) suggest that informal employment accounted for 31 and 35 percent of total employment in 2002 and 2003, respectively. Accordingly, Serbia has one of the highest shares of informal employment in Europe. The 2003 Poverty Reduction Strategy Paper for Serbia estimated that about one million people in Serbia in 2002 were involved in the informal economy (IE), which represents a little less than one third (30.6 percent) of those who actively participated in the labor market. Apart from this, 10.8 percent of the persons that had a main job in the regular economy had an additional job in the IE. Those involved in the gray economy represented 42 percent of poor employees in 2002. Recent research suggests that the real cost of the informal economy to governments, is the cost of programs to help the "informal poor" (Djankov, Lieberman, Mukherjee and Nenova (2003). *Because that the existence of the informal economy can no longer be considered as a temporary phenomenon. It has proven to be a major source of employment and income generation for the poor, and thus understanding the informal sector provides valuable tools in the fight against poverty.*

### **Creating social-economic programme against discrimination in relation to women workers**

In order to avoid all types of discrimination and to start with conducting many activities which are stated in UN Declaration (2000), and which are related to elimination of discrimination towards women and to the advancement of their position in all spheres of life and work it is necessary to create special social and economic programme in Serbia. Creating this social-economic programme, an alternative and real professional access and respond on many problems will be offered, which transition in Serbia is bringing in relation to women workers. For creating that kind of a programme first it is necessary to diagnose the situation, i.e. presenting the current situations and tendency at the labour market. Precise records do not exist, but according to rough estimations large numbers of unemployed women that are over 50 years of age mostly are women with lower level of experts and with small working experience, in this segment of unemployed women. Also, the number of women who do not have working experience at all or do not have it in the profession in which are educated is very low. Unfortunately, for those categories, modern employers are not interested in at all, which will be specially examined using benchmarking this segment of unemployed women. In this context we recommend that public policy must take steps to enforce existing prohibitions on gender and age discrimination. To this end, we call government to:

Publicly denounce gender discrimination in the workplace and commit it to addressing women's and men's unemployment with equal vigor.

Enforce existing anti-discrimination legislation against public and private sector employers who discriminate on the basis of sex and age in employment decisions and establish and enforce penalties for employers who discriminate on the basis of sex and age criteria. In addition, we are argued for establishing new agencies /government and nongovernmental working on these issues. These agencies should help women over 50 to be better networked, as experience shows that many in the 50+ age group lack contacts to find new work. They also should work with employers to increase awareness of the competences of those over 50 and prevent discrimination.

Special emphasise should be placed on life long education of workers in order to decrease differences in comparison to developed countries and to equally participate at the global market

where knowledge and good knowledge management are treating like a key factor of success. Taking into consideration all these elements, good platform for future development of women entrepreneurship should be made and new space for decreasing rate of unemployed women should be opened in Serbia. This will give opportunity to women of this age group, that is marginalised both by employer and by state, because they are not provided with adequate resources, any other support or organising help and assistance in including them in the process of work, so they could feel useful at work, in their families or in the society in all.

## **SME development policy and integration of Serbia into European Union (EU)**

In the field of small and medium-sized enterprises development, the initial framework was given by the adoption of the European Charter on Small and Medium Enterprises by the Western Balkan countries, at the EU - Western Balkan Summit, in Thessaloniki, in 2003. The charter presents the pan-European instrument developed within the Lisbon agenda (long-term development vision of the EU). It resulted in changing policy towards this sector in the countries of the Western Balkans which adopted it. Since then, ten policy guidelines defined in the Charter, have become the main references in the SMEs policy development in the region: education and training for entrepreneurship; more favourable and faster start-up (on-line access for enterprise registration); better legislation and regulations; available capacities (the training institutions providing adequate knowledge and skills, adapted to the needs of small enterprises, including the forms of life-long learning); training and consultations; promotion of on-line access (communication between small enterprises and public administration); promotion of activities of small enterprises on domestic and foreign markets (execution of European and national competitiveness rules); taxes and financial issues; strengthening technological capacities of small enterprises; models of successful e-business activities and efficient support to small businesses; development of stronger and more efficient presentation of small enterprises interests on the professional and national levels. The improved skills and technologies along with the government supported export promotion, present the new orientation in government policy, which will help small and medium enterprises in Serbia to become competitive.

We would like to point out the importance of optimal incorporating of Serbian regions into Trans-European energy, transport and telecommunication infrastructure networks and common market, having in mind that strengthening of the regional economic performances can accelerate the total structural changes and economic development and to decrease great disparities in regional development.

## **Conclusion**

Serbia should focus or continue to focus on the following three issues that could have attracted entrepreneurs to the formal sector, had they believed that formal firms do enjoy these benefits: (i) contract enforcement (especially the functioning of the courts); (ii) access to finance (particularly bank credits); and (iii) clear title to land and real property.

It is expected that the forming of a number of women organizations and their networking similar to others around the world, will contribute not only to better connections between women, exchange of experiences and knowledge, but also to create new space for employment. Besides that, micro credits for development of women entrepreneurial activities is also of great importance for increasing self-employment of women and the reduction of their unemployment, which is the trend everywhere in the world, especially in countries in transition and developing countries.

With greater capital income in Serbia and by providing economic support to small companies, as well as with conduct of general reforms in economy and society, one can rightfully expect significant growth rate of private businesses. In new expected conditions, women businesses will have greater contribution than before. In addition, there will be conditions, which will enable general improvement of the position of women in society, who have in the country's economic misfortune, in the past decade been in the most impacted society segment.

Finally, we can conclude that Serbia will try to be integrated into the global economy as soon as possible. It is entering the period of intensive structural changes and international opening of its economy, first of all, towards the EU and neighbouring countries. Namely, after a long period of stagnation, wars, low economic rate of growth, high rate of inflation (in 1993 it was the highest rate in the world), high rate of unemployment and low national income per capita, Serbia is on path of accession to the EU in the near future.

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