

Informally Self-Employed in Russia: Attitude to Formalization (On the Example of Saint Petersburg)

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Abstract: The paper examines the attitude to the formalization of informally self-employed in Russia on the example of the city of St. Petersburg. The authors proceeded from the position that this social group is heterogeneous, and different characteristics of representatives of this social group affect the attitude to the formalization of their economic activity. The negative attitude to formalization of representatives of this social group was revealed on the surface. However, this negative attitude among different subgroups of informally self-employed people turned out to be different. The results of the study show that different age groups of informally self-employed people react differently to government initiatives regarding registration of such activities. The presence or absence of social status in the sphere of formal employment, which many self-employed people combine with informal economic activity, proved to be a significant social characteristic in forming the attitude of the informally self-employed to formalization. Thus, the great value has stability of the institutional framework of formal self-employment generated by the state, and the state's determination to follow its promises given to informally self-employed, so that this social group formalized its economic activity. It was found that a fairly large proportion of the informally self-employed took up a waiting attitude towards the state's initiatives to formalize the economic activities of this social group. This paper will be useful for representatives of Russian state authorities who are developing measures of socio-economic policy in relation to informally self-employed citizens.

Keywords: Informal economy, informal employment, self-employment, informal self-employment, formalization of informal self-employment.

INTRODUCTION

One of the significant characteristics of employment in Russia is a fairly large share of people employed in the informal sector of the economy. According to researchers, it is about 20-30 % of the employed population. The self-employed in Russia find themselves in a zone of informality, working without registering their relations with the state. This is a significant group of informally employed people. Currently, the state is trying to take this group under control, formalize its relations with this group in order to receive taxes from its representatives in exchange for providing a number of social guarantees. The state's initiatives find a contradictory response among the self-employed, which makes the success of state initiatives questionable. All this raises the problem of building a mutually beneficial dialogue for both the state and the self-employed, in which it would be possible to find common ground between the interests of the state and the self-employed. For this purpose, it is necessary to specify the attitude of the self-employed to state initiatives based on their (self-employed) interests.

The aim of this paper is to determine the attitude of the self-employed in Russia (on the example of St. Petersburg) to the formalization of their relationship with the state on the basis of an empirical sociological

study. The practical significance of the paper is that this knowledge will be useful for the formation of the state socio-economic policy in relation to the self-employed in St. Petersburg, which is already implementing the initiative of the state to build a dialogue with the self-employed. Knowledge of the socio-economic characteristics and interests of the social group of self-employed in Saint Petersburg, which will be targeted by the state initiative, will help to organize optimally the process of interaction between the state and this social group.

LITERATURE REVIEW

The problem of informal self-employment in Russia has been most actively developed over the past 1.5-2 years in the Russian scientific literature, which is associated with the preparation and implementation of state reforms in this segment of employment. At the same time, attention is paid to such aspects of this problem as a comparative analysis of self-employment in developed and developing countries (Vishnevskaya, 2013), highlighting the factors that form informal employment in Russia (Kaufman, 2018; Masterov, 2019). Special attention is paid to the aspect of how effective taxation of the self-employed should be (Gudyaeva, Korunova and Prygunova 2019). At the same time, it is noted that the activity of the state in relation to the self-employed is aimed only at increasing tax collection, while in Western countries, this aspect is primarily about increasing the flexibility of the labor market (Baygorova, 2019). It is also indicated

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that social guarantees for the self-employed should be more clearly defined if they are formalized (Orekhova, 2018). As the reform process has already its own results, these results are also evaluated by experts (Tonkikh & Babintseva, 2020).

In the world literature, the study of the informally self-employed goes in two directions – in the study of self-employment and in the study of informal employment and the informal economy. Researchers of self-employment note its unstable nature for the security of income and stability of the well-being of the family of the self-employed (Conan & Schippers, 2019; Warr, 2018). The author studies the preference of self-employment for certain social groups in different countries (von Bonfsdorff, Zhan, Song and Wang 2017; Bridges, Fox, Gaggero, & Owens 2017; Halvorsen & Marrow-Howell, 2017; Wu, Fu, Gu & Shi 2018). Informal employment, in turn, interest's researchers in many aspects, such as its scale (Imamoglu, 2016), the features of its existence in cities compared to the countryside (Bunakov, Aslanova, Zaitseva, Larionova, Chudnovskiy, & Eidelman 2019; Rigon, Walker & Koroma 2020), the comparison of the welfare of the formally and informally employed (Perez Perez, 2020), the role of informality in the deployment of business cycles (Leyva & Urrutia, 2020).

Studies of informal employment in Russia are also presented in the world scientific literature and relate mainly to the comparison of the situation in Russia with the situation in developed countries, the comparison of welfare in terms of formal and informal employment in Russia (Karabchuk & Soboleva, 2020), the existence of informal employment in Russia in terms of global trends in employment development (Dudin, Lyasnikov, Volgin, Vashalomidze & Vinogradova 2017).

