

UDC 338

*Bohdan Hanzha***INFORMAL SECTOR OF ECONOMY: NOTIONS, CRITERIA, FUNCTIONS***Богдан Ганжа***НЕФОРМАЛЬНИЙ СЕКТОР ЕКОНОМІКИ: ПОНЯТТЯ, КРИТЕРІЇ, ФУНКЦІЇ***Богдан Ганжа***НЕФОРМАЛЬНЫЙ СЕКТОР ЭКОНОМИКИ: ПОНЯТИЕ, КРИТЕРИИ, ФУНКЦИИ**

*The article deals with the different scholars' points of view concerning the notions and the functions of the informal sector of economy. The own classification of the functions of the economy informal sector that in comparison with the existing one gives the possibility to mention the other ones, social stimulating and ecological, has been proposed. It has been proved that in the process of each function realizing both positive and negative consequences can appear. The classification of the elements of the economy informal sector by using such criteria as the size of the enterprise and the number of people working there; the presence of registration; potential possibility of transforming informal relations in the formal ones; interdependency of the relations with the other sectors of economy has been made. It has been grounded that the most appropriate in connection with the state regulating is the influence on that part of the informal economy sector where there is the possibility to transform the informal relations into the formal ones.*

**Key words:** *informal sector of economy, criteria of being the part of the economy informal sector, functions of the economy informal sector.*

*Tabl.: 1. Bibl.: 14.*

*Проаналізовано погляди вчених щодо поняття та функцій неформального сектору економіки. Запропоновано власну класифікацію функцій неформального сектору економіки, що на відміну від існуючої дає можливість виділити ще соціально-стимулюючу та екологічну функції. Доведено, що під час реалізації кожної із функцій можуть виникати як позитивні, так і негативні наслідки. Розроблено класифікацію елементів неформального сектору економіки за такими критеріями, як: розмір підприємств та кількість працюючих на них; наявність реєстрації; потенційна можливість перетворення неформальних відносин у формальні; взаємообумовленість відносин з іншими секторами економіки. Аргументовано, що найбільш доцільним з погляду державного регулювання є вплив на ту частину неформального сектору економіки, де існує можливість перетворення неформальних відносин у формальні.*

**Ключові слова:** *неформальний сектор економіки, критерії віднесення до неформального сектору економіки, функції неформального сектору економіки.*

*Табл.: 1. Бібл.: 14.*

*Проанализированы точки зрения ученых относительно понятия и функций неформального сектора экономики. Предложена собственная классификация функций неформального сектора экономики, которая в отличие от существующей дает возможность выделить еще социально-стимулирующую и экологическую функции. Доказано, что при реализации каждой из функций могут возникать как положительные, так и отрицательные последствия. Разработана классификация элементов неформального сектора экономики по таким критериям, как размер предприятий и количество работающих на них; наличие регистрации; потенциальная возможность преобразования неформальных отношений в формальные; взаимобусловленность отношений с другими секторами экономики. Аргументировано, что наиболее целесообразным с точки зрения государственного регулирования влияние на ту часть неформального сектора экономики, где существует возможность преобразования неформальных отношений в формальные.*

**Ключевые слова:** *неформальный сектор экономики, критерии отнесения к неформальному сектору экономики, функции неформального сектора экономики.*

*Табл.: 1. Библ.: 14.*

**JEL Classification:** G 00

**Aim setting.** Among the existing economic relations a special interest is paid to informal ones that are characterized by the lack of households registration as the subjects, a small size of the enterprise, the owner's personal labour or his/her family usage. In the context of the economic analysis this problem needs a scientific interpretation, especially in the part of detailizing special features, functions of the economy informal sector and the consequences of their revealing.

**The analysis of the last researches and publications.** Among the researchers of the special features of the ISE and its functions such scholars should be mentioned as K. S. Ainebek, D. Bikulova, A. Enina-Berezovska, D. Kassel, Ye. Kizon, D. Maslov, H. Seredin, J. Tomas, K. Khart, H. I. Chepurko.

**Defining unsolved earlier parts of the general problem.** Detailizing of functions, criteria of the economy informal sector will give the possibility to systemize the negative and the positive consequences of their realizing to use the measures of state influencing on them.

**Aim of the article** is to form the methodological approaches for exercising special characteristics of the economy informal sector in the part of detailizing the criteria and functions.

