



## Households in Transition: The BSEC-CA Experience

(based on *Black Sea and Central Asia Economic Outlook 2008*)

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- ◆ Households in the Black Sea Economic Co-operation (BSEC) and Central Asia (CA) regions have adopted coping strategies to withstand negative income shocks during the transition.
- ◆ The most common strategies include family and community support, emigration, and a wide range of activities in the informal sector.
- ◆ Some strategies persist today and are embedded in the new economic environment.

The transition to market economy has brought with it a snowball of socioeconomic changes for all BSEC-CA countries. To cope with an environment of rising insecurity and diminishing state support, households and individuals were forced to adopt strategies to enable them to resist negative shocks.

### Families and Communities

Households built their first "line of defence" around their family and community networks. This took a number of forms, such as reliance on the financial support of relatives (particularly in Central Asia where household size is typically larger) and the formation of community-level associations that provided micro-credit or insurance schemes. In general, local communities assumed a very active role in the mitigation of shocks on households, often substituting for state functions including in the provision of certain public goods, such as water supply.

Households and individuals additionally responded to the demands of the new reality by reducing consumption, drawing on their savings or selling physical assets. Such strategies are not, however, sustainable in the medium and long run.

### Emigration and Informality

Longer term strategies, aimed at securing permanently higher incomes and a better position in the labour market include emigration and employment in the informal sector.

In the BSEC-CA regions, migration is a widespread contemporary phenomenon and is mainly driven by the large variation in incomes and in labour demand across countries. Central Asia tends to offer lower skilled workers in manual jobs who are often unregistered in the receiving economies. They mostly go to Russia, but Kazakhstan also attracts immigrants from the lower-income Central Asian republics. Emigrants from BSEC countries generally are more highly skilled, leading to brain drain, mainly towards the European Union<sup>1</sup>. Remittances are important to BSEC-CA economies, though they are typically used to financing household consumption rather than investment. As labour demand in the European Union remains high and economic gaps persist, migratory flows from BSEC-CA countries are unlikely to fall in the near future; there is thus a need for coherent migration policies in the region, and for international co-operation on this issue<sup>2</sup>.

Small-scale subsistence agriculture, small unregistered businesses such as "black" taxis and street trading all fall under the broad definition of informality. This "grey", "underground" or "shadow" economy includes any activity which remains hidden for the purpose of tax and regulation avoidance. Informal employment in the BSEC-CA regions tends to be concentrated in the sectors of construction and services (in the cities) and in agriculture (in the countryside). The following table sheds some light on this phenomenon by providing estimates of the share of the informal sector in total income across the region.

1. See also Balafoutas, L. and K. Fukasaku (2008).
2. For further discussion, see OECD (2007), *Migration and Developing Countries*, OECD, Paris (especially, Part III).

Table 1. **The Informal Economy as a percentage of GNP, 2002-03**

Albania	35.3	Moldova	49.4
Armenia	49.1	Romania	37.4
Azerbaijan	61.3	Russia	48.7
Bulgaria	38.3	Serbia and Montenegro	39.1
Georgia	68.0	Turkey	34.3
Greece	28.2	Ukraine	54.7
Kazakhstan	45.2	Uzbekistan	37.2
Kyrgyz Republic	41.2		

Source: Schneider (2004): "The size of the shadow economies of 145 countries all over the world: First results over the period 1999-2003", IZA Discussion Paper No. 1431. Data not available for Tajikistan and Turkmenistan.

Although the negative consequences of informality for public finances and for the security and protection of workers cannot be denied, they must be weighed against the income and employment that it generates for a large part of the population.

Informality and migration are now more than transitory coping mechanisms in the BSEC-CA regions; they are part of the new economic and social environment. Crucially, policy makers need to recognise them as such and aim to design policies which will complement the actions taken by households and maximise the potential benefits, while discouraging counter-productive and illegal or socially unworthy activities.

### And Now?

The new realities in the BSEC-CA regions have shaken faith in the ability and the willingness of state structures to provide employment and social-support mechanisms. Families and individual are thus driven to seek their own solutions. Rather than combating them, states would do well to adjust their policies accordingly.

### Further reading:

OECD (2008), *Black Sea and Central Asia: Promoting Work and Well-Being*, OECD Development Centre, Paris.

OECD (2007), *Migration and Developing Countries*, OECD Development Centre Studies, Paris.

BALAFOUTAS, L. and K. FUKASAKU (2008), "Transition, Globalisation and Labour in the Black Sea Economic Co-operation and Central Asian Regions", *Policy Insight* No. 68, OECD Development Centre, Paris.