At the same time, both in the world and in the Russian scientific literature, there is a lack of research on informal self-employment in Russia, which would study the attitude of various groups of informally self-employed to formalization. In this work, we tried to fill this gap.

PROBLEM STATEMENT

A significant negative effect of informal employment on the informally self-employed is their alienation from social guarantees provided by the state. This alienation, as our research has shown, is quite disturbing for the informally self-employed, forcing them to look for ways to overcome it.

At present, the Russian state offers such self-employed people an effective way to join the social guarantees provided by society and the state – this is the formalization of relations with the state. Moreover, a simplified registration procedure and a preferential tax scheme are offered for the self-employed. The state initiative was launched in 2016 in four pilot regions – Moscow, the Moscow and Kaluga regions, and the Republic of Tatarstan. However, as of 01.01.2019, only 2.8 thousand people were officially registered, which gave the experts reason to talk about the failure of this experiment. Experts say that the informally self-employed do not want to register officially, ignoring government initiatives (Gudyaeva *et al.*, 2019). In Saint Petersburg, the state initiative was launched on 01.01.2020. Based on the analysis of the experience of the pilot regions, it was expected that 16 thousand people would register in Saint Petersburg during the first year of the project. But as of the end of February 2020, about 12 thousand people have registered, which indicates that in St. Petersburg there is a greater interest of the self-employed in the state's proposals in comparison with the pilot regions. However, this figure is not so large, as we are talking about near 1-1.5 million people employed in the informal sector of St. Petersburg, among which there are more than 100 thousand people who are self-employed (Pokida & Zybunovskaya, 2020).

It seems to us that the real situation with the attitude of the informally self-employed to the formalization of their relations with the state is quite complex. The social group of informally self-employed is heterogeneous, and subgroups are distinguished in accordance with the weakest point of such self-employed – alienation from social guarantees provided by society. Different attitudes and intentions regarding state initiatives form differences in this, and this attitude is more diverse than simply accepting or not accepting the state's offer to formalize its status.

METHODOLOGY

We followed the approach proposed by the ILO, which refers to informal employment as activities (work) that are not regulated by labour law and that are outside the scope of tax, statistical and insurance accounting. This approach is called the legalist approach (Gimpelson & Kapelyushnikov, 2014; Veredyuk, 2016). This approach postulates that informality and formalization can also be combined in the functioning of the formal sector. In our study, we used a legalistic approach that allows considering as

informally employed not only those for whom self-employment is the only source of income, but also those who combine self-employment with employment in the formal sector.

Another methodological problem was the need to determine the empirical object of the study, namely the group of self-employed that will be studied in the framework of the study. The fact is that the self-employed in Saint Petersburg are a very heterogeneous group in terms of their social characteristics. Thus, the self-employed in Saint Petersburg can be classified according to permanent residence in the city (a formal sign of this can be permanent registration in Saint Petersburg without temporary registration in any other region of the Russian Federation) and temporary residence in the city. In the latter case, we are talking about migrants who come to the city for work and, as a rule, provide various services to the population of a productive and non-productive nature. In our study, we focused on the self-employed who live permanently in Saint Petersburg as a relatively stable social group.

At the same time, based on the theoretical grounds we have adopted in defining the informally employed, we believed that self-employment can take place not only for the informally employed, but also for the formally employed. In the latter case, informal employment is present in their spare time from their main work, but these people are also informally self-employed. Therefore, in our study, we decided to cover both these groups of informally self-employed and compare their attitude to formalization, assuming that it will be different for them (see Table 1).

The study was conducted in February-March 2020 using semi-structured in-depth interviews. Respondents were selected using the network method and the snowball method. In total, we interviewed 36 people, of which 18 were women and 18 were men.

In the interview guide, there were 32 questions related to various characteristics of the work activity of self-employed, with special attention paid to questions about the readiness of the self-employed to formalize their activities.

RESEARCH RESULTS

The main problem of the study was to determine the basis for the allocation of subgroups in the social group of informally self-employed, which has a key influence on the attitude to formalization. We found such a reason, as it was the presence/absence of the fact of formal employment and the corresponding presence/absence of access to social guarantees provided by society.

As our research has shown, the attitude of informally self-employed people in Saint Petersburg to formalization is negative, which confirms the opinion of experts, but it is negative in different ways for different groups of such self-employed people. First of all, this is a group of informally self-employed people for whom self-employment is the only source of income and who are not associated with employment in the formal sector. Our research has shown that this group of self-employed people is generally wary of government initiatives and takes up a waiting attitude towards them. These self-employed do not intend to register in the near future, but they will consider registering *in the future* if the state can offer them conditions that suit them or put them in a position where they will not be able to refuse official registration (see Table 2).