**Presenting the main material.** Describing the mixed trends inherent to ISE, for the first time in the economic science an emphasis has been made made by Keith Hart on the informal relationship and informal employment. He believed that differences between income (formal and informal) are connected with paid work and selfemployment. K. Hart mentioned such types of incomes: formal incomes, transferred incomes; legal informal incomes (thefts etc.) [1, p. 68–69].

H. I Chepurko characterized ISE as the socio-economic phenomenon within the economy of the country represented by separate self-employed persons and small enterprises, which are not usually registered in the prescribed manner and are not prohibited by law and perform the work at the expense of their own, borrowed, or involved by using the resource base of the enterprise or the enterprises of the economy informal sector [2].

D. Bikulov A. Enina-Berezovskaya, H. Seredina, D. and D. Maslov, Ye. Kyzon mentioned the informal economy in the structure of the shadow economy. Along with the other one (totality of legal entities operations of economic activity that are made outside the official registration) and economy underground. D. Bikulov also names the economy informal sector defining it as the amount of illegal operations of the legal subjects [3, p. 99]. A. Henin-Berezovskaya, G. Seredina believe that the informal economy is the economy hidden from the authorities that control the activity of legal enterprises [4, p. 43]. D. Maslov and Ye. Kizon consider the informal economy as a system of the relationships between the economic subjects that, in its turn, complete the official one based upon the personal relationships. [5, p. 170].

V. Mandybura, J. Thomas directly use the term "informal economy". V. Mandybura mentions the informal sector of economy in the structure of the shadow economy together with such sectors as the sector of the households (producing of goods and supplying of services that are used in the structure of the households (subsistence farming), "dark grey" sector - deliberately concealed production of legal goods and services from the governmental bodies, the "black" sector - production, distribution, exchange and consumption of socially dangerous and ruining for the development of the personality goods and services (theft and resale of stolen goods, extortion, corruption, money laundering, counterfeiting of currency, etc.), the "black" economy diversification - all kinds of corruption, all manifestations of the use and appropriation of state, integrated joint stock and other forms of property, including the financial resources of the state [6, p. 11]. V. Mandubura views the economy informal sector as the small enterprise of goods and supplying of services, and also mentions selfemployed people and mediators in commercial affairs naming it also the light grey sector. J. Tomas suggests four sectors, in particular, the households' sector, unregulated sector, criminal sector and informal sector of economy. On J. Tomas view, the informal sector is the small enterprise of producing goods and supplying services by the small enterprises (family ones) and selfemployed people [7].

The main negative features of the ISE are first of all the minimum probability of maintaining normal conditions and modes of work; prevalence of hand, less qualified labor, the usage of the primitive instruments of labor; lack of permanent working places; limitation of the social and labour guarantees for workers in the informal sector . At the same time it is impractical to characterize ISE as unambiguously negative phenomenon, with which we must fight at any price to fill up the budget because of the following reasons: institutional factors (redistributive system now in Ukraine does not receive the approval of the majority of the population because of the inequality in incomes and the possibility of existence of the potentially corruptional schemes of budget funds embezzlement; socio-economic factors

(employment in the informal sector of the population helps to ensure a certain standard of living).

It is advisable to make the classification of components ISE taking into account the following criteria: the size of companies and their number of employees; the availability of registration; the potential possibility to transform informal relations into formal ones; interdependence of relations with the other sectors of the economy.

According to the size and the number of working people these sectors should include: small enterprises by the number of employed (size can be determined by the number of permanent employees, or the total number of employees, including the entrepreneur, business partners and the family members involved in the production and helping each other in their own affairs).

According to the criteria of "the existence of registration" the ISE includes:

- The absence of enterprise registration;
- lowering the reported data in the registered activities, the absence of accounts etc.
- the absence of registration of employees at the enterprise (absence of labour agreements that foresees the payment of taxes and social security payments and protection by the labour legislation)

According to the potential possibility of the informal relations transformation into the formal ones the ISE includes:

- persons who are engaged in the informal activity for some period of time and together with the change of the economic science (fall, recovery, rise), and also motivation renewal to the official employment will strive for stopping the informal relations;
- entrepreneurs, who do not register their business because of exceeding sizes of taxes and duties. While lowering the sizes of taxes they can formalize their economic relations;
- people, who are in different conditions are not keen to transform the economic relations into the formal ones [8].