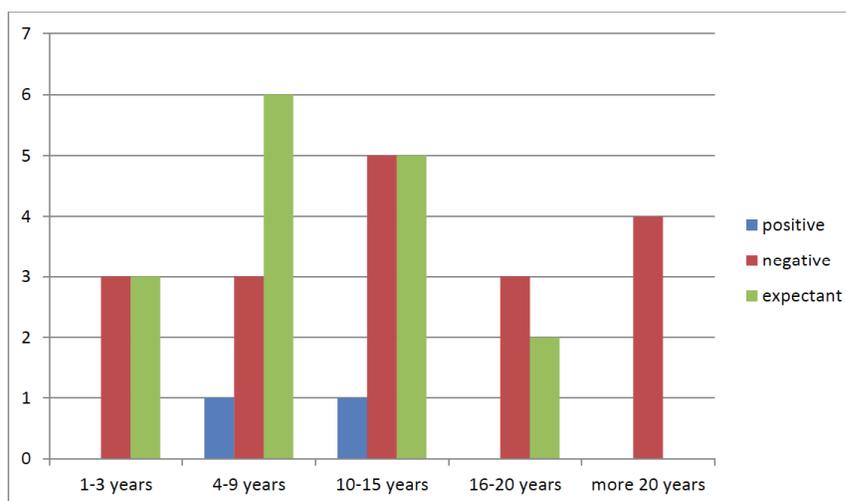
The self-employed say that the state now has no effective levers to force them to register. There is no concept of “illegal self-employment” in the Criminal Code, which means that their activities are not criminally punishable. In addition, the state has only limited capacity to track their activities. But representatives of this group say that the state can

Table 1: Groups of Informally Self-Employed Identified as Part of an Empirical Sociological Study

Presence/absence of formal status	Description of the group
There is no formal employment status	Informally self-employed, whose only source of income is their informal self-employment and who do not have employment in the formal sector
There is formal employment status	Informally self-employed, whose additional source of income is their informal self-employment, and who are actually employed in the formal sector
	Informally self-employed, whose only source of income is their informal self-employment, and who are fictitiously employed in the formal sector
	Informally self-employed students
	Informally self-employed pensioners

Table 2: Attitude to the Formalization of the Informally Self-Employed (by the Number of Respondents)

Self-employed groups	Positive	Negative	Waiting
Self-employment is the only source of income, not employed in the formal sector	2	3	13
Self-employment is the only source of income, fictitiously employed in the formal sector	0	5	0
Self-employment is an additional source of income, and there is a stable income from formal employment	0	3	0
Self-employed students	0	3	3
Self-employed pensioners	0	4	0

**Figure 1:** Dependence of the attitude to formalization on the work length of informally self-employed (by the number of respondents).

start tracking advertising of their services in the media and check whether advertisers pay taxes on the income received from their activities. The results of the study show that there is a direct correlation between the ways of finding customers and attitude to formalization, taking into account the government's ability to track the offer of services in this sector. So, those self-employed who have been working in this field and has acquired an extensive clientele, have rather negative attitude to the formalization of their

relationship with government, and those self-employed who work recently forced to offer their services through the media, tend to take up a waiting position (See Figure 1).

Thus, those informally self-employed who have been working for a long time intend to continue working informally. Therefore, state initiatives should be aimed at young representatives of this social group or those who are in middle age (see Table 3).

Table 3: Attitude to Formalization of Representatives of Different Age Groups of Informally Self-Employed (by the Number of Respondents)

Age groups (years)	Positive	Negative	Waiting
20–30	0	3	5
31–40	1	4	6
41–50	1	4	5
51–60	0	3	0
Older than 60	0	4	0

Thus, the group of young and middle-aged self-employed is potentially ready to formalize, so the state should think through its initiatives primarily in accordance with its interests, among which the leading place is occupied by the interests of access to social guarantees. Among the latter, the greatest interest relates to pension provision and a decent amount of pension in the case of official registration of activities. This group is also interested in the stability of government decisions. Currently, such self-employed people in St. Petersburg say that the institutional field of their activities, formed by the state, is unstable due to the fact that the state adjusts its decisions. On the one hand, such an adjustment is necessary due to the need to regulate rationally those aspects of the self-employed who for any reason has not received this regulation or regulation have proved to be insufficiently rational, on the other hand, the adjustment means instability for self-employed in their interaction with government. In this situation, the state needs to think carefully about its initiatives in relation to the self-employed, as they weigh all the “pros” and “cons” of their registration, and, as our research has shown, this process is quite relevant for this group of self-employed.

At the same time, we did not find any significant differences in the attitude to formalization between the interviewed men and women (see Table 4).