According to the interdependence of the relations with the other sectors of economy the ISE includes:

- state sector establishments, that are characterized by the violation of legislation in the process of providing the services, antisocial economic relations (stopping criminal relations in the enterprise sector, corruption etc.);
- household sector – persons, who work on their own account in the agricultural sector or at the other enterprise for their own consumption or selling at the market, tutoring, tips payment etc. [9].

The functions of the ISE have been researched by numerous scholars such as: D. Kassel, K.S. Ainebek. So, D. Kassel defines such functions of the informal economy as – allocative (additional), stabilizing (economic suppressor), distributive (social problems recovering in the society) [10].

K. S. Ainebek argumentatively and appropriately adds such functions to the ISE:

- production of goods and services, distribution of property and the rights of the owners to provide the individual subjects renewal limited in the possibilities in the economy formal sector;
- rising competitive ability on the account of lowering the cost of production;
- demand and supply rising on the production, market development;
- promoting antagonisms removal between the state, social and individual renewal [11].

On our opinion, it is appropriate to define such functions of the ISE: economic (production), social and stimulating (creating the income of employees in the economy informal sector and periodical regional labour markets disproportions recovering and avoiding the social dissatisfactions in the society), redistributive, creating new working places,

## ТЕОРЕТИЧНІ ПРОБЛЕМИ РОЗВИТКУ НАЦІОНАЛЬНОЇ ЕКОНОМІКИ

accumulating, ecological ones. Such functions realizing defines the place of the economy informal sector in the economic processes of the country (Table).

Table

*Functions of the economy informal sector and the consequences of their realizing*

<b>Functions</b>	<b>Positive consequences of the function realizing</b>	<b>Negative consequences of the function realizing</b>
Productional	- creating production with the high content of the surplus value; - production of goods in agriculture that rises the level of foodstuff safety in the country; - influence upon the economic processes in the direction of energy preserving	- high level of the hand (in particular, highly qualified labour); - difficult and dangerous labour conditions; - high labour intensivity; - low level of investments and investment activity of getting incomes
Social and stimulating стимулююча	- creating preconditions for providing the simple reproduction of the population; - rising living standards and the material provision of the population; - outflow decrease of the rural population, social explosions restrain in the society	- lack of costs for broad reproduction of the population; - full or complete guarantees of employment, protection from firing, working places preserving fulfilling
Redistributive	- the received profits rise the total demand of the population and the level of production realization	- received profits are not collected by taxes outside the budget mechanism of distribution
Creating new working places and selfemployment	- gives the possibility to satisfy the needs of the physical existence of the population employed in the formal sector of economy	- selfemployment doesn't give the possibility to satisfy the needs in the safety
Accumulative	- the part of the received incomes fills in the deposits of the population, rises the level of the active operations of the financial and credit operations.	- taking into account the increasing level of disbelief to the the institutes of the society, the part of earnings is outside the financial and credit system.
Ecological	- increases the consumption of the ecologically clean foods; - preserving the diversity of animals and plants генefund	- the absence of control by the standards while using pesticides, herbisides in planting, food additions while feeding cattle etc.

In the process of analyzing the consequences of the shadow economy existing by the great number of researchers the accent is made on the economic function: lowering tax revenues, state and local budget incomes; deformation of the economy structure in the part of prevailing the intermediary or speculative and financial activity over the productive and processing ones; the investment climate worsening and lowering the subjects of the households innovative activity [12; 13]. While analyzing the consequences of the ISE it is necessary to concentrate attention on the social function, in particular: on roviding selfemployment of people, that gives the possibility to avoid dissatisfactions in the society due to the nonpayment of salary, increasing lags of the minimal salary, average monthly salary, real salary, middle size of pensions from the living standards. The economic function of the economy informal sector that results in:

- creating surplus value by the small and unregistered enterprises (mainly in agriculture), that promotes rising the economic safety level ( foodstuffs) in the country;
- getting profits by the employed in the economy informal sector that rises the total, investment demand, softening the contradictions of the market conjuncture especially at such stage of the economic cycle as the crisis is not excluded.