We would like to focus in more detail on four groups of informally self-employed, which can be combined on the basis of categorical rejection of state initiatives. First of all, they are informally self-employed, who combine their informal self-employment with real employment in the formal sector. This group of informally self-employed people has access to social guarantees, and the formalization of their relationship with the state in terms of their self-employment will mean the withdrawal of part of their net, even gray income, which such self-employed people strongly oppose. This group of self-employed people noted that if the state takes steps to force them to register, they will respond by looking for ways to avoid it. So, for example, the state now has a limited lever to track non-cash payments to the bank cards of such citizens, to

which such citizens respond by shifting the focus from non-cash to cash payments, which the state currently does not have the ability to track.

Another group of informally self-employed is the informally self-employed, who are fictitiously employed in the formal sector, but their only source of income is their self-employment. This group of self-employed people also has access to social guarantees provided by their official employment. Among the respondents we surveyed, there were only five such self-employed people, which suggests that the opportunities for the self-employed to find fictitious employment are now significantly narrowed. Such employment should be beneficial to the formal employer, and not to the organization as a whole, but to specific responsible persons in the organization who derive their private benefit from the fact of fictitious employment. These self-employed people are also categorically against formalizing their self-employment status. Their designated behavior strategy is the same as that of the previous group. They noted a weak link between the amount of contributions to the Pension Fund and the size of the pension, saying that if they deduct funds from their self-employment in addition to what their official, even fictitious employer deducts for them, their pension will increase only by a very small amount, and they will lose more than they deserve.

The next group of informally self-employed is informally self-employed pensioners. They are united with the two previous groups by their categorical rejection of state initiatives. The main motive of this group is that they already receive their small pension, and if they contribute funds to the state and to insurance funds, the size of their pension will practically not change – they will only lose, without gaining anything in return.

We identified another group among the informally employed – self-employed part-time students. They were found to have a negative waiting attitude to the possibility of their registration. Firstly, there is uncertainty as to whether they will continue to be self-employed, or go to work in the formal sector. Secondly, it is the instability of their earnings, which they must

Table 4: Attitude to Formalization of Informally Self-Employed Men and Women (by the Number of Respondents)

	All of the respondents	Positive	Negative	Waiting
Men	18	1	11	6
Women	18	1	10	7

combine with their studies. Thirdly, it is a reluctance to have relations with government agencies and difficult forms of reporting on the financial side of their activities. Fourthly, this group of self-employed people almost has not thought about retirement yet, so they do not see any sense in making contributions to the Pension Fund. Fifthly, it is a reluctance to give away part of their earned income.

The greatest weight among the above reasons for refusal of registration is the reason for the uncertainty of the future of self-employed students. This group is probably the most unstable among the informally self-employed, as its representatives are very often actually employed in the formal sector after graduation.

DISCUSSION

In the works that address the problem of informal employment in Russia and St. Petersburg, the problem of this phenomenon is seen in the fact that the state wants to take control of representatives of this social group in order to expand its tax base, and self-employed citizens do not want to be controlled by the state, which is expressed in extremely low activity in relation to their official registration (Kaufman, 2018; Kusheva, 2016). In some works, attempts are made to analyze at least partially the reasons for such rejection of state initiatives (Pokida & Zybunovskaya, 2020). It is assumed that the social group of informally self-employed is a monolithic, unified group with a common opinion and the intention not to register (Korunova & Prygunova, 2018; Kritskaya, 2018). The novelty of our paper is that we assumed and in our research confirmed this assumption that the informally self-employed are a heterogeneous social group, in which we can distinguish a number of subgroups, each of that in its own way relates to the possibility of being officially registered. So, it turned out that a number of informally self-employed people do not reject this possibility, but have taken up a waiting attitude towards the ongoing reform of the relationship between the state and the self-employed. We also found that young representatives of this social group and middle-aged people are waiting for events to develop and are potentially ready to register.

CONCLUSION

The study of the attitude of the informally self-employed to formalization is very relevant for the development of public policy measures to build relations between the state and this social group. We

have proved that the group of informally self-employed is a set of different groups that are distinguished on the basis of access/exclusion from access to social guarantees provided by the state, as well as that the division of informally employed on this basis is significant, as such access is one of the essential interests of representatives of this social group.

We also studied the attitude of each of the selected groups of informally self-employed to formalization. The most interesting and unexpected result of the study was the conclusion that there is a group of informally self-employed people who take up a waiting attitude towards the process of launching the reform of the institutional field of interaction between the state and the self-employed, and who are generally quite positive about the possibility of official registration.

As a recommendation for state bodies engaged in developing measures that form the institutional field of interaction between the state and the self-employed, it should be indicated that the focus is primarily on a group of informally self-employed, who are waiting for the results of the reform in order to make a decision to formalize them or not. This is a group of young self-employed and middle-aged self-employed. In addition, we would like to recommend that we be more consistent in the reform process and adhere to the promises made to this social group in order to preserve the stability of the institutional environment for the self-employed as much as possible.

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