Especially we should analyze such element of the economic function of the economy informal sector as supply stimulating, total and investment demand. The scientists mention that forming the total demand depends upon establishing the perfect competition and monopolizm preventing. The mechanism of the antimonopol protection doesn't oppose

inequality in the sphere of access to the resources, information, political power that create favourable conditions to new monopolies appearing [14, p. 5–6]. The production of goods by the households, small firms, firms unregistered for some period of time increases goods supply and demand on production in the country.

**Conclusions and proposals.** To correct the size of the economy informal sector it is necessary to decrease the amount of taxes and duties, to promote renewal of the official employment, to use all the instruments of the state influence in order to recover the economic processes in the society. The functions of the ISE have both negative and positive consequences for the society. The state regulation has to be concentrated on maximizing the positive and negative revealings of the productional, social, redistributive, accumulating, ecological functions of the ISE.

### References

1. Hart, K. (1973). Informal urban income opportunities and urban employment in Ghana. *Journal of Modern African Studies*, vol. 11, № 1, pp. 61–90.
2. Chepurko, H.I. (2006). Dynamika zainiatosti naselennia Ukrainy v period stanovlennia rynkovoï ekonomiky [Dynamics of population employment in Ukraine in the period of establishing market economy]. *Extended abstract of Doctor's thesis*. Kyiv: Institute of Sociology of NAS of Ukraine (in Ukrainian).
3. Bikulov, D.T. (2013). Tinova ekonomika v konteksti mistsevoho samovriaduvannia [Shadow economy in the context of local selfgovernment]. *State and Regions – Derzhava ta rehiony*, no. 3, pp. 96–101 (in Ukrainian).
4. Snina-Berezovska, A.O., Seredina, H.V. (2014). Systema bezpeky derzhavy ta zahrozlyvi ekonomichni protsesy: tinizatsiia i kryminalizatsiia ekonomiky [State safety system and the dangerous economic processes: shadowing and economy criminalization]. *Business Inform – Biznes Inform*, no. 9, pp. 41–47 (in Ukrainian).
5. Maslov, D.H., Kizon, E.A. (2013). Tenevaia ekonomika v Rossii kak sistemnoe institutsionalnoe iavlenie [Shadow economy in Russia as the systematic institutional phenomenon]. *University proceedings. Volga region – Izvestiia vysshikh uchebnykh zavedenyi. Povolzhskii rehion. Obshchestvennye nauki*, no. 4 (28), pp. 167–180 (in Russian).
6. Mandibura, V.O. (1998). «Tinova» ekonomika Ukrainy ta napriamy zakonodavchoi stratehii yii obmezhenia [Shadow economy of Ukraine and the directions of the legislative strategy of its limitations]. Kyiv: Parlamentske vydavnytstvo (in Ukrainian).
7. Thomas, J. (1992). *Informal economic activity*. London: Harvester Wheatsheaf.
8. Shalenko, M.V., Piddubna, L.P., Preiher, D.K., Hromov, O.P. (1996). *Neformalnyi sektor, nerehlamentovana zainiatist, dykyi rynek pratsi* [Informal sector, uninstitutionalized activity, employment, wide market of labour]. Kyiv: NTs ZRP, Ukraine (in Ukrainian).
9. Khodzhan, A., Shyptenko, T. (2014). Tinva ekonomika yak ekonomichna katehoriia ta objekt otsiniuvannia [Shadow economy as the economic category and the object of assessment]. *Visnyk Kyivskoho natsionalnoho universytetu imeni Tarasa Shevchenka – Bulletin of Taras Shevchenko National University of Kyiv. Economics*, no. 12, pp. 74–80 (in Ukrainian).
10. Cassel, D. (1986). Funktionen der Schattenwirtschaft im Koordinationsmechanismus von Markt und Planwirtschaften. *ORDO, Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*. Bd. 37, pp. 73–103.
11. Ainabek, K.S. (2014). *Teoriia obshchestvennoho khoziaistvovaniia (Alternativa ekonomicheskoi teorii i ekonomiksa)* [Theory of social management (The alternative of economics and economic theory)]. Karahanda: KEUK (in Russian).
12. Podmazko, O.M. (2015). Orhanizatsiino-ekonomichni zasady detinizatsii ekonomiky Ukrainy [Organizational and economic principles of shadowing economy in Ukraine]. *Candidate's thesis*. Odessa (in Ukrainian).
13. Mazur, I.I. (2008). Detinizatsiia ekonomiky yak priorytet natsionalnoi bezpeky [Economy shadowing as the priority of the national security]. *Stratehichni priorytety – Strategic priorities*, no. 3 (8), pp. 76–83 (in Ukrainian).

## ТЕОРЕТИЧНІ ПРОБЛЕМИ РОЗВИТКУ НАЦІОНАЛЬНОЇ ЕКОНОМІКИ

14. Khodzhayan, A. (2003). Makroekonomichne rehuliuвання sukupnogo popytu [Total demand macroeconomic regulation]. *Extended abstract of candidate's thesis*. Kyiv: Institute of Economic Forecasting (in Ukrainian).

**References (in language original)**

1. Hart K. Informal urban income opportunities and urban employment in Ghana // *Journal of Modern African Studies*. – 1973. – Vol. 11. – № 1. – P. 61–90.
2. Чепурко Г. І. Динаміка зайнятості населення України в період становлення ринкової економіки : автореф. дис. д-ра соціол. наук : спец. 22.00.04 / Г. І. Чепурко ; Інституті соціології НАН України. – К., 2006. – 26 с.
3. Бікулов Д. Т. Тіньова економіка в контексті місцевого самоврядування / Д. Т. Бікулов // *Держава та регіони. Серія: Державне управління*. – 2013. – № 3. – С. 96–101.
4. Сніна-Березовська А. О. Система безпеки держави та загрозливі економічні процеси: тінізація і криміналізація економіки / А. О. Сніна-Березовська, Г. В. Середина // *Бізнес Інформ*. – 2014. – № 9. – С. 41–47.
5. Маслов Д. Г. Теневая экономика в России как системное институциональное явление / Д. Г. Маслов, Е. А. Кизон // *Известия высших учебных заведений. Поволжский регион. Общественные науки*. – 2013. – № 4 (28). – С. 167–180.
6. Мандибура В. О. «Тіньова» економіка України та напрями законодавчої стратегії її обмеження / В. О. Мандибура. – К. : Парламентське видавництво, 1998. – 136 с.
7. Thomas J. Informal economic activity / J. Thomas. – London: Harvester Wheatsheaf, 1992. – 371 p.
8. Неформальний сектор, нерегламентована зайнятість, дикий ринок праці / М. В. Шаленко, Л. П. Піддубна, Д. К. Прейгер, О. П. Громов. – К. : НЦ ЗРП, 1996. – 52 с.
9. Ходжаян А. Тіньва економіка як економічна категорія та об'єкт оцінювання / А. Ходжаян, Т. Шипченко // *Вісник Київського національного університету імені Тараса Шевченка*. – 20014. – № 12. – С. 74–80.
10. Cassel D. Funktionen der Schattenwirtschaft im Koordinationsmechanismus von Markt und Planwirtschaften / D. Cassel // *ORDO. Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*. Bd. 37. – 1986. – S. 73–103.
11. Айнабек К. С. Теория общественного хозяйствования (Альтернатива экономической теории и экономика) / К. С. Айнабек. – Караганда : КЭУК, 2014. – 608 с.
12. Подмазко О. М. Організаційно-економічні засади детінізації економіки України : дис. ... канд. екон. наук : спец. 08.00.03 «Економіка та управління національним господарством» / О. М. Подмазко. – Одеса, 2015. – 216 с.
13. Мазур І. І. Детінізація економіки як пріоритет національної безпеки / І. І. Мазур // *Стратегічні пріоритети*. – 2008. – № 3 (8). – С. 76–83.
14. Ходжаян А. Макроекономічне регулювання сукупного попиту : автореф. дис. ... канд. екон. наук : спец. 08.01.01 / А. Ходжаян. – К. : Інститут економічного прогнозування, 2003. – 20 с.

**Hanzha Bohdan** – PhD student, State Research Institute of Informatization and Economic Modelling (blvd. Druzhby Narodiv, 01014 Kyiv, Ukraine).

**Ганжа Богдан Олександрович** – аспірант, Державний науково-дослідний інститут інформатизації та моделювання економіки (б-р Дружби народів, 38, м. Київ, 01014, Україна).

**Ганжа Богдан Александрович** – аспирант, Государственный научно-исследовательский институт информатизации и моделирования экономики (б-р Дружбы народов, г. Киев, 01014, Украина).

**E-mail:** laws.inst.312@gmail.com